

January 25, 2023

Responsible Investing and the Western Pension Plans

Report to Members on the Survey Conducted May 31 to June 14, 2022

Executive Summary

The Western pension plans have acknowledged the evolving consideration of Environmental, Social, and Governance (“ESG”) factors in its investment monitoring process since 2007. In 2008 a socially responsible investment option was made available in the fund lineup. Western and Sun Life both regularly meet with fund managers and look beyond performance to understand their policies, investment process, and active ownership practices. Western’s Academic Pension Board and Administrative Staff Pension Board (together referred to as the Joint Pension Board), monitor and engage with all investment managers to understand how they are considering the financial impact of ESG factors on risk and return as they make their security selections for the portfolios. Our goal is to ensure that material ESG risks and opportunities are properly considered and managed.

On behalf of the Joint Pension Board, Sun Life conducted a survey of Western pension plan members on *Responsible Investing and the Western Pension Plans* from May 31 to June 14, 2022. The survey was sent by email to 5,937 active members and 10% (613 members) responded. Of the survey respondents, there was good representation from both faculty and staff, broadly mirroring the overall makeup of plan membership. Survey respondents represented plan members across career stages, with a slight under-representation of early-career members and slight over-representation of mid-career members, relative to the plan membership.

The purpose of the survey was to engage with plan members regarding responsible investing and to learn more about how members feel about environmental, social, and governance factors being considered in the context of the investment of their retirement savings within the Western pension plans.

The Joint Pension Board continues to monitor all current investment strategies under the plan, along with emerging alternatives. This report has been prepared to update plan members on the activities of the Boards related to Responsible Investing, including results of the 2022 member survey. It has been released in February 2023 as a supplement alongside the [2022 Annual Investment Commentary](#).

About the Western Pension Plans

Western sponsors two defined contribution pension plans, the University of Western Ontario Pension Plan for Members of the Academic Staff (“Academic Pension Plan”) and the University of Western Ontario Pension Plan for Members of the Administrative Staff (“Administrative Staff Pension Plan”), together referred to as the Western pension plans. Over 7,000 current and former employees of Western, Huron, and Brescia are participating in the plans to support their retirement savings goals. As of December 31, 2022, the assets in the plans were \$1.2 billion.

The Academic Pension Board and Administrative Staff Pension Board are sub-committees of the Board of Governors and have been delegated responsibility for administering the plans. Sun Life Financial has

been selected by the Boards and the University to handle most of the day-to-day member services and administration of the plans. Western Human Resources and Western Financial Services also assist in administration and oversight of the plans.

What is Responsible Investing?

Responsible Investing is an approach that integrates Environmental, Social, and Governance (“ESG”) practices of a company into the investment process. The issues that define ESG include:

Environmental factors (“E”) look at how the company’s actions and initiatives mitigate the risk of issues like:

- climate change,
- air pollution,
- water resources and pollution,
- energy resources and management.

Social factors (“S”) include a company’s actions and initiatives that protect issues like:

- supply chain management
- product safety
- cyber security
- human rights,

Governance factors (“G”) refers to how the company operates, which includes factors such as:

- strength of management
- equity, diversity, inclusion, and decolonization practices
- board diversity / tenure
- fraud/corruption
- audit practices.

Approaches to Responsible Investing have evolved over time. When Western added a socially responsible global equity fund in 2008, the dominant approach was “negative screening” whereby companies were excluded from portfolios due to their deemed negative impact in identified areas as specified by the manager. For example, companies principally engaged in the manufacture of alcohol, tobacco, or armaments; the operation of casinos, or trade of pornographic materials; or whose negative impact on the environment is greater than their industry peers would be ineligible for investment. This divestment approach has sometimes been described as *values*-based security selection as the decision to not invest in a company may be the result of a non-financial consideration. With the exception of fossil-fuel free funds, there are a declining number of investment options for the pension plans using a *divestment* approach.

Today, with investor expectations of strong governance practices, and the growing societal awareness of environmental and social issues, more and more companies have recognized that consideration of ESG in all aspects of what and how they conduct business is important in helping to manage risk and remain competitive. Most companies have adopted sustainability reporting as a best practice¹, going above and

¹ [Governance and Accountability Institute](#) (p.2)

beyond required disclosures. Similarly, investment managers deciding on the investments to hold within a portfolio are reviewing ESG alongside other factors and risks, and rather than avoiding a investment opportunity due to lagging ESG practices, are instead looking to use their investment to positively influence areas of ESG. This *engagement* approach is widely viewed as more impactful than divestment^{2,3}. We are seeing greater attention from investment managers in this area across the investment options, including those investment mandates without an explicit ESG focus. This approach is quickly becoming a standard practice.

The newest focus for ESG is thematic or impact investing. Many funds with this approach link to the United Nations Sustainable Development Goals⁴ (such as gender equality, clean water and sanitation, affordable and clean energy) and seek opportunities that generate positive, measurable societal or environmental impact alongside a financial return. So far, it is most common for funds to be focused in a specific category, for example, sustainable forestry and agriculture, or renewable energy. Currently there are limited options for the pension plans in this area, but growth is anticipated.

Survey Results

The survey of plan members in spring 2022 revealed polarized views regarding plan member interest in whether/how ESG is considered in the investment line-up. Factors that are valued the most by plan members when making investment decisions for their Western pension plan were: Receiving the best return; Paying low fees; and Diversification. The value placed on access to investment support and knowing how investments address ESG is important for many but more mixed overall. A number of members commented that they preferred for the pension investment options to focus on maximizing returns to support their retirement savings; others expressed strong conviction of their personal interest and responsibility as a global citizen to make an impact through the investment of their pension savings; while others felt strongly that there was a responsibility at the plan level to prioritize ESG factors.

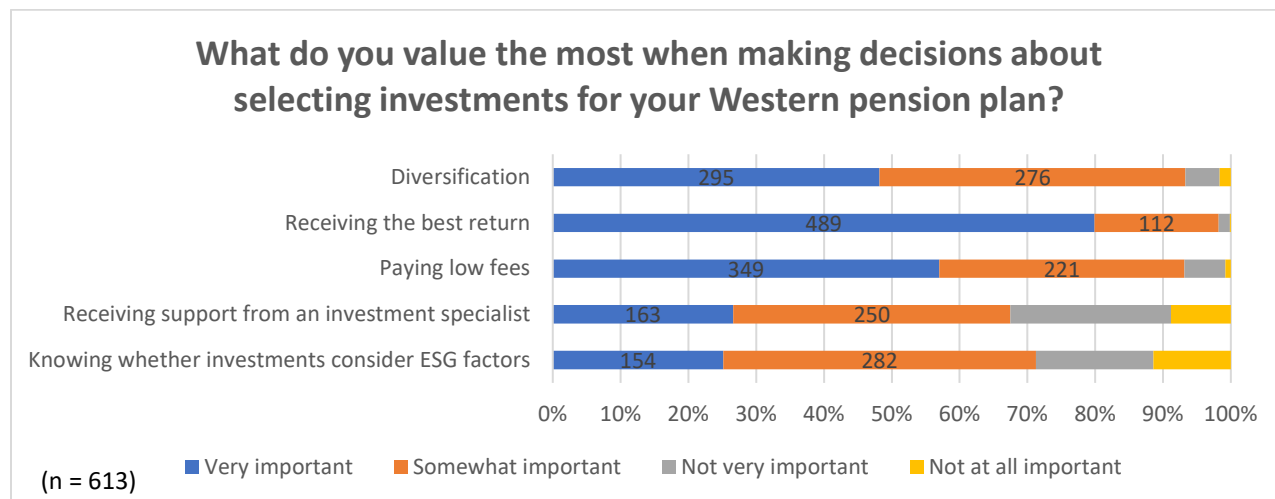


Chart 1 Note: Each dimension was asked as a separate question in the survey. The responses have been consolidated for presentation.

² [Wharton Business School article on engagement vs. divestment](#)

³ [Principles for Responsible Investment – Discussing Divestment](#)

⁴ [United Nations – Sustainable Development Goals](#)

When it comes to approaches for including ESG factors in the investment process members favoured having the option, whether it be to choose a fund making a positive impact or avoiding certain sectors, rather than having ESG integrated across all options. Providing members with the option to choose a fund with an ESG focus is also aligned with the survey’s finding that some members do not want ESG considerations to be a prominent feature of their portfolio. The survey results also highlight some of the misconceptions around the integration of ESG factors into the investment process. ESG factors have an impact on risk and return and integrating them into the investment process is essential to properly assess an investment opportunity. The Joint Pension Board has been very careful not to include into broadly available investment options strategies that may involve a reduction to returns as a result of consideration of ESG issues.

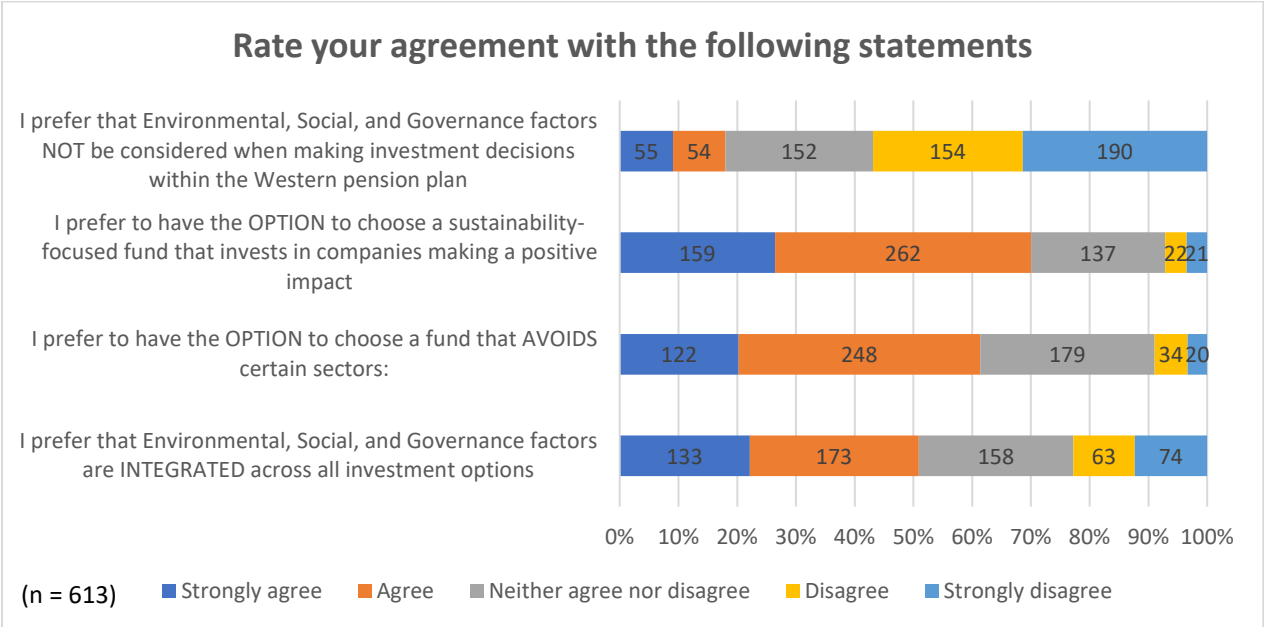


Chart 2 Note: Each dimension was asked as a separate question in the survey. The responses have been consolidated for presentation.

Members interested in investing in an ESG-focused way were more committed to investing in a fund that invests in companies making a positive contribution towards a sustainable society than in a fund that avoids certain sectors.

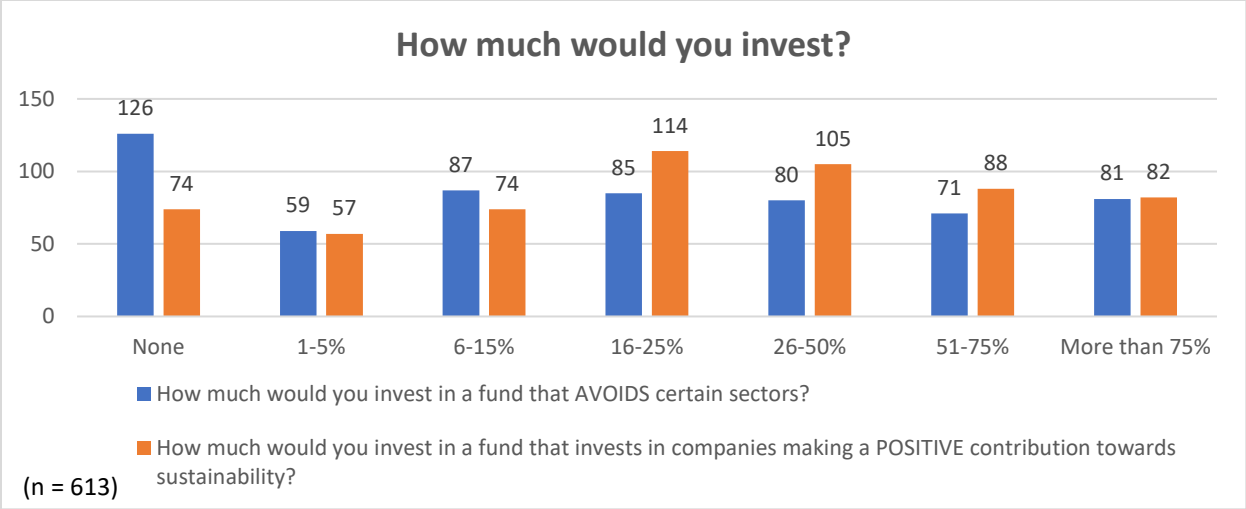


Chart 3

Broadly, responsible investment fund options are dominated in the area of Environment, and Western members indicated particular interest in renewable energy. In this section of the survey, participants were also asked about their interest in investing according to Islamic investment principles, also known as Shariah. While there are varying views as to whether Shariah should be considered within responsible investing, the reality is that ESG fund options, including the Socailly Responsible Global Equity Fund currently offered to Western plan members, have often represented the closest alternatives for Muslim plan members to align their investment with their religious beliefs. It is important to note that a fund which aligns with Shariah is not exclusive to Muslim members and may align with the interests of non-Muslim members.

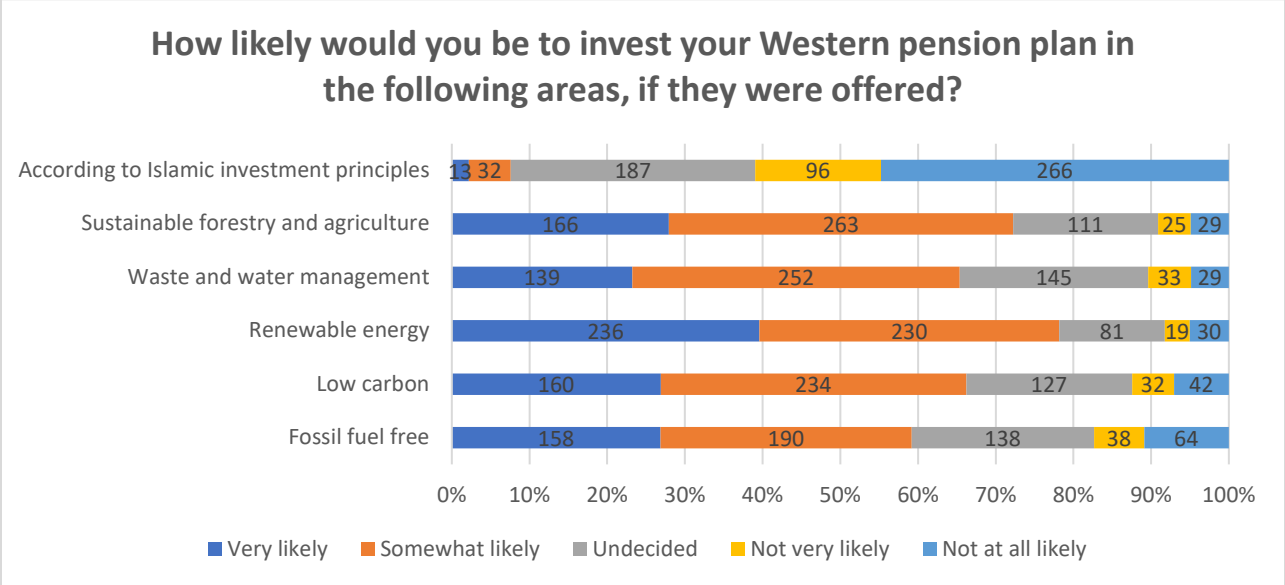


Chart 4 Note: Each dimension was asked as a separate question in the survey. The responses have been consolidated for presentation.

Some Members expressed concerns regarding the metrics surrounding responsible investing, including greenwashing; the criteria supporting ESG ratings; the reliability of information provided within the industry; lack of standardized metrics; and the depth of impact on ESG issues which can be achieved

through these investment choices. For these and other reasons, some members prefer that decisions about whether or how they personally address ESG be left outside of the pension program.

The Joint Pension Board’s Approach to Investing

Members of the Pension Boards are Fiduciaries who have a legal duty to act in the best interest of the plan beneficiaries and to set aside personal or other interests. The Pension Boards are sub-Committees of the Board of Governors, and the plan beneficiaries are the members of Academic Pension Plan and Administrative Staff Pension Plan. As fiduciaries, Board Members recognize that the pension assets are neither theirs nor the University’s; the plan assets belong to the plan members and the Joint Pension Board is focused on achieving the best retirement outcomes for the plan members.

The Western pension plans operate within a regulatory framework aimed to support and protect the accumulation of savings to provide for a retirement income. The Board looks to the *Pension Benefits Act* (Ontario), the *Canadian Association of Pension Supervisory Authorities*, Common Law, and industry best practices to help guide its approach. These currently support:

- Disclosure of the fund’s investment policies in relation to ESG considerations within the Statement of Investment Policies and Procedures. Western implemented this disclosure in 2007; disclosure became a regulatory requirement in 2016.
- Considering ESG factors which have a financial relevance to a plans’ investments and risk management frameworks.

The Pension Board is Guided by 7 Principles:

1. Offer members the broad and diversified **CHOICE** of both investment and retirement vehicles.
2. Maintain **FAIRNESS** among members in plan operations.
3. Provide investment alternatives which possess high **LIQUIDITY**.
4. Assist members in making **WELL—INFORMED DECISIONS** about investment and retirement alternatives.
5. Solicit information about and be **RESPONSIVE TO MEMBER PREFERENCES** regarding the plan.
6. Use **PRUDENCE** in assessing and reviewing plan decisions and operations.
7. Assure **COST EFFECTIVE ADMINISTRATION** of plan operation.

Responsible Investing Activities of the Joint Pension Board

In 2023 the Board is continuing their review of the investment fund line up and alternatives in the market. Most recently the Board’s activities have included:

In 2022:

- Plan Member’s access to information on Responsible Investing within the Pension Plans was enhanced through the inclusion of ESG information on the Morningstar Fund Sheets and the release of a Responsible Investing page which houses additional details on ESG Fund Facts, within the Sun Life site;

- The most comprehensive survey to-date of all investment managers for the Western Pension Plans was completed in Q2;
- A panel discussion on Responsible Investing was facilitated in May 2022 as part of the Annual Report to Members to both educate and hear from plan members, and was followed by a survey of Western plan members (May 31-June 14, 2022) to gain further insights;
- Plan-wide carbon metrics were assessed by the Joint Pension Board for 2021.

In 2021:

- Plan-wide carbon metrics were assessed by the Joint Pension Board for 2019 and 2020;
- ESG Risk was explicitly added to the Risk Management Plan;
- The Board focused on their own education related to ESG and Responsible Investing;
- Some members of Faculty engaged with the Board to learn and share about Responsible Investing within the Plans.

Historically to 2020:

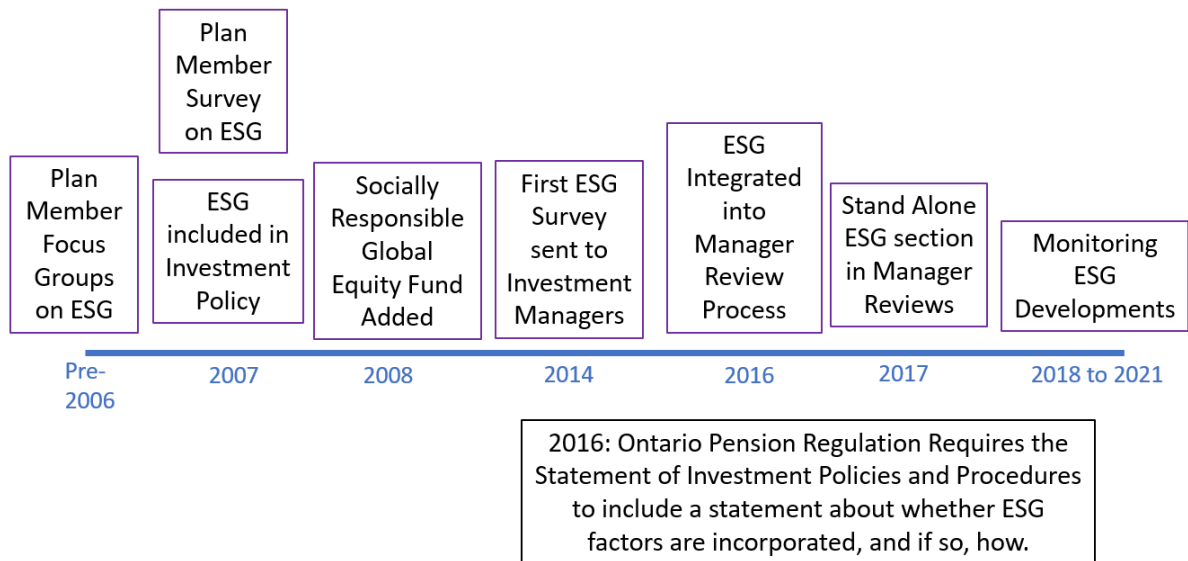


Chart 5

Engagement with Investment Managers

The Joint Pension Board has continued to enhance their engagement with investment managers through the manager review process. In 2022, with the support of Mercer, the investment consultant supporting the Board, an in-depth survey related to responsible investment of all investment mandates across the pension portfolio was undertaken. The pension plans have 18 investment mandates offered to plan members within 13 investment funds.

Here are some key findings:

- All managers within the portfolio have a Responsible/Sustainable/ESG Investment **Policy**
- 17 of 18 managers are **signatories** to the Principles for Responsible Investment (PRI).

- 89% of managers **engage with companies/issuers** on material ESG issues as part of the investment process.
- 61% of managers have a **process in place for integrating** climate risks and opportunities.
- 89% of managers consider **diversity** within the investment process. All managers track diversity metrics for the organization.

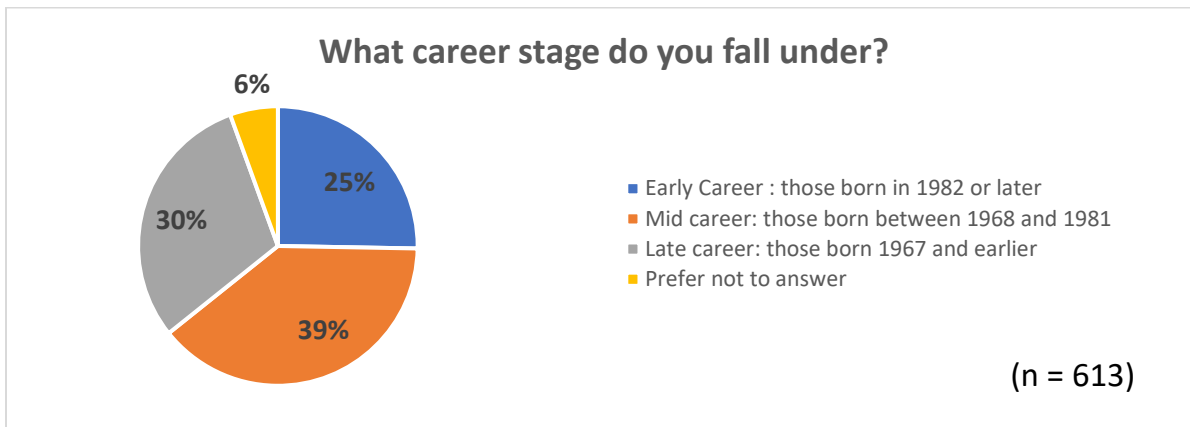
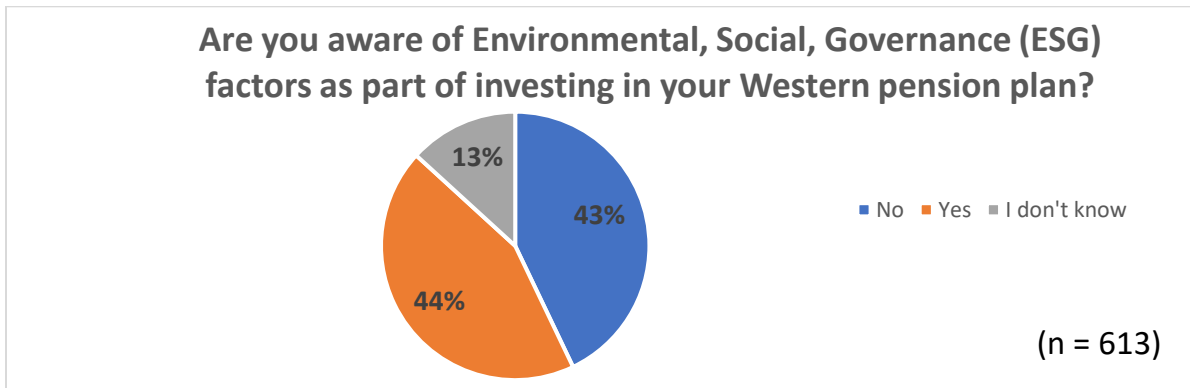
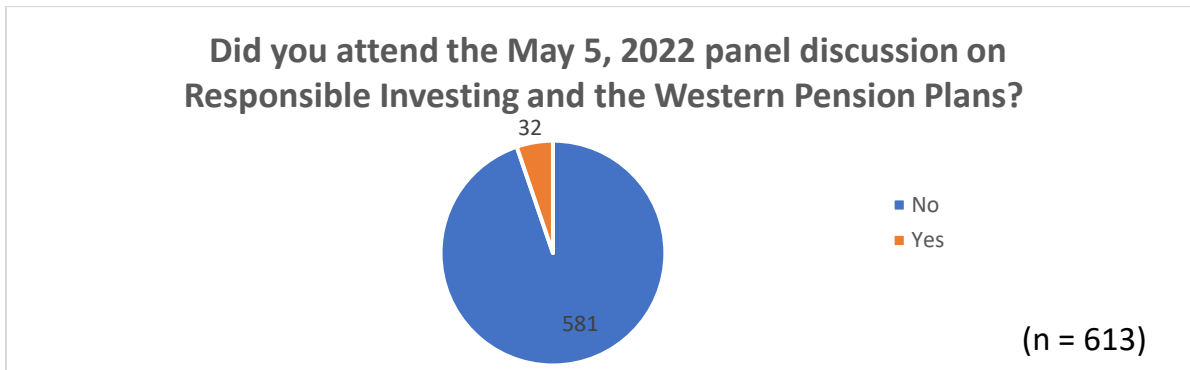
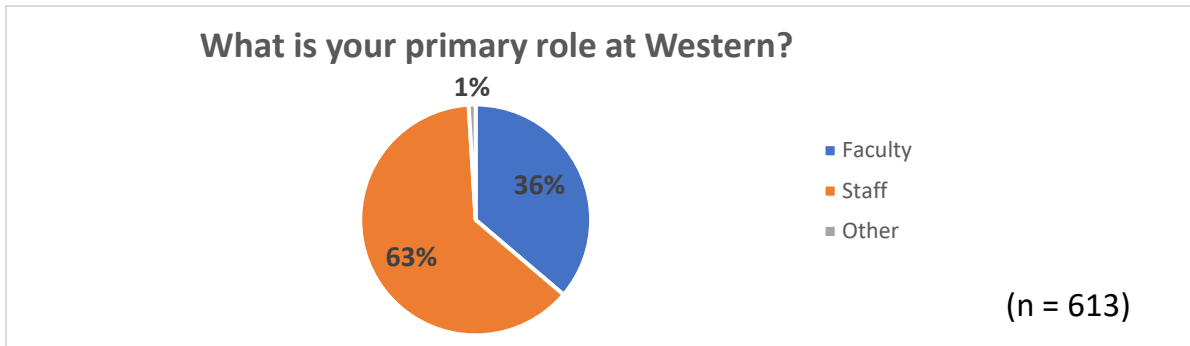
The Task Force on Climate-related Financial Disclosures (TCFD) has set voluntary recommendations⁵ for companies, asset managers, and asset owners, which has helped to guide the Joint Pension Board's own education and engagement with investment managers in the areas of Governance, Strategy, Risk Management, and Metrics & Targets.

Metrics

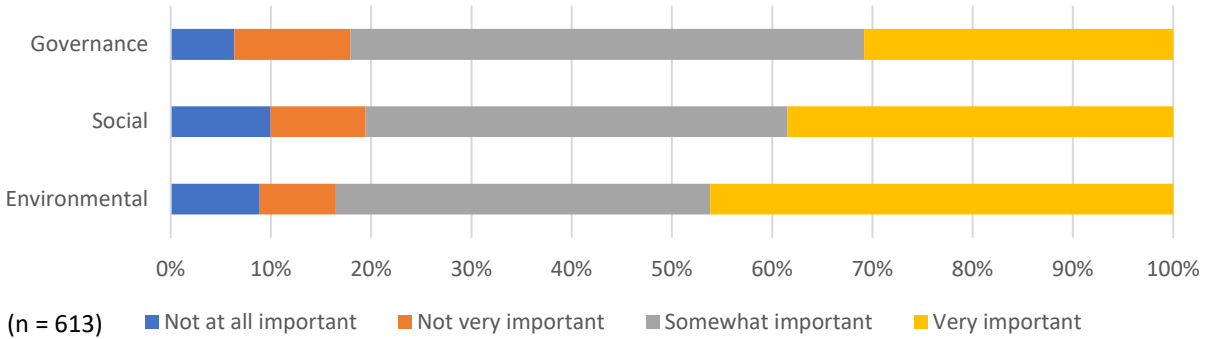
The Western pension plans have conducted plan-wide carbon footprint analysis for 2019, 2020, and 2021 with the goal of monitoring the overall trend within the plans. This data is a tool to help the Joint Pension Board prioritize and support engagement efforts with investment managers. We note that carbon footprint reporting has not been regulated and the data and methodology is still evolving. Members of defined contribution pension plans (such as the Western plans) do not have access to carbon footprint data, although individual investors are increasingly able to access this information.

⁵ [Voluntary Recommendations of the Task Force on Climate-related Financial Disclosures](#)

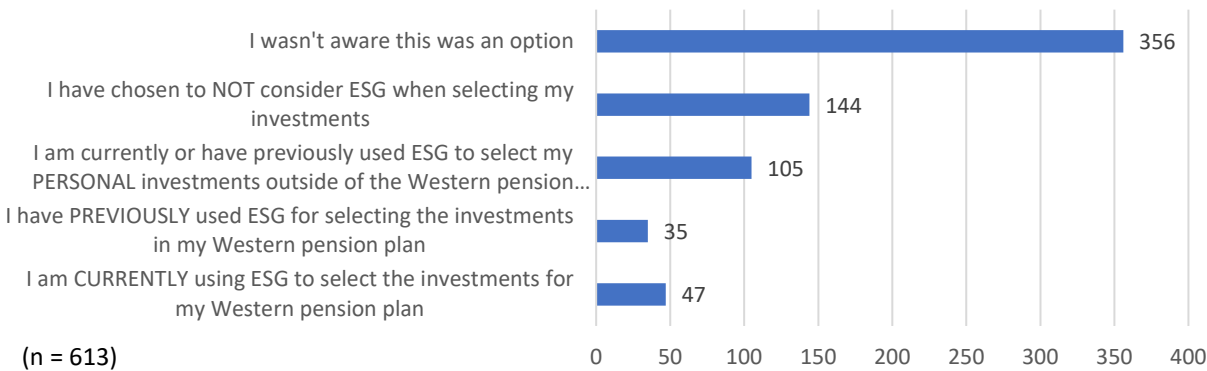
Appendix – Other Results from the Survey conducted May 31 to June 14, 2022



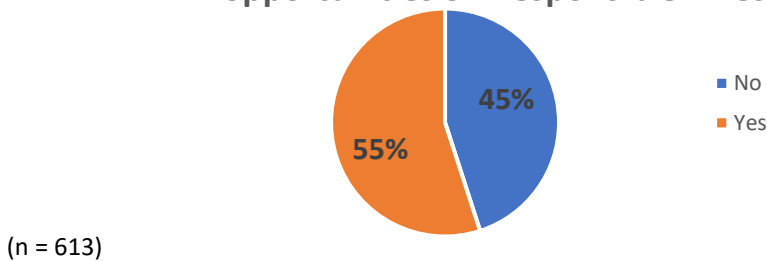
Thinking about your personal values, how important are each of the factors when you make investment decisions related to your Western pension plan? That is, will the issue change the way you invest your Western pension plan?



What best describes your use of ESG in selecting your investments?



Would you be interested in attending educational opportunities on Responsible Investing?



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