The York University Endowment Fund –

Open letter to President Rhonda Lenton and the Board of Governors:

Divest from fossil fuels and invest in a just and climate-safe future

March 2021

Dear President Lenton and Governors,

We are writing on behalf of members of the York University community who are alarmed about the climate emergency and the deep inequities that have arisen from this emergency. This is not only a concern for our children and grandchildren but also a concern for a situation that has deteriorated to the point where we are already feeling the impact of the climate crisis. Therefore we demand, in the strongest possible terms, that the University take the urgent actions that are set out below and that are needed to avoid this crisis.

York University is a public trust, and you are the fiduciaries. As those responsible for the management of a public resource, you have the power and the responsibility to take action to address this urgent issue.

We believe that we should put our community's assets where our mouth and our lives are. Thus, we believe that York's assets, invested in its Endowment Fund, should be part of the solution to the climate crisis and not part of the problem.

In this letter we set out the following: (1) how universities are taking action to decarbonize their endowments; (2) that York's fiduciary responsibility requires addressing climate risk; (3) how most major investment bodies are shifting away from fossil fuels; (4) the critical reasons for going public with divestment from fossil fuels; (5) the need for climate action to uphold Indigenous rights; (6) that York's sustainability strategy should incorporate the investment portfolio's carbon footprint; (7) that after the first steps taken by the Endowment Fund there is need for more substantive action; (8) our recommendations for both immediate action and (9) further action. We end with (10) our final remarks.

1. Universities lead the way

Universities play a leading role in addressing climate change, since they are forward-looking institutions with progressive, well-educated stakeholders. University faculty members around the world have helped to set out the problem of climate change and students will be among the generations most affected by its future impacts.

Our request is eminently realizable, as demonstrated by the many Canadian universities that have already divested or started to divest from fossil fuels by shifting their endowment funds to low-carbon investments. Some salient examples include the following:

- In 2018, the Fondation de **l'Université du Québec à Montréal** was the first university foundation in the country to withdraw fully from its investments in fossil fuels.
- In November 2019, the **Concordia University** Foundation announced that it will end investments in the coal, oil and gas sectors within five years, and has set a target of 100% sustainable investments by 2025.
- In November 2019, the Board of Governors at **Simon Fraser University** announced that it will reduce the carbon footprint of its investment portfolio by 45% by 2025.
- In December 2019, **Université Laval** and its foundation adopted targets for reducing the carbon footprint of its investment portfolio, commiting to a reduction of 30% by 2025 and 50% by 2030.
- In December 2019, **McGill University's** Board of Governors approved the recommendations of a report to "reduce the overall carbon emissions of the endowment portfolio," including "a reduction of exposure to the highest carbon-intensive companies."

- In March 2020, the **University of British Columbia** Board of Governors endorsed the UBC Declaration on the Climate Emergency, pursuing divestment in the future, and immediately shifted $380M of its endowment into a sustainable fund.
- In April 2020, the **University of Guelph** Board of Governors decided to divest fully from fossil fuel companies in its endowment portfolio within five years.
- In November 2020, **Lakehead University's** Board of Governors decided that the institution will divest from its fossil fuel holdings by 2023.
- In February 2021, the **University of Victoria** announced that it has fully divested one of its two primary investment funds from fossil fuels. This follows a 2020 decision to lower portfolio carbon emissions by 45% by 2030, allocate 25% of the funds to renewable energy and Indigenous economic development, and disclose carbon emissions and climate-related risks.

2. Fiduciary responsibility and the risks arising from climate change

The York University Board of Governors ("the Board") has a fiduciary responsibility to make sound investment decisions and maintain the financial integrity of the Endowment Fund. This responsibility is not at odds with acting on the current climate emergency. The inherent long-term horizon of any endowment means that investing must consider the future and therefore must consider climate change.

York University defines its fiduciary responsibility in the policies and procedures of the Endowment Fund:

> 3.10 The University has a fiduciary responsibility to manage the long-term sustainability of its investments in such a manner as to provide predictable funding to students and researchers, consistent with donor intent;
>
> 3.11 To sustain such long-term returns, relevant risks must be appropriately managed and assessed;
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> 3.12 York University is committed to a sustainable investment strategy which integrates environmental, social and governance (ESG) factors in the overall management of its endowment portfolio. York University believes these factors can affect risks and returns, and that organizations that effectively manage

> environmental, social and governance factors are more likely to endure and create sustainable value over the long term. The University's approach to sustainable investing is evolving, recognizing that it is not a static concept, but one which changes and adapts, as the linkage between ESG factors and risk and returns becomes better understood over time.

Indeed, York's approach is evolving and we are now at a turning point. There is an increasing trend towards requiring boards to report on and disclose risks specific to climate change. In Canada, recent commentary and policy developments suggest that boards have a fiduciary obligation to be informed about, act on, and disclose the risks and opportunities associated with climate change. For example, in 2018 the federal Expert Panel on Sustainable Finance recommended the adoption of consistent disclosures of climate-related financial risks and opportunities.

Climate change should be considered an independent and material risk when making investment decisions. This acknowledgement triggers the following obligations for fiduciaries:

- to reflect climate risk as a potentially material risk factor, and to ensure that fiduciaries and managers act in accordance;
- to avoid or minimize investments in assets most vulnerable to climate risk, such as fossil fuels;
- to engage with owned climate-vulnerable companies to demand information and assess resilience to climate risks; and
- to invest strategically in clean energy assets both as an opportunity for returns and as a hedge against climate risk.

A common reason given for not divesting from fossil fuels is that such actions conflict with the fiduciary responsibility of universities to manage endowments prudently. The underlying assumption is that fossil fuel divestment (a negative filter on assets) can hurt endowment returns in higher education since it forces a reduction in portfolio choice, excluding a category of assets. Even if this hypothesis were correct at some point, it is certainly incorrect today (and could never justify the destruction of planetary life for the sake of returns). Careful studies in the United States have not been able to find significant difference in returns after universities have divested (see here and here).

Financial managers today do not have to choose between fund returns and a climate-safe future. There is a growing consensus among them that fossil fuel assets constitute a drag, not a boost, to portfolio returns. Financial managers throughout the world are quietly offloading their fossil fuel holdings (see next section). The managers of York's Endowment Fund can be understood to agree through their practices, as they have been substantially reducing their exposure to fossil fuels.

3. Sound investment: Wall Street and Bay Street are moving away from fossil fuels

Incorporating climate risks is not only a fiduciary responsibility for York University but also divestment from fossil fuel companies is financially sound.

There is currently a global shift away from fossil fuels as countries and companies seek to reduce carbon emissions with the aim of limiting climate change. Investment advisers have noted that a decarbonized energy revolution is already underway. Indeed the value of new fossil fuel investments fell by half in 2020. Their message: "For oil and gas investors who have been left holding the bag, here's some advice: Just cut your losses and move on because a reprieve won't be coming to the sector in a long time."

The Wall Street Journal confirms that "Big and small investors have moved their assets away from fossil-fuel producers and towards renewable energy companies. Large investors such as BlackRock Inc., the world's largest asset manager,...have said they plan to take into account corporations' disclosures of environmental risks, including carbon footprints." Blackrock is asking companies to disclose a plan to show how their business model will be compatible with a net zero economy—that is, one where global warming is limited to well below 2ºC, consistent with a global aspiration of net zero greenhouse gas emissions by 2050. In a survey of global business leaders, a "majority indicated that they will need to take more aggressive steps toward decarbonization, recognizing that such a strategy is not only good for the environment but also good for business."

Leading voices in the financial community have taken note of these risks and their implications for firms. Mark Carney, former governor of the Banks of Canada and England, took on the role of UN Special Envoy on Climate Action and Finance in 2019. Regarding fossil fuels, he says, "There is more in the ground that has been discovered—between oil, gas and certainly coal—than can be consumed, can be burned, and still meet our climate objectives."

Institutions, companies, and governments are selling off oil, gas, and coal assets, and not all are doing so quietly. The public fossil fuel divestment movement is growing rapidly, now encompassing more than 1,300 institutions worldwide, with assets worth $14 trillion USD.

4. Why going public is important: The political dimension

York, like many other institutions, has quietly moved to discharge its fossil fuel assets in the York Endowment, recognizing that they represent poor investment choices. However, York would be playing a critically important policy role by divesting from fossil fuels in a public manner.

Oil and gas interests constitute one of the biggest political lobbies in Canada. They have been successful in distorting public policy on infrastructure (e.g., building pipelines) and in suppressing concerted climate action. When reputable organizations withdraw their investments in fossil fuels, they help to marginalize these lobbies. This makes it harder for lobbies to wield political power to delay action on climate change.

Universities—by making their own investment decisions public, along with education, research and decarbonizing of campus activities—can lead in climate action and play a central role in creating the political space for governments to push forward with urgent climate action.

University endowments constitute a massive pool of institutional money—in the US, universities hold more than half a trillion dollars in endowment funds. Canadian universities, although on a smaller scale, also hold substantial funds in their endowments. It is not surprising, then, that both financiers and politicians pay attention when universities speak out about divestment.

5. Climate action and Indigenous Rights

Divesting from fossil fuels is also essential if we are to hold up our responsibilities to Indigenous Peoples. Article 29 of The United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), which Canada has formally adopted, affirms Indigenous

Peoples' rights to protection of the environment. It states that "Indigenous peoples have the right to the conservation and protection of the environment and the productive capacity of their lands or territories and resources." Further, under Article 32, UNDRIP states that Indigenous Peoples "have the right to determine and develop priorities and strategies for the development or use of their lands or territories and other resources." Climate change poses unique risks to the culture and livelihood of Indigenous communities in Canada and around the world. Indigenous Peoples contribute the least to causing global warming, but face the greatest burdens of climate changes. Facing this threat, many Indigenous communities across Canada support climate action and oppose fossil fuel development projects, often leading the opposition to these harmful endeavours.

Our call to divest from fossil fuel assets and commit to transparent, responsible investment supports the UNDRIP. It also supports York University's 2020-2025 Academic Plan, which states that a "better future must be rooted in strong relationships" with Indigenous communities. It is also consistent with The Indigenous Framework for York University that calls for a pan-university Indigenous strategy to protect Indigenous lands and ways of life.

6. York's sustainability strategy must incorporate the investment portfolio's carbon footprint

We are encouraged by the efforts of York University through its sustainability strategy and the priority it has placed on sustainable development and climate action in the new University Academic Plan. We note that York's new branding strategy emphasizes its "contributions to the global effort to meet the United Nations' Sustainable Development Goals and to tackle urgent issues like inequality, racism, and climate change."[1] We are furthermore encouraged that York has identified the reduction of its carbon footprint as a key sustainability goal. York University's new Faculty of Environmental and Urban Change was created as a call to action to respond to the most pressing challenges facing people and the planet.

However, we note with serious concern that York's sustainability strategy explicitly excludes the carbon footprint of its investment portfolios. We can see no basis for this

[1] The SDGs include: 7 - Affordable and Clean Energy; 12 - Responsible Consumption and Production; 13 - Climate Action; and 17 - Partnerships for the Goals. SDG 4 focuses on Quality Education.

exclusion. The financial holdings in the Endowment Fund—about six hundred million dollars—represent a substantial contribution to the university's carbon footprint and should be incorporated into its sustainability strategy.

7. The Endowment Fund: Encouraging first steps, substantive action required now

The Board and the Board's Investment Committee has already commenced action on issues of the governance and sustainability of York's Endowment Fund. We commend these good first steps.

York University is a member in the Responsible Investment Association, the Canadian Coalition for Good Governance, and the Carbon Disclosure Project. York requires its ten investment managers to report annually on the incorporation of environmental, social and governance (ESG) factors into their investment decisions, and has committed to report annually on this incorporation. All of York's Endowment Fund managers are UNPRI signatories.

York has just joined a new initiative through SHARE, a non-profit investor advocacy organization. On behalf of the new University Network for Investor Engagement (UNIE), SHARE will engage with North American public companies to address pervasive risks associated with climate change.

The Investment Committee hired Aon Hewitt Consulting Services to assess its ten investment managers with respect to ESG integration using a four-point rating system: 6 received 2 out of 4 points; 1 received 3 out of 4 points; and 3 were not rated since information was not available. These results suggest the need for improvement in terms of how ESG criteria are incorporated into the university's investment decisions.

A communication from Carol McAulay, Vice-President Finance & Administration, addresses the current exposure to fossil fuel assets in the Endowment Fund. This Fund includes public equities, infrastructure, and fixed income instruments. York uses the Carbon Underground 200™ list to quantify some of its exposure to fossil fuel holdings. The exposures are as follows:

- For public equity holdings, the exposure is approximately 0.1% (weighted exposure).
- For real estate investments: 0% to fossil fuels (therefore 0% weighted exposure).

- For bonds (fixed income instruments): 8.4% to fossil fuels (approximately 2.0% weighted exposure).
- With respect to real assets, the Endowment Fund plans an allocation to sustainable related infrastructure in the coming fiscal year.
- Overall, the estimated exposure to fossil fuels in the Endowment Fund is approximately 2.1%.

The small exposure to fossil fuel assets is a commendable achievement, and an excellent opportunity to advance the recommendations listed below to reduce this exposure to zero.

More substantive measures that will achieve York's ambitious sustainability and climate goals are still required. We therefore present recommendations for immediate action, followed by recommendations for further action.

8. Recommendations for immediate action

We call on President Rhonda Lenton, the Board and the Investment Committee of the Board to take the following immediate actions:

1. Divest from fossil fuels. York should formalize in explicitly stated policy its recent moves to decrease its holdings of fossil fuel assets in its portfolio. It should establish a **policy of full divestment** from stocks and bonds issued by companies whose central business is in oil, gas and coal extraction, along with the transportation and processing of fossil fuels. The holding of such assets violates York's sustainability principles.

Given that the current exposure to fossil fuels in the Endowment Fund is 2.1% (see above), enacting a new policy that completely eliminates such assets will not require drastic changes in portfolio composition. It will, however, align York's financial policy with its stated sustainability goals and bring recognition from both those concerned with the environment and those concerned with financial performance.

2. Create carbon transparency. All financial assets, not just fossil fuel holdings, have a carbon footprint. The Board should order an **annual carbon audit** of the Endowment Fund, prepared by a reputable third party. The audit should apply a comprehensive approach to measurement of Scope 1 and 2 emissions as well as measurable components of Scope 3 upstream and downstream emissions. The initial audit, providing a baseline, should be followed by annual updates. Each should be made public as part of the annual Sustainable Investing Report of the Board.

3. Incorporate investment portfolio into sustainability strategy. As mentioned above, York's sustainability strategy should be expanded to include the carbon footprint of the investment portfolios controlled by the university.

9. Recommendations for further action

The immediate actions delineated above create the opportunity for additional actions that will enhance York's alignment of its sustainability and financial policies. It is important to seek wide community input as these measures are rolled out:

4. De-carbonize. York should enact a **five-year decarbonization plan** to reduce the carbon footprint of York's Endowment Fund. Annual carbon audits (see Recommendation 2) will identify assets in the portfolio with a major carbon footprint. This plan will reduce the footprint by a percentage each year (to be set against a determined reference index or benchmark). A carbon footprint target needs to be supported by an analysis that will help to establish metrics and a timeline according to which progress will be measured. Decarbonization shall *not* be achieved through the purchase of emission credits that shift action to others.

5. Become a responsible shareholder. York should exercise its shareholder power. It should enact policy that requires it to use this power to **promote ESG actions by corporate and public asset issuers**. This can be done by hiring an engagement and proxy voting service, such as SHARE, to pressure management of asset issuers (through direct engagement, shareholder resolutions, proxy votes, etc.), to push for divestment from fossil fuels, stop financial support for fossil fuels (e.g. banks), lower the carbon footprint of financial investments, and invest in a just, sustainable and climate-safe future for all. These actions have more impact through large coalitions. The coalitions should address a full range of impacts -- including full application of UNDRIP and the principle of Free and Prior Informed Consent.

6. Create impact investment – The university should harness its financial holdings to achieve goals beyond financial returns. It should **promote socially responsible and low-carbon investments** that safeguard returns and our collective future. This can include investment in local enterprises aligning with York's recently established, and laudable, [social procurement policy]. This policy enhances "the social well-being of our surrounding communities and assist[s] to reduce poverty, promote economic and social inclusion, and support local economic development and social enterprise."

10. <u>Final remarks</u>

President Lenton and Governors, York has recently decided to embed in its distinct identity its contributions to the global effort to meet the UN SDGs and to tackle urgent issues like inequality, racism and climate change. These are admirable goals.

How York manages its financial investments bears heavily on these goals. In this letter, we have delineated the actions that York should take to align its distinct identity with its financial investment decisions. This will enhance the reputation of the university, and other universities will look to it as an example.

Climate change is the dominant challenge of our generation. Generations to come will judge us by our action (or inaction) today. Finance plays a central role in the enormous and essential transition to a just and climate-safe future. The University —including its Endowment Fund—is a public trust, and we are resolved that it be on the right side of history.

Signed:

The YU Fossil Free Campaign