

McMaster University Endowment Fund

Fund overview

Size of fund: 519.2 million (2012)¹

Asset mix:

The asset mix against which McMaster trust funds are invested is not available on its website.

Fund management

The McMaster University Investment Pool, including endowment funds are externally managed.

Fund governance

The Board of Governors Finance Committee maintains overall responsibility for investment policy and may delegate such responsibilities as it sees fit to the University Administration in the implementation of the established policies.² The Finance Committee is required to have a minimum of six members of the Board of Governors, in addition to the Chair and the Vice-Chair(s) of the Board, the President, the Provost, and Vice-Presidents as ex officio members. The responsibility of the Committee is to exercise general supervision over the financial affairs of the University and meets at least quarterly to conduct its financial oversight duties.

The Investment Pool Committee is a subcommittee of the Finance Committee and is required to have a minimum of six members.³ The overall objective of the Investment Pool Committee is to bring advice and knowledge to the effective management of the investments included in the University's Investment Pool, consistent with the approved fund objectives.⁴ Within this context, the Committee is expected to fulfil the following functions:

- review investment policies, objectives, strategies and make recommendations to the Finance Committee;
- make recommendations to the Finance Committee concerning the engagement and termination of investment managers and consultants;
- review and approve mandates and investment objectives given to individual investment managers;
- meet quarterly to monitor investment performance of the total Fund and of individual managers;
- meet regularly with external investment managers;
- monitor operating expenses such as fees paid to external fund managers, consultants, fund measurement services and custodians;
- monitor rebalancing of funds among the investment managers and exposure to non-Canadian currencies; and
- provide semi-annual performances reports to the Finance Committee.

The Treasury Operations department supervises the investments of the University, including the Investment Pool and Pensions funds and manages the cash flow for the Working Capital Fund to meet the daily needs of the University.⁵

¹ http://www.mcmaster.ca/bms/pdf/BMS_AFR_12.pdf

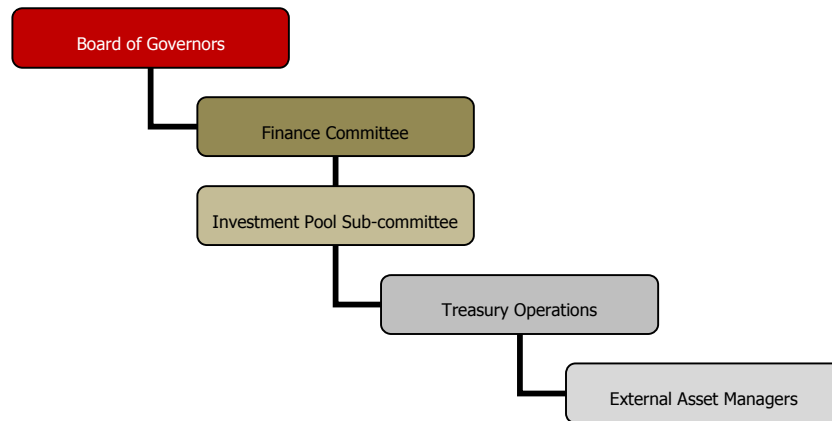
² <http://www.mcmaster.ca/univsec/commboard/finance.cfm#invpool>

³ Ibid.

⁴ <http://www.mcmaster.ca/univsec/commboard/finance.cfm#invpool>

⁵ http://www.mcmaster.ca/bms/BMS_Treasury.htm

Endowment Fund Governance Structure



Sustainability snapshot

Policies and commitments to sustainability

*"[W]e must also uphold above all else the obligation of the University to serve the greater good, beginning with our immediate community, our city, and extending outwards to the world at large. We enjoy and exercise an authority that is conferred on the university by society, so it is through service to the highest ideals of that society that our work will have integrity."*⁶

*"McMaster University will apply its immense potential and use its creative and innovative campus community to advance sustainable operations and growth."*⁷

McMaster University has a general university-wide sustainability policy⁸, which was approved in 2011. The policy commits the university to integrating an environmentally, socially and economically sustainable consciousness into all aspects of the university life cycle.⁹ The sustainability policy also outlines seven key areas of focus – energy, green space, waste, transportation, water, education and health & well-being, although specific targets and action plans are not elaborated.

Aside from the general sustainability policy, McMaster University has policies on sustainable buildings, battery recycling and disposal, green procurement, the use of plastic bags, and a Climate Action Plan.¹⁰

The university is also a signatory to the following initiatives:

- University and College President's Climate Change Statement of Action for Canada
- Ontario Universities Statement on Creating a Sustainable Environment
- Talloires Declaration

Given there are separate policies pertaining to responsible investment, there are no explicit references linking sustainability and the university's investment approaches in the general sustainability policy. However, the guiding principles contained therein call for a responsive and stakeholder-driven approach to sustainability at the university that could be relevant to how the endowment fund is aligned to sustainability.

⁶ <http://www.mcmaster.ca/presidentsoffice/fwi.html>

⁷ <http://www.mcmaster.ca/sustainability/documents/Annual%20Report%202012.pdf>

⁸ http://www.mcmaster.ca/sustainability/policies/McMaster_University_Sustainability_Policy.pdf

⁹ <http://www.mcmaster.ca/sustainability/documents/Annual%20Report%202012.pdf>

¹⁰ http://www.mcmaster.ca/sustainability/documents/Climate_Action_Plan_Dec_2010.pdf

Institutional support and coordination for sustainability

McMaster University's Office of Sustainability is responsible for all aspects of university sustainability. It includes the Manager of University Sustainability and involves the combined efforts of many faculties, departments groups, and individuals. In addition to internal efforts, the Office of Sustainability is connected to community groups and governments external to the University.¹¹

The sustainability policy states that "each area will have an assigned management representative who will be responsible for the implementation and annual reporting to the Sustainability Steering Committee." This committee is convened by the Vice President (Administration) consists of pan-university representation and reports to the Board of Governors. The committee holds open meetings on a bimonthly basis and works with the Manager (University Sustainability) to monitor, assess and review the sustainability policy on an annual basis.

Sustainability reporting

The university's annual sustainability initiatives and sustainability reports are disclosed on the Sustainability Office website.¹²

Sustainability performance

The university has not participated in the voluntary Sustainability Tracking, Assessment & Rating System (STARS). However, McMaster is included in the latest Green Report Card, where it received an overall grade of B.

RI Review

Investment beliefs

McMaster's Statement of Investment Policies and Objectives – Investment Pool¹³ was most recently approved by the Board of Governors in 2009. Following a general introduction, definitions and an overview of the university's trust funds and endowment funds, the fairly detailed and comprehensive statement includes the following issues:

- Financial objectives
- Fund governance
- Investment objectives, beliefs and mandates (including expectations from active management and performance)
- Asset mix and rebalancing policies
- Permitted investments (with quality and quantity requirements)
- Securities lending
- Voting rights
- Fund manager reporting
- Conflicts between the policy and pooled fund investment policies
- Conflicts of Interest
- Responsibilities
- Disclosure

RI policies

"McMaster University, in its role as an institutional investor, has a prima facie obligation to avoid condoning social injury resulting from the activities of any corporation, government, or government agency whose securities it holds...It is possible that the position of the University as a shareholder or a lender in relation to certain corporations, industries, or governments may be inappropriate no matter how attractive the financial return.

Social Responsibility and McMaster's Investment Policy (1980)

¹¹ <http://www.mcmaster.ca/sustainability/>

¹² <http://www.mcmaster.ca/sustainability/documents/Annual%20Report%202012.pdf>

¹³ <http://www.mcmaster.ca/policy/General/Financial/InvestmentPool.pdf>

The document “*Social Responsibility and McMaster’s Investment Policy*” serves as the university’s responsible investment policy.¹⁴ It was approved by the University Board of Governors in 1980, reportedly in response to the increased recognition of the “responsibility of investors (both individual and institutional) to act within their powers to ensure that the issuers of securities do not cause social harm by violating basic human rights.”¹⁵

The policy explicitly states that “any discussion of the University as an institutional investor is subordinate to the preservation of a climate in which teaching, scholarly inquiry, freedom of dissent, social comment and criticism may flourish.”¹⁶ The policy recognizes that freedom of expression and the fact that no one group may speak on behalf of the entire university community, militates against the establishment of inflexible guidelines for defining social policy as they relate to the investment decisions of the Finance Committee of the University.

Nonetheless, the policy further clarifies that there is no necessary contradiction between the fund’s financial objectives and social obligations. Consequently, the document outlines a fact-based process for effectively devising investment decision-making at the university that is sufficiently sensitive to, and effective in addressing, the social implications of a particular corporation’s or government’s conduct.

It is noteworthy that the policy specifically identifies that UN Declaration of Human Rights and associated International Covenants as appropriate benchmarks for assessing social performance. In the event that the policies of a corporation, industry, or government are deemed incompatible with the Declaration, the McMaster RI policy provides for the following avenues of action:

- Communication of concerns to the security issuer in question;
- Raise questions at shareholders’ meetings;
- Introduce resolutions at shareholders’ meetings;
- Where feasible, vote for the appointment of concerned individuals to the Board of Directors;
- Disinvestment.

According to this policy, the Finance Committee assumes final responsibility for the investment policy of the University, and that “goodwill is required of the various constituencies of the University when the Finance committee makes decisions about which there are internal disagreements. The Finance Committee, however, does have a serious obligation to consider matters of social responsibility that may arise in connection with its investment decisions.”¹⁷

RI practices

Selection of managers: There is no commitment at the policy level to use investment managers that consider environmental and social issues. McMaster University has also indicated that this is not an issue under active consideration.¹⁸

Asset selection: There is no publicly disclosed information about whether current fund managers used by McMaster University deploy asset selection strategies that favour companies with high social, environmental or sustainability performance.

Proxy voting guidelines: According to the latest Green Report Card, McMaster University reports that its’ investment managers handle the details of proxy voting.¹⁹ The university’s RI policy states that where a contentious issue is involved, or a special issue arises, the University administration will refer the request for a proxy vote to the Finance Committee for a decision, and that in any event, the University will not delegate its

¹⁴ <http://www.mcmaster.ca/policy/General/Financial/SocialResponsibilityandInvestmentPolicy.pdf>

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ <http://www.greenreportcard.org/report-card-2011/schools/mcmaster-university/surveys/endowment-survey>

¹⁹ <http://www.greenreportcard.org/report-card-2011/schools/mcmaster-university/surveys/endowment-survey>

vote.²⁰ It is not clear whether the university issues proxy voting guidelines to these managers, and whether ESG considerations are expressed therein.

Proxy voting disclosure: Proxy voting records are made available to trustees and this information is also available to the public to review at the investment office.

Corporate engagement and dialogue: The University's RI policy recommends corporate engagement and dialogue by letter or by personal interview, only in the event that the Finance Committee is convinced that its investigations suggest that a firm's activities are morally reprehensible.

There is no publicly available evidence about how this policy is implemented, specifically as to which companies have been the subject of engagement or which human rights issues may have prompted company dialogue.

Divestment: The RI policy states that the maximization of financial returns over the long run does not absolve the university's Finance Committee from ensuring that there are no compelling moral or social considerations that might warrant divestment. Divestment is laid out as a 'last-resort' measure once a corporation or government is considered to be culpable of violating international human rights standards even after a process of corporate engagement by the university.

The university's Finance Committee is expected to ensure that disinvestment takes place in an orderly and responsible manner and to ensure these steps are not detrimental to the University's financial resources or the position of the University Pension Plan. In addition, the RI policy states that if the University decides divest from a particular corporation, it must also decline financial support from the same corporation.

There is no publicly accessible information about the university's history of divestment. Details of investments made by the McMaster Department of Treasury Operations, which manages the school's endowment funds, are not available to the public.²¹ However, other large universities across Canada, including University of Victoria, Western University, Queen's University, York University have such data available online.

While divestment hasn't been an institutional priority at McMaster, students supported divestment from South African companies in response to apartheid in the 1990's. Students also supported a 2005 referendum to end the university's exclusive contract with Coca-Cola due to the company's alleged human rights violations.²² In 2012 students joined the 350.org campaign calling on the university to address climate change through its investment practices. Specifically, campaigners want McMaster University to "immediately freeze any new investment in fossil-fuel companies, and to divest within five years from direct ownership and from any commingled funds that include fossil-fuel public equities and corporate bonds."²³

Directing Gifts: At present the university does not offer donors the option of directing gifts to an investment fund that considers sustainability factors.

RI Advisory Committee: At present there is no institutional mechanism to invite multi-stakeholder input on responsible investment issues at McMaster University.

²⁰ <http://www.mcmaster.ca/policy/General/Financial/SocialResponsibilityandInvestmentPolicy.pdf>

²¹ <http://www.thesil.ca/where-does-the-money-go>

²² <http://www.thesil.ca/where-does-the-money-go>

²³ <http://act.350.org/sign/mcmaster-university>