

Dalhousie University Board Investment Committee
Report to the Board of Governors
November 25, 2014

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Over the past several months, Dalhousie University's Investment Committee (IC) has considered the merits of fossil fuel divestment, that is, of eliminating or limiting its holdings in publicly-traded companies that are large carbon producers. The IC has also reviewed a proposal from Divest Dal that the university divest any holdings in 200 pubp-3.3(d5(--0.8((11(u)-82e(--0.8((17 Tw 00.8((4.3(t)-16(a9(y)64wh036 Tw -35.109 -1.315 Td(

collaborative research project involves a partnership which brings together LightSail Energy, Watts

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At the same time, contrary evidence suggests that divestment has limited impact on corporate performance. In 2008, Fabozzi, Ma and Oliphant produced a report on six industries that have long been subject to divestment and ethical exclusionary screens - the alcohol, tobacco, gambling, adult entertainment, weapons and biotech sectors. The study found that this portfolio of stocks generally outperformed the broad world market by more than 11 percent annually. This suggests that the effectiveness of divestment is inconclusive.

In addition, a recent study by Oxford's Smith School of Enterprise and the Environment concluded that divestment is likely to have limited impact on fossil fuel company profits, equity pricing and debt financing, but would damage corporate reputations and affect the social license to operate.

The IC received the initial Divest Dal proposal early this year, and has since been reviewing and discussing issues pertaining to divestment. The summary below provides a brief overview of the recent

In our view, Dalhousie's reputation among all stakeholders will depend as much on how it acts as it does on an investment strategy based on sound ESG principles. The university is rightly proud of the fact that it has created a College of Sustainability to educate students who will be tomorrow's leaders in building a more sustainable society. In

alternatives. The professional investment manager's job is to assess each company's prospects and intrinsic value relative to its market price. Reliance on the professional judgment of a diverse group of carefully selected and monitored investment experts is seen by the IC as a better defence

operations. The Dalhousie Student Union also opened its own Sustainability Office to help create a culture of sustainable practices within the DSU's operations and across the University. The three organizations collaborate through the President's Advisory Council on Sustainability.

Through mutual understanding and a shared sense of ownership, Dalhousie has managed to build an approach to sustainability that's unique among North American universities. The University has launched innovative new programs, won several awards and recognitions and, together with its partners, invested more than \$45 million over the past five years to improve sustainability in campus operations, resulting in substantial action and positive outcomes. Through this work, Dalhousie has demonstrated its commitment to environmental sustainability and to reducing our own dependence on and use of fossil fuels to meet our energy needs.

4. Divest Dal maintains that shareholder resolutions are not effective as instruments of change in the fossil fuel sector, because companies' business plans revolve around burning more carbon. Shareholder resolutions that limit company profits are often disallowed by the Securities Exchange Commission. For these reasons, Divest Dal says shareholder engagement will not be effective.

The IC Response: *The IC must challenge the premise, given a number of the carbon-holding companies on the list are actively engaged in development of alternative, non-fossil fuel energy sources. In addition, a number of the companies on the list have large holdings in coal, but burning it is not a major component of their business. The list makes no distinction between thermal and metallurgical coal. In other cases, companies in the energy sector have devoted resources to explore and develop alternative technologies to reduce carbon emissions. In other words, these companies can, and in many cases are, part of the solution to greenhouse gas emissions.*

Dalhousie's endowment, for example, has holdings in Total S.A., a petroleum company, and public advocate of action to curb climate change. Total is developing carbon capture technologies and alternative energy sources. In Nova Scotia, Total provides funding to research and develop reliable storage for renewable energy, in collaborative with LightSail Energy, Watts Wind Energy, Innovacorp, and Dalhousie University. It would be inconsistent for Dalhousie to disassociate itself from Total by divestment, while benefitting from its research funding.

The IC believes sha8(e)-3.3(l)-2.h(9)-2.3(l)-2(d(r)-7.0y)83.2(n)11(ega.3(.)-1((e)-3.3(nt)-4.0)-3()-3(D)-7.dm)-5.3(s)-5

Dalhousie, its students and faculty must be free to promote open discussion and engage in novel research. An official position on a political, social or economic issue can place limits on open and free discussion and research activity. Divestment would constrain free discussion, and (as previously discussed) risk excluding Dalhousie from partnership in useful research projects like that being funded by Total S.A.

8. The proponent says Dalhousie, and other institutions can influence wider public policy by taking a lead in opposing carbon emissions.

The dedicated and committed people who make up Divest Dal will, we trust, agree that Dalhousie is a place where all views can be heard and if they have merit, as Divest Dal's proposal does, they will receive due consideration. Divest Dal made us think. In the end, we agree with Divest Dal that issues of climate change must be addressed, but differ on the means of achieving progress.

As stated at the outset, Divest Dal and the IC also agree that divestment is symbolic. Symbolism is tied inexorably to reputation. In the long term, however, Dalhousie's reputation will depend not merely on symbolic gestures but also on actions. The university is proud of actions it has already taken – proud of the College of Sustainability, which educates students to be tomorrow's leaders in building a more sustainable society, proud of marine, oceans, materials, engineering, earth sciences and other researchers who are global leaders in seeking solutions to environmental issues.

Dalhousie's overall efforts to reduce its own environmental impact include \$45-million in investments, including biomass energy production at the Truro campus; energy savings (from fossil fuels) of more than \$3 million per year; conservation gains in the Life Science refit and aquatron modifications; fleet management to reduced fuel consumption; LED lighting to replace burned out bulbs; the campus bike centre; the campus master plan and more, all undertaken or planned for maximum energy savings and conservation. In addition, all new campus buildings meet LEED standards.

Dalhousie continues to take a leadership role through the Office of Sustainability and its mandate to ensure the University operates as a steward of the environment in its day-to-day operations.

Dal's Duty to its Donors

Despite the complexity of many issues discussed in this report, one thing is clear: The IC does have a clear fiduciary duty to generate optimal risk-adjusted returns from Dalhousie's investments. One of the methods to assure this outcome is diversification, another is the professional advice we contract. Portfolio holdings are constantly re

The IC's Recommendations

As stated at the outset and argued in this report, the Investment Committee is of the opinion that Dalhousie's divestment of fossil fuel holdings would not constitute an effective response to climate change. Again, the IC recommends that the Board reject the proposal that Dalhousie divest holdings in the 200 companies identified by Divest Dal. The committee also recommends two new initiatives as a result of its collaboration with its review of divestment in fossil fuel holdings. It recommends that the university investigate ways to allow donors to direct their endowments to environmentally sustainable investments, and it commits to greater openness and transparency with regard to Dalhousie's investments. In addition, we will continue to press fund managers to respect ESG investment principles.

At the same time, the IC hopes this report conveys our agreement with Divest Dal on many aspects of its position. In closing, the Investment Committee of the Board would also like to thank Divest Dal for its patience, its commitment and its interest in Dalhousie University. The University shares a common goal with Divest Dal, that being the reduction in GHG emissions in order to mitigate the threat imposed by ongoing climate change.