The Successful Asset Mix Strategy

- In a Sustainable World
‘Sustainable Investing’ Goes Mainstream

Do-good investing took a step forward in 2015, with Wall Street ramping up interest.

Sustainable Investing Is Booming. Is It Smart?

The U.S. just blessed it for your 401(k). How to do good and still make money.

The former vice president and his partner in an investment-management firm argue that sustainability investing is essential to creating long-term shareholder value.
Sustainability...

- Within an investment context
- An application of the U of S investment solution
- Implication on investment principles
The Parameters of Sustainable Investment

- Business risk includes Environmental, Social, and Governance factors
- ESG factors impact a business’s viability
- The consideration of ESG issues is a complement to, not a substitute for, traditional fundamental analysis

Source: CFA Institute Environmental, Social, & Governance Issues in Investing, 2015.
Why Consider ESG Issues?

<table>
<thead>
<tr>
<th>Survey Response</th>
<th>Respondents (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To help manage investment risks</td>
<td>63</td>
</tr>
<tr>
<td>Clients/investors demand it</td>
<td>44</td>
</tr>
<tr>
<td>ESG performance is a proxy for management quality</td>
<td>38</td>
</tr>
<tr>
<td>It’s my fiduciary duty</td>
<td>37</td>
</tr>
<tr>
<td>To help identify investment opportunities</td>
<td>37</td>
</tr>
<tr>
<td>My firm derives reputational benefit</td>
<td>30</td>
</tr>
<tr>
<td>Regulation requires it</td>
<td>7</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: CFA Institute Environmental, Social, & Governance Issues in Investing, 2015.
# Macro Drivers of Sustainable Investing

## Global Mega Trends
- Corporate value drivers
- Climate change
- Water scarcity
- Millennials’ personal values
- Global connectedness

## Data Availability
- Increasing corporate sustainability disclosures
- Growth in ESG data service providers
- ESG indices, e.g., Barclays and MSCI fixed income

## Client Demand
- Pension plans are committing to ESG Integration (e.g. PRI)
- Investment industry is responding
- Fundamentally driven by changes in societal expectations (risk)

## Regulation
- Pension regulation stipulating ESG disclosure
- Ontario Pensions and Benefits Act
- Existing practice in Europe, South Africa and Australia

## ESG MARKET UPTAKE

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian investment managers with RI strategies</td>
<td>24</td>
<td>41+</td>
</tr>
<tr>
<td>Canadian investment managers signed onto PRI</td>
<td>12</td>
<td>42</td>
</tr>
</tbody>
</table>

Legislation Relation to Investor Disclosure of ESG

**Canada**
- Manitoba Pension Act (2008) clarified that non-financial or ESG considerations in investment policy are not a breach of fiduciary duty

**Global**
- More than 10 EU countries require pensions to disclose ESG Integration
- Some countries require investment managers to disclose ESG Integration

Source: Quinn & Partners.
## Changing Investor Stakeholder Expectations

<table>
<thead>
<tr>
<th>Stakeholder Trend</th>
<th>Example</th>
<th>Detail</th>
</tr>
</thead>
</table>
| Pension funds requiring sustainable investment (SI) practices | SI mandates by many large Canadian pension funds | • $821 billion of Canadian pension funds managed under SI mandate  
• Canadian pension fund assets utilizing SI strategies up 70% |
| Increasing support for responsible investment | Membership growth in Principles for Responsible Investment (PRI) | • 1380 signatories  
• 63 Canadian signatories |
| Rising investor advocacy               | Shareholder motions                  | • In 2012, environmental and social led all major shareholder resolution categories |
| Growing civil society pressure         | Asset Owners Disclosure Project & Montreal Carbon Pledge | • AODP targets investors to disclose  
• Montreal Carbon Pledge commits investors to measure |

Sources: Responsible Investment Association of Canada, 2015; PRI, 2015; AODP, 2015; MSCI, 2015; Ceres, 2013.
## Mega Trends Impact Investments Globally

<table>
<thead>
<tr>
<th>Mega-trend</th>
<th>Examples</th>
<th>Possible Impacts</th>
</tr>
</thead>
</table>
| **Corporate Value Drivers** | 1975 – 83% of S&P 500 market value was tangible assets  
2015 – only 16% of S&P 500 market value was tangible assets | ▪ Intangible assets such as brand, employees and innovation are larger value drivers |
| **Climate Change** | 14 of the 15 hottest years on record have occurred since 2000                                    | ▪ Economic viability of all oil and gas reserves  
▪ Carbon pricing  
▪ Asset resilience and stranded assets |
| **Water Scarcity** | 23% of irrigated US land area face water stress                                                 | ▪ Water dependent industries in water-scarce regions face access and price pressures |
| **Millennials Values** | 67% of Millennials believe investments are “a way to express social, political, and environmental values” (vs. 36% of Baby Boomers) | ▪ Increasing importance of corporate and investor responsibility                 |

Source: UN, 2015, MSCI Research, 2015; Ocean Tomo LLC, 2015.
Sustainable Investment Growth


### Total AUM

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian assets</td>
<td>600</td>
<td>800</td>
</tr>
<tr>
<td>managed under RI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>strategies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canadian pension</td>
<td>400</td>
<td>600</td>
</tr>
<tr>
<td>fund assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>managed under RI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>strategies</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Share of AUM

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian assets</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>managed under RI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>strategies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>European assets</td>
<td>50%</td>
<td>60%</td>
</tr>
<tr>
<td>managed under RI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>strategies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US assets</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>managed under RI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>strategies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global assets</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>managed under RI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>strategies</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Spectrum of ESG Integration Strategies

<table>
<thead>
<tr>
<th>“Traditional” Investing</th>
<th>ESG Integration</th>
<th>Ethical Investing</th>
<th>Thematic ESG Investing</th>
<th>Impact Investing</th>
</tr>
</thead>
<tbody>
<tr>
<td>No or minimal integration of ESG factors into investment analysis and management</td>
<td>ESG factors incorporated to varying degrees into investment management, such as engagement, research, asset selection and manager selection</td>
<td>Negative and positive screening to align portfolio with client values</td>
<td>Focus on areas where environmental or social needs create investor opportunity for market-rate returns</td>
<td>Primary objective is to obtain social and/or environmental benefits</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Can also include other ESG integration</td>
<td></td>
<td>Financial return is secondary objective</td>
</tr>
</tbody>
</table>

- **Primary focus is market-rate returns**
- **Increased emphasis of ESG risk management and opportunity identification**

Source: Adapted from Purpose Capital, 2012.

- **Align With Fiduciary Responsibility**
### PRI 6 Principles

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>We will incorporate ESG issues into investment analysis and decision-making processes</td>
</tr>
<tr>
<td>2</td>
<td>We will be active owners and incorporate ESG issues into our ownership policies and practices</td>
</tr>
<tr>
<td>3</td>
<td>We will seek appropriate disclosure on ESG issues by entities in which we invest</td>
</tr>
<tr>
<td>4</td>
<td>We will promote acceptance and implementation of the Principles within the investment industry</td>
</tr>
<tr>
<td>5</td>
<td>We will work together to enhance our effectiveness in implementing the Principles</td>
</tr>
<tr>
<td>6</td>
<td>We will each report on our activities and progress towards implementing the principles</td>
</tr>
</tbody>
</table>

**Signatory requirements:**
- Signatories must report annually on ESG integration processes
  - Basic approaches are public
  - Advanced approaches are optional/not published

- 1,380+ signatories
- USD $59 trillion+ in assets

Source: PRI, 2015.
PRI Signatories have Doubled Since 2012

PRI Signatories and Assets under Management

Source: CFA Institute Environmental, Social, & Governance Issues in Investing. 2015.
Asset Class Differences

What does it mean at the asset class level?

- Public versus Private Assets have different ESG disclosure levels
  - Sustainability reports and ESG reporting
  - More ad-hoc among private assets

- Degree of control and influence varies, for example;
  - Private Assets – Influence is high due to ability to own 100% of the asset and contractually engage managers
  - Public Assets – Influence and control is usually lower due to widely held ownership and absence of direct control over management

Source: Greystone.
## ESG Integration Tools by Asset Class

<table>
<thead>
<tr>
<th></th>
<th>ALL ASSET CLASSES</th>
<th>EQUITY &amp; FIXED INCOME</th>
<th>REAL ASSETS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Manager Selection and Engagement</strong></td>
<td>Company Engagement</td>
<td>ESG Financial Integration</td>
<td>Screening</td>
</tr>
<tr>
<td><strong>Basic</strong></td>
<td>RI policy</td>
<td>Proxy voting</td>
<td>ESG research complement (industry, company)</td>
</tr>
<tr>
<td></td>
<td>Manager questionnaires &amp; interviews</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Intermediate</strong></td>
<td>Manager ESG criteria</td>
<td>Direct company engagement</td>
<td>ESG integration in valuation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Advanced</strong></td>
<td>Reporting</td>
<td>Shareholder advocacy (developing shareholder motions)</td>
<td>Asset allocation &amp; portfolio construction</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Quinn & Partners.
Implications for Governance Structure

Beneficiaries
- Those to whom there is a fiduciary duty
- Are they the same as in the past?

However, new expectations
- Transparency
- Accountability
Investment Beliefs

Traditional

- Clients, Beneficiaries, Pensioners
- Students, Faculty, Alumni
- Internal business groups: Finance and Administration, Human Resources, Communications

New Stakeholders

- The broader industry
- Society at large
- Government and regulatory authorities

Source: Greystone.
Impact on Investment Policy

- Statement of investment beliefs
- Statement of investment policy and principles
- Investment objectives
  - They are changing
  - Performance measurement
  - Traditional and new benchmarks
Current Situation

- Increasing demand for ESG Investing (Donors, Students, Community)
- Mining, quarrying, oil and gas are 24% of Prov. GDP
- Limited career opportunities for students / alumni
- Student Managed Portfolio draws operating cash from donated funds under management
- Limited research funds for sustainable investments
Institutional Funds include:

- Endowments
- Research Funds
- Capital
- Operating Fund Balances

Source: UofS.
Return, Fees and Diversification

**Return:**
- 6.5% aggregate return over last 5 years

**Fees:**
- Avg.: 50 bp.
- Active equity: 100 bp.

**Diversification:**
- Global Equity
- Canadian Equity
- Universe Bonds
- Short Term Bonds
- Canadian Real Estate
- European Real Estate
- Managed Futures
- Deposit Interest
- Internal Loans

**Opportunity:**
- ESG / Green
- Local
- Aboriginal
- Students
- Research

Source: UofS.
Student Managed Portfolio Trust

Current balance: $1.3M
Average annual return: 8%
Unique Governance:
- Investment Panel
- Board of Trustees

Annual NYC competition
Operating costs: $40k per year

Source: UofS.
How Financial Services Support the SMPT Today

- Fund manager lecture series
- Participation on internal investment committee
- Participate in fund manager selection committees
So What is Big Idea #1?

- Place 1% of investment portfolio along side the SMPT
- Pay an average asset manager fee (75bp to 100bp)
  
  $10M investment = $75K to $100K

- Split revenue between operating costs and research

- Explore and encourage development of alternative investment strategies (ESG, Local, etc.)
Building Toward:

**Impact Investing**

- Impact investing looks at a company’s contribution to society based on relative measures of best in class or positive measures of ESG (Environmental, Social, Governance) criteria

- **Not** simply a negative screen that excludes companies or whole industries based on social, moral, ethical and religious criteria
Keys to **Our** SRII approach

- Research driven
- Consultative
- Locally focused – defining SRII for our community
- Student and faculty lead
- Board of Trustees governed
Upholding Fiduciary Responsibility

- Protecting students / faculty / staff / assets (fund management agreement and liability insurance)
- Formalized goals and objectives (Standard investment policies & practices)
- Oversight & governance (IIC and SMPT Trustee)
- Due diligence (Fund Manager Assessment)
- Monitoring (Quarterly Reporting and Compliance)
- On-going advisory function
Support from Key Partners

**AON** – Assessment
- Investment Process
- Risk Management
- Performance Analysis
- Terms & Conditions
- Operations

**Greystone** – Agreement
- Performance and Risk Metrics
- Risk Management
- Terms and Conditions
- Benchmark
- Compliance

Create an “In Brief” document for SMTP
Other Consideration (this is not a slam dunk)

Donors & students
- Step-up investment over 5 years
- Terms, Agreement and Process risk review
- Dean’s advisory council
- Be sensitive to donor

Faculty
- Support research
- Autonomy
- Get early buy-in
- Strong leader within faculty
- Engage investment partners

Senior management & board
- Communicate early and often
Overall Benefits

- Engaged students
  - Education
  - Experience
  - Exposure

- Alignment to mission/vision/values

- Source of operating and research funds for program

- ESG/Green Strategy Development
Is there a big idea #2?

- Commercialization support for campus discovery
  - Start-up Venture Capital Fund
  - Green, aboriginal and local development
  - Pool the risk with other investors /universities
- Investment strategies for mainstream Green/ESG initiatives
Asset Mix Strategy

- Asset Mix Strategy and Sustainability
  - Investment principles and governance stay the same
    - Investment objective linked to purpose
    - Identify your investment beliefs
    - Establish your investment policy
    - Develop an asset mix strategy
Investment Beliefs

- **The cornerstone of the investment policy**
  - Financial market
  - Investment process
  - Organizational
  - Sustainability and Corporate Governance

Source: Investment Beliefs: The Importance of Focus for an Institutional Investor, working paper prepared for the ICPM/Netspar/Maastricht University October 2007
Optimize Asset Mix Strategy

Source: Greystone. For illustrative purposes.
Our Vision

- Sustainability is here to stay
- Material changes in governance
- Investment principles remain
Questions
Disclosures

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