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Put to the Test: Ranking Canada's Universities on Their Climate Change and Endowment Activities

Major Canadian universities have signed a "Climate Charter for Canadian Universities." How are they living up to their climate commitments? We evaluate the governance and accountability mechanisms of their endowment funds.

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With Abhishek Kumar and Ramisha Asghar

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The Study In Brief

Canadian universities are world renowned for their leadership in research and education. Many Canadian universities undertake research efforts and teach students about the risks and opportunities associated with climate change. Most have also embraced a transition to lower the carbon footprint across their operations. However, universities could do more to align their investment philosophies with their leadership in research, education and operations.

This paper evaluates the governance, policy and disclosure practices of 16 Canadian university endowment funds whose universities made commitments to manage their assets while taking climate change into consideration. The paper ranks each university on their performance across these three categories as well as on their overall score.

McMaster University and the University of British Columbia tied for the highest ranking followed by University of Victoria, Simon Fraser University, McGill University and University of Toronto. No university received top marks, or five stars.

We offer five recommendations aimed at encouraging alignment of endowments with their universities and strengthening accountability mechanisms: (i) encourage reporting by all Canadian universities and their investment divisions along the lines suggested by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD); (ii) align endowment targets with university sustainability targets; (iii) report universities' climate commitments and progress to their respective provinces; (iv) seek appropriately experienced individuals to serve on university governing bodies; and (v) increase focus on responsible investment policies and practices.

We acknowledge that climate change is one risk among many that endowments manage in their investment programs, and that all risks must be managed with an eye to optimizing outcomes, including investment returns. We also acknowledge that divestment is not a panacea, and that carbon footprint-reduction targets must be carefully balanced, particularly as renewable energy technologies require significant amounts of fossil fuels in their production.

A compelling business case exists for universities to align their endowment policies and practices with responsible investing frameworks, including climate change. Research shows that these practices correlate with a 6 percent increase in donations, in addition to aligning with the university's stakeholder interests. In an environment of shrinking government funding as a percentage of university operating budgets and of universities increasingly turning to private funding through donations to endowments and other sources, it stands to reason that university endowments ought to, at minimum, explore how they can benefit from the recommendations in this report.

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The conversation about the role of the financial sector in dealing with climate change is shifting. Mainstream media report weekly on some aspect of climate change, while corporations, investors and public organizations, to varying degrees, are all undertaking efforts to address the issue.

Canadian businesses and their investors are responding to increasing scrutiny and calls to better manage performance relating to environmental, social and governance (ESG) factors. Climate change, in fact, is a subset of a broad range of issues under the ESG heading. Sometimes these are also referred to as sustainability issues or factors. For investors, the act of taking ESG factors into consideration in investment decision-making is called responsible investing or sustainable investment. In this paper, ESG is used interchangeably with sustainability. We note that there is a long debate as to what factors belong under each category.

While ESG casts a wide net over a range of issues, there has been increased focus around the "E" – environmental factors – given that climate change has become one of the most pressing issues of our time. Indeed, the World Economic Forum's 2022 Global Risks Report includes five environmental risks among the top 10 risks identified to be the most severe risks over the next 10 years (World Economic Forum 2022, 14).

Canadian regulators are taking notice. In October 2021, the Canadian Securities Administrators issued, for public consultation, Draft Regulation 51-107 respecting Disclosure of Climate-related Matters by Canadian reporting issuers other than investment funds. It is expected that disclosure regulations will also follow for pensions and other investors. To date, no such regulatory or other requirements have been set out for Canadian public agencies, including universities.

Canada's public postsecondary education sector has responded to these pressures by providing education on climate change and conducting cutting-edge research on the problems and solutions associated with it, in addition to building more efficient buildings and implementing other operational changes to lower carbon footprint. However, universities on the whole could do more to align their leadership in education and research with their endowment investing practices. Universities recognize this: in June 2020, a group of 16 Canadian universities signed a "Climate Charter for Canadian Universities."[1] The charter

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1 The 16 signatories are: University of British Columbia, Dalhousie University, University of Guelph, Université Laval, McGill University, University of Manitoba, McMaster University, Université de Montréal, University of Ottawa, Queen's University, University of Saskatchewan, Simon Fraser University, University of Toronto, University of Victoria, University of Waterloo, and Western University.

Key Concept Explainer

University Endowments: Endowment funds are comprised of charitable donations and related investment income held in trust for specific funding projects. Alongside student tuition fees and public funds received from federal and provincial governments, they provide the majority of funding for universities to operationalize their objectives.

Endowment governance is ultimately overseen by a university's governing board; endowment policies are implemented by university executives. Most universities and their endowments consider environmental, social and governance (ESG) factors in their investment policy statements, although many do not reference climate change expressly. McGill University is the only one of the signatories that includes climate-related targets in its investment policy.

In aggregate, Canadian endowments invest billions of dollars. The University of Toronto, which has Canada's largest university endowment, with assets of $3.15 billion at April 30, 2021, generated 4.9 percent of operating revenues from its endowment income during the fiscal year ended April 2021. The second-largest endowment, that of the University of British Columbia, with assets of $2.0 billion at March 31, 2021, generated 4.4 percent of operating revenues from investment income

There is a compelling business reason for universities to align their endowment policies and actions with responsible investing frameworks, including climate change: credible research has shown this to correlate with a 6 percent increase in donations, in addition to aligning with the university's stakeholder interests.

sets out signatories' commitment to manage their assets while taking climate change into consideration. Signatories acknowledge the growing consensus that climate change will have significant implications for investment management, and that stewards of long-term investments should take into account material climate-related investment risks. Despite this commitment, a concerted effort to understand how Canadian university endowments are responding to the rising risks presented by climate change, and their commitments to alleviate these risks, has not been undertaken to date.

This *Commentary* provides an overview of the governance and accountability mechanisms of select peers of Canadian universities in the United Kingdom and United States, and then ranks the Canadian university signatories to the climate charter with respect to their climate-change governance practices.

Our purpose is not to discuss evidence on the effectiveness of university endowments and the broader financial sector in addressing climate risks, but to evaluate the governance and accountability mechanisms of the endowments of the 16 Canadian university signatories in respect of their own climate change commitments. We acknowledge that climate change is one risk among many that endowments manage in their investment programs, and that all risks must be managed with an eye to optimizing outcomes, including investment returns.

We review the intersection of climate objectives and investment philosophies at these Canadian universities. We assess governance practices, policies and disclosure practices to identify leading practices and opportunities for improvement through policy

recommendations. Finally, we rank each university according to our findings.

Our research found that university endowments are at various stages of progress in their sustainability journeys. While no university received top marks in our ranking, three of the top four were located in British Columbia, owing to strong alignment mechanisms between that province and its universities. McMaster University, with its strong disclosure score, was tied with the University of British Columbia at the top. Indeed, disclosure was an area that could benefit from improvement across all endowments.

Most universities and their endowments consider ESG factors in their investment policy statements, although many do not reference climate change expressly. McGill University is the only one of the signatories that includes climate-related targets in its investment policy, which contributed to its fifth place in the ranking, followed by the University of Toronto rounding out the top six.

From these findings our recommendations are as follows:

1. encourage reporting by all Canadian universities and their investment divisions along the lines suggested by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD);[2]
2. align endowment targets with university sustainability targets;
3. report universities' climate commitments and progress to their respective provinces;
4. seek appropriately experienced individuals to serve on university governing bodies; and
5. increase focus on responsible investment policies and practices.

There is a compelling business reason for universities to align their endowment policies and actions with responsible investing frameworks, including climate change: credible research has shown this to correlate with a 6 percent increase in donations, in addition to aligning with the university's stakeholder interests (Aragon et al. 2021). In an environment of shrinking government funding as a percentage of university operating budgets and of universities increasingly turning to private funding through donations to endowments and research grants from corporations to fund their operations, this is something all universities should consider (Usher 2020, 31).

Climate Change and Select Foreign University Endowments

We the set the stage for our discussion of the findings at Canadian university endowments by examining some of the practices of leading universities in the UK and the US.

The United Kingdom

In 2019, the UK government signed legislation that commits the country to a legally binding target of net-zero emissions by 2050. As such, there is increased urgency to reform the investment of university endowments toward financing solutions to environmental and social challenges. In 2020, the Invest for Change campaign was launched for students and faculty to urge universities to increase their focus on ESG factors and to invest 10 percent of their endowment assets in impact investments.

2 "The Financial Stability Board established the TCFD to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks" (Task Force on Climate-related Financial Disclosures, online at https://www.fsb-.org/).

In April 2020, Oxford University announced that it was working with its £3 billion endowment fund – at time of writing, the fund had increased to £4.5 billion (Oxford University Endowment Management 2021) – to achieve net carbon emissions reductions across its investment portfolio. The university stated that it had asked its endowment office to divest from fossil fuels[3] and to engage with fund managers to request evidence of net-zero-carbon business plans across their portfolios. Oxford University also indicated its intention to add a new member to its Investment Committee with endowment management and "climate-conscious investment" experience. This was achieved in November 2020 with the appointment of Huw van Steenis, who chairs the Sustainable Finance Committee of the Swiss bank UBS. Oxford University Endowment Management keeps stakeholders apprised of progress toward goals by publishing efforts in an annual ESG and a Taskforce for Climate-Related Disclosure (TCFD) report.

Following Oxford's lead, but with more concrete plans, is the University of Cambridge, among the largest endowments in Europe at £3.3 billion as of June 30, 2020 (Cambridge University Endowment Fund 2020). In October 2020, Cambridge stated its intention to be the first university endowment to reduce greenhouse gas (GHG) emissions to net-zero by 2038, more than 10 years ahead of the UK government's own commitment to reach that goal by 2050. The endowment intends to achieve this by withdrawing investments in conventional energy, investing in renewable energy-focused funds and, by 2030, divesting from all "meaningful exposure" to fossil fuels. The endowment also stated its explicit objective to align itself with the university's broader targets.

What forces influenced these two universities to take steps toward standards-setting practices? Can these changes be attributed to the Invest for Change campaign or are other factors contributing to the changes? We believe there is a confluence of factors at play, including the rise of supportive peer networks such as the Environmental Association for Universities and Colleges – a member-led alliance for sustainability leadership in education with a mandate to address environmental issues operationally and within the curriculum – as well as stakeholder pressures and various direct and indirect levers exercised by government.

As we will see with Canadian universities, universities in the United Kingdom receive a portion of their funding for operations from government grants. The amount of such funding varies widely across universities and may not comprise a majority of the university's annual operating revenue. For example, Oxford receives 8 percent of its annual (largely recurring) operating revenue from government grants, which, in fiscal year 2019/20 amounted to £209 million. Meanwhile, research revenues, some of which are from governmental sources, amounted to £633.6 million, or nearly 25 percent of operating revenue and the second-largest single source of revenue in that fiscal year (University of Oxford 2020).

In July 2020, the UK government announced its commitment to fund research and development (R&D) of new products and business models that would be needed to realize the net-zero transition (United Kingdom 2020). This provided £22.5 billion worth of new reasons for universities and other research organizations to align with the government's energy transition targets and timelines, and to increase their research efforts in support of the government's strategy. With the

3 We discuss divestment further under our section on methodology. Note that we do not advocate that endowments adopt a divestment strategy.

focus on increasing R&D in renewable technologies at universities, new companies are emerging from the university ecosystem. This in turn is creating new investment opportunities for endowments.

The UK government further plans to increase investment in R&D to 2.4 percent of the country's gross domestic product by 2027, and is undertaking initiatives to ensure alignment with its stated targets across its own operations. Of note is the Cabinet Office Procurement Policy Note, effective September 30, 2021, which considers the supplier's carbon-reduction plans as part of the overall procurement process for government contracts exceeding £5 million (United Kingdom 2021b). Although the Procurement Policy does not apply to government grant making to universities, it signals the government's seriousness and provides a template for universities to follow in their own procurement policies and practices.

The United States

The experience among large university endowments in the United States has varied in their response to the intersection of climate change and investment philosophy. Practice ranges from making net-zero commitments to doing nothing, with the majority in the latter group.

Harvard University is the commitments leader. In April 2020, the Harvard University Endowment committed to align with the university's goal to achieve carbon neutrality by 2050. The announcement noted that this was a first among university endowments in the United States, and followed the formation of a new university Presidential Committee on Sustainability, mandated to create a comprehensive sustainability vision.

Harvard's effort is particularly notable given the university's outsized reliance on the endowment's investment returns for its operating revenue. Research shows that US universities' rising reliance on private sources of funding seems to have contributed to their hesitancy to overlay a focus of climate change onto their investment strategies, owing to the potential effect any constraints might have on investment returns and, therefore, operations (Aragon et al. 2021). In contrast, the Harvard University Endowment – with assets of US$53.2 billion at June 30, 2021 (Harvard Management Company 2021) – provides the largest portion of the university's annual operating revenues, or 37 percent of its total revenues. Comparatively, Oxford, with the second-largest endowment in the United Kingdom, receives just 4.2 percent of annual operating revenues from its endowment.

Responsible investing policies enhance the competitive marketplace for student recruitment and research funding, and are correlated with an increase of 6 percent in donations to endowments in the United States, suggesting that such policies play a role in influencing capital flows to universities (Aragon et al. 2021). Moreover, there is consistent evidence that universities that adopt responsible investing policies do so when they are incentivized to align themselves more closely with potential donors – particularly if they are more dependent on donations to fund operations (Aragon et al. 2021). Additional factors include the university's mission, the perspectives or expertise of individuals serving on governing bodies (and of those who appointed them) and the influence of other stakeholders, including, for example, students, faculty, alumni and recruiters.

Notably, Harvard's governance has played a role in the endowment's decision to commit to decarbonize its portfolio. The decision to set carbon-reduction goals for both the university and the endowment was approved by the Harvard Corporation, the highest governing body of the university. The corporation's members are elected by current serving members and receive consent from alumni who make up the Board of Overseers. Government has does not have a role in making appointments to the Harvard Corporation. The corporation acts in an advisory capacity to the university's leadership, and is responsible for overseeing periodic assessments of Harvard's schools and departments). The corporation has indicated its desire to stay apprised of the

endowment's plans on how it will achieve net-zero emissions, lending further weight to its decision.

At Yale University, the Yale University Endowment – with US $31.2 billion in assets at June 30, 2020 (Yale Investments Office 2021) – has taken a different approach to addressing climate change in its portfolio. Instead of committing to carbon reductions, the endowment has asked its investment managers to take the cost of carbon into consideration when making investment decisions, and not to invest in companies that do not recognize the social and financial costs associated with climate change or fail to reduce GHG emissions. It is the endowment's opinion that their approach will cause capital to be allocated toward investments having lower carbon intensity. Indeed, this appears to be the case at Yale, which reports that since the current position on climate change was adopted in 2014, the endowment's exposure to thermal coal and oil sands declined from 0.24 percent of its market value to 0.02 percent in early 2020 (Swenson 2020).

The Yale University Endowment fund's position on climate change is part of a broader stance on responsible investment that extends to certain social issues. For example, in response to the mass shootings that occur all too frequently in the United States at educational institutions and elsewhere, the endowment has adopted a policy not to invest in retail companies that sell assault weapons.

Some university endowments in the United States have not been averse to investing or divesting for social reasons (the "S" in ESG). In fact, they have a long and established history of listening to their stakeholders and adopting new investment policies and practices to address stakeholders' concerns in these areas despite a lack of clear signals from government.

Based on our brief overview and findings of the variability in operating revenue sources of leading university endowments in the United Kingdom and the United States, it does not appear that the funding model alone is driving the decisions of these universities to adopt net-zero objectives in investment strategies. Rather, a mix of factors comes together with the university's financial operating model to drive change. These factors include clear policy commitments from government, the availability of government-funded research aimed at decarbonization economies,[4] university governance, and stakeholder pressure.

We now turn our focus on the Canadian context to see how university endowments in this country are responding to climate change.

Climate Change and Canadian University Governance and Funding

With the United States' rejoining the Paris Agreement in 2021 and countries continuing to focus their policies and efforts on reaching zero carbon emissions by 2050, efforts in Canada and the provinces and territories to respond to climate change are gaining momentum.

At the federal level, Canada has committed to moving toward net-zero emissions by 2050 through the *Canadian Net-Zero Emissions Accountability Act*, which received Royal Assent on June 29, 2021, and which requires the setting of national targets for the reduction of GHG emissions.

At the provincial and territorial levels, five provinces and one territory have committed to achieving carbon neutrality by 2050; eight provinces and two territories have committed to interim targets (Dusyk et al. 2021). None has yet established a clear pathway to achieve 2050 objectives, although

4 Notably, in the US$1.85 trillion *Build Back Better Act*, passed by Congress on November 19, 2021, in which US$155 billion is available for "Clean Energy and Climate Investments," including a significant allocation to research.

the federal government and several provinces and territories have plans for achieving interim targets. Some provinces with commitments to targets are expected to release their plans or roadmaps for reducing emissions in the coming months; still others have published climate change plans but lack specific targets. In short, Canadians and Canadian institutions lack clear, coherent short- and long-term plans by government. As a result, it is difficult for businesses and financial institutions to take a coordinated and consistent approach to addressing and accounting for climate change risks; instead, they continue to look to government for policy direction to help guide their capital allocation and investment decision making. As we have seen above with respect to US universities, having clear policy direction from government is not a prerequisite to act, but it undoubtedly would be helpful, as is evidenced in the United Kingdom.

Canadian University Governance

Most of Canada's nearly 100 universities are public, not-for-profit institutions established through provincial legislation. As such, it is important to understand the interaction and role of governments in the governance of these universities. Not to overstate the role of governments, it must be kept in mind that universities serve many needs within society, including social and economic development and the needs of students and other stakeholders. An accountability mechanism thus exists between universities and the societies they serve through their programs, research, and services (Eastman et al. 2018).

In the field of governance, two aspects come together: 1) what is required of the organization and its governing body through legislation, and 2) behavioural expectations established through ever-evolving operating norms.[5] In Canada, the provinces differ in how universities are governed, depending on their founding. In the eastern provinces, many universities historically were private and established to be affiliated with churches; in the West, universities typically were established as secular and public, with the intention of serving the whole province (Eastman et al. 2018).

The legislative framework dictates the legal authority provinces have over universities. Some universities, such as those in Alberta and Ontario, have more control over their own governance, while others are more controlled by their provincial governments, as is the case for universities in British Columbia. To demonstrate, the *University of Toronto Act*, 1971 sets out that 16 of 50 appointees to the university's Governing Council – or less than one-third of Council members – are to be appointees of the province. In British Columbia, under the *University Act*, the provincial government appoints a majority of the members of any public university's board. As we will see, when government is more involved in university governance, there is a stronger relationship between the province's policy objectives and those of the province's universities than is the case where government is less involved.

Despite the linkage between public policy objectives and university governance through legislation, there has been a shift among provincial governments to align their policy goals with university operations using other means, such as mandate letters and funding levers (Eastman et al. 2018). In addition, as climate change has become socialized in the media and as awareness of a broader group of Canadians has grown, interest in researching the intersection of sustainability and finance at Canadian universities has also grown. Universities increasingly are directing resources

5 Governance practices evolve as organizations and expectations of them evolve due to pressures by or needs of various stakeholders; as a result, governance changes can occur long before they are codified in law.

toward developing a better understanding of the investment risks and opportunities associated with the environmental and social changes we are experiencing. As we will see, however, these principally research-driven efforts have not yet extended to significant commitments or large-scale changes in university endowment investment practices.

We now turn our attention to how university endowments fit within the university governance framework. As mentioned, universities are governed through a governing board, which has a mandate or charter that sets out its responsibilities. For example, the Board of Governor's Mandate and Charter for the University of British Columbia states that the Board of Governors is responsible for:

- The general oversight of the University.
- The management, administration and control of the property, revenue, business and affairs of the University.
- The appointment of senior officials and faculty members (on the recommendation of the President). (UBC Board of Governors 2022.)

To fulfil its mandate of managing, administering and controlling the property and revenue of the university, the Board of Governors appoints the Board of Directors of UBC Investment and Management Trust Inc., the investment management group responsible for managing the assets of the university's pensions, endowment and other funds.

Trends in Canadian University Funding

Endowment funds, alongside student tuition fees and public funds received from federal and provincial governments, provide the majority of funding for universities to operationalize their objectives. Due to largely stagnant funding from Canadian governments since the Great Financial Crisis of 2008, government funding and grants make up less than half of most university revenues (Usher 2020).

Today, student fees and income from endowments are a greater proportion of university revenues. Tuition fee revenue has grown modestly for domestic students (by 35 percent since the Great Financial Crisis), while tuition fee revenue from international students has grown by 350 percent (Usher 2020). Other sources of revenues are also growing in importance, including sales and services, as well as grants and contracts from non-governmental sources.

Although endowment income is included in the annual operating revenue calculus of Canadian university income statements, the endowment funds themselves do not produce investment returns large enough to contribute materially to operations. In addition, donations and ensuing income earned can be restricted by donors, limiting how university administrations may allocate the returns generated. The prevailing practice is that donations are earmarked to address student or research concerns, not general university operations. Having said this, universities that have developed research specialties funded in part by their endowments can attract contracts and other sources of revenues from non-governmental sources. In this way, research catalyzed by endowment income is critical to a university's operations.

To gain an understanding of the scale of the contributions of endowment investment income, we reviewed two of the largest university endowments. The University of Toronto, which has Canada's largest university endowment, with assets of $3.15 billion at April 30, 2021, generated 4.9 percent of operating revenues from its endowment income during its most recent fiscal year ended April 2021 (University of Toronto 2021). The second-largest endowment, that of the University of British Columbia, with assets of $2.0 billion at March 31, 2021, generated 4.4 percent of operating revenues from investment income (University of British Columbia 2021). It is likely that the experience of other universities and their endowments in our dataset would not differ

materially from that of the University of Toronto or the University of British Columbia.

We now present our research methodology and findings on the governance, policy and disclosure responses to climate change of Canadian university endowments.

Research Methodology

Using the process described in Appendix A, we identified 16 universities that signed the "Climate Charter for Canadian Universities" and their endowments for our study (Table 1).

As detailed in Appendix A, to rank Canadian universities and their endowments based on their adherence to commitments on climate change activities, we identified 25 items of data across three broad categories: governance, policy and disclosure.

For governance, we reviewed board composition, certain board practices, including how the board oversees sustainability and how frequently it is discussed, and whether climate change is considered material to the investment strategy. We also reviewed the university's mission and vision statements as proxies for the importance of climate change to the university as an organization today and in the future, and whether there is alignment between the university's decarbonization objectives and that of the funding province through a reporting mechanism.

For policy, we looked at the university's organizational policies, as well as investment policies for alignment between the university and its endowment in respect of climate change. We also reviewed investment policy statements and responsible investment policies.

For disclosure, we reviewed sustainability disclosures, found sustainability reports and TCFD reports for the university and its endowment. Specifically, we looked for climate-related targets and progress against targets. We also considered whether the university gathers and/or discloses information from stakeholders.

We obtained the data using publicly available information from university websites. There were instances for each university where data were unavailable. In those cases, the C.D. Howe Institute sent an email to each university requesting the missing information. Nine universities responded to the request with additional information that was helpful to us in completing our data gathering, and we thank them for taking the time to respond.

We then developed a ranking methodology and scoring model, described in Appendix B. We opted to use a star system of ranking, which awards stars for each category as well as on an aggregate basis. In this regard, we leveraged the work of Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO, Dutch Association of Investors for Sustainable Development). VBDO employs a time-tested ranking methodology to rank pension funds annually on their responsible investment efforts (VBDO 2021). Scores for each category were awarded as follows: 40 percent for governance, 35 percent for disclosure and 25 percent for policy, for a total of 100 percent. We gave the 25 criteria in Appendix A equal weighting within each of the categories of governance, disclosure and policy.

Divestment

Before we discuss our findings, we should touch on the topic of divestment. We deliberated whether we should include a review of investment implementation strategies as part of this study, including divestment. We concluded, however, that there was not enough information to evaluate appropriately and fairly the full spectrum of investment responses to climate-change risks and opportunities across the 16 university endowments reviewed. Universities have long faced pressures to divest from the fossil fuel industry, and some universities in our data set have adopted divestment strategies, most recently the University of Toronto in October 2021.

Table 1: University Endowments Included in the Study

Dalhousie University	University of British Columbia
McGill University	University of Guelph
McMaster University	University of Ottawa
Queen's University	University of Saskatchewan
Simon Fraser University	University of Toronto
Université Laval	University of Victoria
Université de Montréal	University of Waterloo
University of Manitoba	Western University

Source: Authors' compilation.

There is debate on the merit of divestment. Although it can help to reduce the carbon footprint of a portfolio, it does not necessarily help to decarbonize the economy. Moreover, carbon-footprint-reduction targets must be balanced against investing in assets such as certain renewable energy technologies whose production requires fossil fuels and emits vast amounts of GHG emissions. Rather, a holistic approach is needed with consideration given to how each asset class and sector contributes to the overall investment strategy.

Setting targets and charting a path forward are both helpful and necessary. We believe that, as knowledge, data and experience in this process is shared among universities, they will find the appropriate way to achieve their carbon-reduction ambitions. Their success will be due partly to standard measurements and uniform reporting of climate metrics (Sarra 2021). As such processes improve, more precise information will become available.

Findings

On governance, universities in British Columbia stand alone in terms of best practice. The rankings shown in Table 2 reflect strong alignment with climate change goals, with all three BC universities scoring in the top four.

Most universities and their endowments consider ESG factors in their investment policy statements, although many do not expressly reference climate change. McGill is the only university that includes climate-related targets directly in its investment policy.

Disclosure was an area that could benefit from improvement across all endowments, although McMaster University stands out as the only university currently publishing a TCFD report for its operations as well as the investments of its endowment.

Governance Findings

British Columbia is the only province that has a mechanism of reporting between the province and its universities on aligning with the province's climate targets and pathways (British Columbia n.d.). Universities are required to submit a Carbon Neutral Action Report to the Ministry of Environment and the Ministry of Advanced Education. This report addresses emissions associated with operating the business, and not those within the endowment; nevertheless, it goes further than anything seen in the other provinces we reviewed. Universities are also required to submit an Institutional Accountability Plan and Report annually to the Ministry of Advanced Education. In its report, the University of British Columbia discusses some of the actions it has taken toward addressing the climate crisis, including actions taken within its endowment.

In reviewing each university's vision and mission statements, which arise from the strategic planning process and therefore communicate an element of the organization's strategy, we determined the extent to which they incorporated responses to climate change. We found references to social issues that connect a university to the society it serves, but few that mentioned climate change. In total, six universities connected their vision and mission to specific social or environmental factors – notably, four of the six are in the top five of our rankings. There is certainly room for improvement among the other universities to ensure that their vision and mission appropriately communicate expectations and provide guidance throughout all aspects of their activities – including those, such as managing endowment assets, that are ancillary to the purpose of education.

Given the importance of boards in setting strategy and providing oversight, we reviewed board composition, whether boards prioritized climate change and how they exercised their oversight responsibility as a proxy for the importance they place on this issue. Given our focus on climate change, we specifically looked for individuals with experience in renewable energy, energy efficiency or responsible investing. Nine university boards had members possessing this kind of expertise, and in some of these cases, those boards had two members with the requisite expertise. We believe that this is an area where universities could do better.

A quarter of the university boards we reviewed expressly assign oversight over sustainability matters to a committee of the board or retain responsibility for this at the board level, while a third include sustainability among the responsibilities for a member of the executive team. Eighty percent of boards indicated that they regularly discuss climate change during board meetings, with the frequency ranging from quarterly to annually. Although these criteria do not reflect the depth of conversations boards are having, boards appear to be giving significant attention to climate change and ESG issues more broadly.

Of the 16 universities in our data set that identified climate change as a material issue to their endowments and other investments, half communicate their climate change and broader ESG goals to their investment managers with the expectation that the managers will select investments that help the endowment and the university achieve their goals. Thirteen stated that ESG is among the criteria they use to select and monitor their investment managers, but they stop short of holding managers accountable for achieving the endowment's climate objectives.

Disclosure Findings

Universities and their endowments have made great strides in improving disclosure of their sustainability objectives and progress. Nearly 90 percent of the universities we reviewed produce a sustainability report or publish information about their sustainability journeys on their websites. Nine of the universities produce a separate responsible investment report for their endowments or include

Table 2: University Endowment Ranking

University	Governance Score	Policy Score	Disclosure Score	Overall Score	Stars
McMaster University	3.9	5.0	4.0	4.2	★★★★
University of British Columbia	4.9	4.0	3.5	4.2	★★★★
University of Victoria	3.9	5.0	3.5	4.0	★★★★
Simon Fraser University	4.5	4.0	3.0	3.9	★★★
McGill University	3.4	5.0	3.5	3.8	★★★
University of Toronto	3.9	4.0	3.5	3.8	★★★
Université de Montréal	3.9	5.0	2.0	3.5	★★★
Queen's University	3.4	5.0	2.0	3.3	★★
University of Ottawa	2.6	4.0	2.0	2.8	★★
University of Waterloo	1.9	5.0	2.0	2.7	★★
Western University	2.3	5.0	1.5	2.7	★★
University of Guelph	1.6	4.0	1.5	2.2	★
University of Saskatchewan	1.1	4.0	2.0	2.2	★
Dalhousie University	1.0	4.0	1.5	1.9	★
University of Manitoba	2.4	2.0	1.0	1.8	★
Université Laval	0.5	2.0	0.0	0.7	☆

Source: Authors' compilation.

them in sustainability reports. An example of a particularly aspirational and comprehensive endowment investment report is that of University of Toronto Asset Management.

Of the 80 percent of universities that disclose their climate-related emissions-reduction targets, 85 percent disclose progress toward these targets. Of the 70 percent of endowments that disclose their emissions-reduction targets, only 36 percent report progress toward targets. These statistics should improve as more universities and endowments make progress in their efforts to curb emissions.

Especially relevant to linking financial reporting to climate-related risk factors is the TCFD

report.[6] The Expert Panel on Sustainable Finance recommended that Canada's public and private sectors "define and pursue a Canadian approach to implementing" the TCFD report (Canada 2019). We agree, and note that only McMaster University publishes a TCFD report that includes its endowment. We also note that the University of Victoria has committed to adopt TCFD reporting.

All universities should adopt TCFD reporting for their own operations as well as for their investments. While TCFD disclosure is emerging as an industry standard, and standards are important for comparability, Queen's University's endowment has an approach to transparency that deserves recognition. Full holdings are disclosed on its website, as well its external investment managers' responses to Queen's University's annual ESG questionnaire.

Policy Findings

In reviewing university and endowment policies or other documents that demonstrated acknowledgement of climate change, we found several documents that stood out, and provide them here as examples.

Numerous global efforts have been made to persuade members or signatories to share information, to adhere to or to acknowledge the organization's principles on climate change, ESG and responsible investing. Although these efforts can be instructive, in this study we chose to focus on home-grown initiatives that reflect Canada's unique culture and economy.

All the universities we reviewed except one have set specific climate-related targets and timeframes. Among this group, however, there is wide disparity. In this first year of this study, we chose not to separate universities and endowments on whether they had more actionable plans. Instead, our scoring model awarded them all equally. As an increasing number of universities take steps toward a carbon-reduced future, a more nuanced approach to evaluating their commitment and progress would be instructive.

Universities at the earlier stage of their sustainability journey committed to achieving net-zero targets by 2050, but they have not yet disclosed interim targets or paths to achieve targets. Other universities have advanced further along their journey, and have one or two interim targets with capital and operating initiatives to help them reduce their GHG emissions; some have already reported progress toward interim targets.

Eleven of the endowments have set climate-related targets and timeframes for their investments. Again, we found a range of responses that mirrors our findings for universities. Some endowments' commitments are stated more clearly in key policy documents – statements of investment policy and/or responsible investment policies – than others. We were again liberal in our scoring model, awarding endowments with policies that state that they take ESG into consideration in their investment process, although an express mention of climate change, given its importance, is warranted.

We expect investment policy documents to evolve as endowments take a clearer path toward achieving their goals. One important change should see endowments aligning their climate and other sustainability investment objectives with those of the university they serve. To reflect these developments in the rankings more accurately, and to give credit where credit is due, we recommend that future scoring take differences in these policy documents into consideration.

6 In 2017, the Task Force on Climate-related Financial Disclosures published supplemental guidance for banks, insurance companies, asset owners and asset managers intended to provide additional context for the financial sector when preparing disclosures in alignment with the TCFD recommendations. This guidance was further updated in 2021.

Where an endowment did not have a responsible investment policy, but included ESG in its investment policy, we awarded it as having a responsible investment policy. Some of the leading universities make no reference to ESG in their investment policies, but have robust responsible investment policies. Only one university neither mentions ESG in its investment policy nor has a separate responsible investment policy.

One statement of investment policy stood out among the rest. McGill University's Statement of Investment Policy includes both its emissions-reductions targets and its targets for environmental impact investments. We would not expect to see all commitments expressly stated in investment policy statements, but, as we have noted, the gravity of climate change is such that it merits special mention.

Responsible investing policies are correlated with in an increase in donations to endowments. Developing policy documents and related supporting practices toward this goal might be a prudent strategy for Canadian universities, given the shift in their operating revenues toward more private sources.

Recommendations and Conclusion

Inspired by current practices of Canadian universities and their endowments and our ranking of the latter, we provide a list of policy recommendations for both universities themselves, and for governments across Canada, as the country moves toward achieving net-zero emissions.

1 Encourage TCFD reporting by all Canadian universities and their investment divisions

Currently, only one Canadian university and its endowment in our study publishes a TCFD report. These reports are instructive in understanding how climate-related issues are overseen and implemented. They are also likely to lead to more consistency across reporting entities.

The TCFD framework is growing in importance, with the finance ministers of the G7 countries calling in June 2021 for making climate disclosure mandatory using the recommendations in the TCFD report (United Kingdom 2021a). In addition to McMaster University's TCFD report, Oxford University Endowment Management publishes an ESG and TCFD report, which can also serve as an example for Canadian universities.

2 Align endowment targets with university sustainability targets

As our study showed, a majority of universities have identified climate change as a material issue through the climate-related targets they have set for their own operations. Similarly, a majority of universities have included reference to ESG in their investment policy statements or have adopted responsible investment policies. Unlike Cambridge, however, Canadian universities have not stated explicitly their objective to align the endowment with the broader targets of the university. We believe this is necessary for universities to reach their objectives. Having said that, we recognize that universities might be able to set more aggressive targets for their own operations than for their investments. As such, if the university and its endowment have different targets, we encourage endowments to explain the rationale for their choice of target.

3 Report universities' climate commitments and progress to their respective provinces

British Columbia requires universities to report jointly to the ministers responsible for the environment and higher education on their progress toward the province's carbon-reduction objectives. This mechanism of reporting appears to have had a positive impact on the alignment between

universities' climate targets and initiatives and those of the province. We believe it is important for publicly funded organizations to ensure they contribute positively to provincial or territorial objectives.

4 Seek appropriately experienced individuals to serve on university governing bodies

Our review suggests there might be a linkage between having board members with expertise in renewable energy, energy efficiency or impact investing, and university and endowment commitments to climate change. Four of the top five universities in our ranking have at least one board member with this experience; two of them have two board members. We believe universities should include knowledge and experience in these fields in their board search criteria, and appoint at least one suitable person to the board.

5 Increase focus on responsible investment policies and practices

Developing the relevant policy documents and related supporting practices does more than help the environment. It also might make good business sense for Canadian universities, given that having such policies is correlated with a 6 percent increase in donations to endowments. Universities could encourage this rise by determining donors' preferences about how their donations are invested.

Appendix A: Ranking Criteria for Canadian Universities

Table A1: Ranking Criteria for Canadian Universities

No	Category	Ranking Criteria
1	Governance	Is ESG/sustainability set out in the mission or vision statement of the university?
2	Governance	Is there a university board member with demonstrable ESG/RI knowledge?
3	Governance	Would you agree that climate/sustainability discussions are a regular part of the board's agenda?
4	Governance	What is the frequency of climate/sustainability discussions at the board level?
5	Governance	Has the board identified climate change as a material issue to its endowment and pension investments?
6	Governance	Are climate/sustainability responsibilities expressly assigned to the Board or a committee of the board?
7	Governance	Are climate/sustainability responsibilities assigned to a member of the executive management?
8	Governance	Are climate/sustainability goals used to select and monitor investment managers across all asset classes?
9	Governance	Are climate/sustainability goals communicated to investment managers with the expectation of helping the university and endowment achieve its goals?
10	Governance	Do universities report to their provincial regulators on their progress against stated sustainability objectives?
11	Policy	Is the university a signatory to "Investing to Address Climate Change: A Charter for Canadian Universities"?
12	Policy	Does the university's policy framework set specific climate-related targets and timeframes?
13	Policy	Does the endowment have specific climate-related targets and timeframes?
14	Policy	Is ESG considered in the university's investment policy statement?
15	Policy	Does the university have a responsible investment policy?
16	Disclosure	Does the university produce a sustainability report or publish sustainability information on its website?
17	Disclosure	Does the university produce a TCFD report?
18	Disclosure	Does the endowment produce a sustainability report?
19	Disclosure	Does the endowment produce a TCFD report?
20	Disclosure	Are the university's climate-related targets disclosed?
21	Disclosure	Is the university's progress against emissions reductions targets disclosed?
22	Disclosure	Are the endowment's climate-related targets disclosed?
23	Disclosure	Is the endowment's progress against emissions reductions targets disclosed?
24	Disclosure	Does the university survey or otherwise gain awareness of all donors' sustainability preferences in respect of how their donations are invested?
25	Disclosure	Is feedback on sustainability issues from stakeholder surveys disclosed?

Source: Authors' compilation.

Appendix B: Ranking Methodology and Scoring Model for Canadian University Endowments

The first step was to assign a weighting to each of the three major categories of governance, policy and disclosure. The categories are each weighted differently.

Given the important influence that governance has over any organization's strategic direction, we allocated the greatest weighting to this category, followed by disclosure and then policy. Because we relied on publicly available information for the purposes of this study, and because we encountered several instances of lack of disclosure, we gave a greater weighting to disclosure over policy in the hope that disclosure will improve in the years to come.

Governance accounts for 40 percent, disclosure for 35 percent and policy for 25 percent, for a total of 100 percent. The 25 criteria in Table A-1 are given equal weighting. Where information was not available, we assigned a score of zero to that criterion.

The scoring model uses star rankings in range of 0-5 based on the total score and scores of the individual categories of governance, disclosure and policy, as follows:

★★★★★

5 STARS: A score of at least 4.5 on all categories (governance, disclosure, policy).

★★★★

4 STARS: A total score of at least 4.0.
A score of at least 3.0 on all categories (governance, disclosure, policy).

★★★

3 STARS: A total score of 3.5–3.9.
A score of at least 2.0 on all categories (governance, disclosure, policy).

★★

2 STARS: A total score of 2.5–3.4.
A score of at least 1.5 on all categories (governance, disclosure, policy).

★

1 STAR: A total score of 1.5–2.4.

☆

0 STARS: A total score below 1.5.

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