



McGill International
Portfolio Challenge

MIPC 2019 Case

Designing a Sustainable Investment
Strategy for NLPiB

Disclosure

This case was written by the students of FINE 435—Pension Investing (Winter 2019) under the direction of Professor Sebastien Betermier at the Desautels Faculty of Management of McGill University. Authors of the case include Somdeb Bhadra, Yunyi Cai, Charles Cormier, Rhea Dsouza, Olivier Forgues, Pierre Fossecave, Liping Guan, Mehreen Haider, Alexandre Lasry (lead), Oriane Pacic, John Poole, Hanna Ranstrand, Hugo Saviane, Bhoomika Saxena, Ye Sun, Matthew Wilson, and Fang Yang.

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Case Overview

Preface

This year's edition of the McGill International Portfolio Challenge centers on the Newfoundland and Labrador Pension Investment Board (NLPIB), a fictional asset manager responsible for managing \$15B of assets of the province's 3 largest public pension plans. Recently, NLPIB has come under pressure to implement more sustainable investment strategies and, in particular, divest away from its holdings in the oil & gas industry, which have traditionally been a large, revenue-generating component of the fund's assets and one of the largest sources of economic growth in the province. The purpose of this case is to devise an optimal portfolio strategy that accommodates the competing interests of the different stakeholders involved and addresses climate risks.

Although NLPIB is fictional, we used real data from the province of Newfoundland and Labrador to frame the discussion of divestment from oil & gas in an economy that depends on it. To aid in discerning factual from fictional information in this case, we have included a table in the Appendix that clearly highlights what is fictional and what is real, along with a list of sources. All dollar values correspond to Canadian dollars.

The Province of Newfoundland and Labrador

Newfoundland and Labrador (NL) is the most easterly province in Canada and is made up of two large but disconnected land masses: Newfoundland and Labrador. It has an estimated population of 525,000, most of whom live on the island of Newfoundland. NL's economy is highly dependent on energy production and resource extraction, notably in industries such as oil & gas, logging, fishing, and mining, all of which contributed to 23% of its GDP last year.

As a result of its increasing economic dependence on oil & gas, the province is sensitive to fluctuations in the oil price. Between 2007 to 2013, oil royalties on average accounted for more than 25% of total government revenue. Following the collapse of oil prices in recent years, this ratio has dropped closer to 13% (or around C\$1billion) of the latest 2018-2019 government budget. Following the price decrease, unemployment rate in NL rose from 11.6% in 2013 to 14.8% in 2017, the highest in Canada.

The NL Oil Spill

In 2018, the largest-ever oil spill in NL's history raised a fresh round of safety and environmental concerns related to the province's expanding offshore oil industry. Due to a flowline connector failure in Husky Energy's SeaRose oil platform off the coast of the Atlantic, an estimated 250,000 liters of oil were released into the surrounding waters. To worsen matters, the Canada-Newfoundland and Labrador Offshore Petroleum Board -- the regulating authority dealing with the spill -- has assessed that the oil has decomposed into the ocean to the point where a clean-up is no longer viable.

It is difficult to estimate the environmental and economic damage caused by the spill, such as the mortality of local wildlife and the impact on local fisheries and tourism. Following the incident, the SeaRose platform was forced to wind-down its operations. Critics and activists have also called for tighter regulation in the industry and the prioritization of the environment and safety over revenue and profits, just as the province moves to expand the size and range of offshore drilling. In extreme cases, there have been demands for full divestment from the industry.

Introduction to NLPIB

Established in 2000, NLPIB is the asset manager overseeing the pooled assets of the 3 largest public pension plans in NL. It is responsible for investing \$15 billion of assets belonging to 82,500 active and retired members, and ensuring that liquidity requirements are met. However, it is not responsible for administering the plans and paying out the liabilities.¹ NLPIB has a legally binding dual mandate to both its pensioners and the citizens of NL. For one, it must achieve a minimum rate of return on its assets and there are consequences for missing this benchmark. Additionally, NLPIB's duties include making a sustained and durable contribution to the local provincial economy, which explains why 27% of its assets are directly invested in NL firms and infrastructure projects.

MIPC 2019 Mandate

Following the spill, numerous activist groups have voiced their concern for the environment, with some calling for NLPIB's complete divestment from the oil & gas industry. Proponents of divestment have cited New York City's multi-billion-dollar divestment from fossil fuels and Norway's Government Pension Fund Global's (GPGF) ongoing disposal of oil and gas stocks as leading examples. In fact, some activist groups were found so compelling that members of NLPIB's investment board are now calling for divestment.

With the complex nature of the issue and its impact on the long-term health of the fund in mind, Debra Michael, Chairwoman of NLPIB's board, has decided to hire independent consultants to examine the situation and develop a comprehensive proposal by the beginning of October 2019, ahead of the board meeting scheduled in November. Consultants are expected to come up with an overhauled sustainable asset allocation strategy which accommodates the conflicting interests of different stakeholders and addresses climate risks. Consultants must be careful to submit a proposal that is realistic and viable for NLPIB. Once the proposal is submitted, NLPIB board members will jointly evaluate all proposals and take a vote at the upcoming board meeting. Additional guidelines for the report are provided at the end of the case.

¹ The NLPIB is only an asset manager, and thus the fund is not responsible for paying out liabilities. Therefore, we are not concerned about the funding ratio although it is relatively well funded.

Fund Overview

NLPIB Profile

The province of NL historically had 3 separately managed pension funds covering public employees. Following a pension reform in 2000, the three funds were merged to form NLPIB, a crown corporation. The table below shows a breakdown of NLPIB's members:²

NLPIB Members	
Active	34,650
Inactive	18,249
Pensioners	29,601
Total	82,500

All investment decisions are overseen by an independent investment board comprised of 7 members. The disbursement of funds to pensioners is administered by a separate government entity. NLPIB invests in a wide range of assets, including public and private equity, fixed income, and infrastructure. The fund's asset mix is as follows:

Asset Class	Value (Billions)	% of Assets
Equity		
Public	4.2	28%
Private	2.0	13%
Fixed Income		
Nominal	5.7	38%
Real	1.0	7%
Real Assets		
Infrastructure	1.3	9%
Real Estate	0.5	3%
Alternatives		
Commodity Futures	0.3	2%
Total	15.0	100%

² The breakdown includes: i) active members, who are individuals currently working and contributing to the plan, ii) inactive members, who are individuals who left the plan but haven't retired yet, and iii) pensioners.

Governance

NLPIB is required to secure, protect and prudently invest the pension assets. Integrity, accountability, and a high degree of attention to risks arising from all relevant sources are part of its fiduciary duty. In addition, each board decision is scrutinized closely by members of the press, and any person who is a plan member may request information in writing about the fund's administration and investment activities.

Investment Objectives & Strategy

The fund's primary objective is to generate returns above a given target set by NL's chief actuary. The annual target corresponds to the Canada 20-year government bond yield plus a 4.5% premium (net of fees). If the fund consistently misses the target, the board of directors would likely face public scrutiny and see significant turnover. Additionally, NLPIB aims to:

- Manage assets in the best interest of NLPIB contributors and beneficiaries;
- Invest assets to achieve a maximum rate of return, without undue risk of loss, with regards to the factors that may affect the funding of NLPIB and the ability of NLPIB to meet its financial obligations;
- Continue to invest in local initiatives to bolster the provincial economy.

In line with its dual mandate, NLPIB supports projects within the province jurisdiction to stimulate the local economy. In 2018, NLPIB's AUM was equivalent to approximately half of NL's GDP. Given the Canadian economy's significant growth over the past ten years, management is confident that NLPIB's investments will generate sizeable returns over the long-term.

Asset Allocation

The fund currently allocates 27% of its portfolio to direct investments and the remaining 73% to indirect investments (i.e. managed funds). The Board believes that prudent diversification of the investment portfolio by asset class, underlying risk factor, geographic exposures, currencies and active management strategies, provides both substantial diminution of long-term portfolio risk and broad access to the worldwide range of investment opportunities for the generation of long-term returns.

Direct Investments

The fund's asset allocation strategy in recent years has been trending towards larger positions in fewer assets, a governance decision that has allowed the fund to better influence business operations locally. The NLPIB invests mainly in three local industries: oil & gas, mining, and infrastructure. The breakdown of the directly managed portfolio is provided on the next page.

Direct Investments	Value (Billions)	% of Assets
Equity		
South White Rose	1.6	11%
Labrador Iron Ore	1.1	7%
Infrastructure		
Muskrat Falls	0.5	3%
St. John's Airport	0.8	5%
Total	4.0	27%

South White Rose (Oil)

Following the collapse of NL's cod-fishing industry and the subsequent discovery of new oil extraction sites in the province, NLPiB began to amass significant holdings in this sector. Discovered in 1984, the White Rose Oil Field is the province's third largest, estimated to contain over 230 million barrels of recoverable crude oil. NLPiB currently holds a \$1.6B stake of South White Rose, a 40-square kilometer fictional subfield within the broader geography, making it the fund's largest local investment.

Labrador Iron Ore (Mining)

Mining is one of NL's oldest and most important economic activities. The sector provides over 6,000 jobs in the province, particularly in under-served rural areas. NLPiB has invested \$1.1B of its direct portfolio in Labrador Iron Ore, a publicly traded iron ore mining company situated in a remote region of Labrador. Though this remains one of the fund's best performing assets, Labrador Iron Ore was adversely affected by a nine-week labor strike from March to May of 2018, halting all production during that time. As a result, the company faced a 17% drop in its 2018 revenues, as compared to 2017.

Muskrat Falls (Infrastructure)

NLPiB currently holds a \$500M stake in the Muskrat Falls project, which is an 824 MW hydroelectric generating facility on the Lower Churchill River, for which construction began in late 2013. The project embodies NLPiB's commitment to sustainable investing. The facility intends to meet the province's long-term energy needs of providing clean and renewable energy for future generations, irrespective of oil production.

Upon sanctioning and approval from the NL government, the project was expected to cost around \$6B. However, as of 2018, the project had incurred costs of over \$12.7B and remains significantly behind schedule. Construction has also been slowed by

organized protests on the part of the Nunatsiavut government³, which fears that the project may cause methylmercury poisoning in the surrounding Lake Melville. Due to delay and cost overruns, the project has yet to generate returns.

Saint John's Airport (Infrastructure)

NLPIB holds an \$800M stake in the St. John's airport, the largest in the province. In 2010, tourism in NL contributed \$410M to the province's GDP, or 1.1% of economic output. This contribution was higher than logging and fish harvesting, showing the region's potential for further growth in the tourism sector. Supporting local infrastructure and tourism has the potential to generate economic wealth and prosperity in NL.

Indirect Investments

The remaining 73% of NLPIB's portfolio are invested in a series of Exchange Traded Funds (ETFs), which are convenient, low-cost, and efficiently managed.⁴ The breakdown of ETF holdings is provided on the next page.

Equities

NLPIB invests in global equity markets through seven ETFs. This diversified portfolio of long-term core holdings is exposed to hundreds of publicly listed and private stocks of all sizes and compensate for industries that are underrepresented in NL such as technology, healthcare and consumer staples, while providing global diversification. It is important to note that the fund is exposed to oil & gas through its ETF holdings. For instance, the iShares Emerging Markets ETF (EEM) has a 7.37% allocation in the energy sector, including holdings in petroleum producers.

Fixed-Income

The fund currently invests in three fixed-income ETFs that disburse cash monthly to match liabilities. Two funds include government and corporate nominal bonds with different durations, and one fund specializes in bonds indexed to Canadian inflation.

Real Estate & Alternatives

In addition to its equity and fixed-income ETFs, NLPIB tactically invests in two additional ETFs: one invested in real estate, and another tracking commodity futures. These futures contain gold, oil, wheat and corn futures among others.

³ The rights to autonomous governance of indigenous peoples in NL was recognized at the provincial and federal governments of Canada in 2000. Subsequently, they formed their own governing body in 2005. This is explained later on in the case.

⁴ Please note that NLPIB's ETF holdings are sometimes disproportionately large in relation to the ETFs' AUM. We chose these ETFs and values to simplify the exposition of the case and facilitate the quantitative modeling of the portfolio.

Indirect Investments	Value (Billions)	% of Assets	% Invested in Energy
Equity			
iShares Core S&P/TSX Capped Composite Index ETF (XIC)	1.1	7%	16%
iShares MSCI World Index ETF (XWD)	0.3	2%	5%
iShares MSCI Emerging Markets ETF (EEM)	1.0	7%	7%
iShares NASDAQ 100 Index ETF (CAD-Hedged) (XQQ)	0.3	2%	-
iShares MSCI USA ESG Select ETF (SUSA)	0.2	1%	3%
iShares ESG MSCI Canada Index ETF (XESG)	0.2	1%	16%
Invesco Global Listed Private Equity ETF (PSP)	0.4	3%	1%
Fixed Income			
iShares Core Canadian Universe Bond Index ETF (XBB)	4.4	29%	8%
iShares Core Canadian Long Term Bond Index ETF (XLB)	1.3	9%	8%
iShares Canadian Real Return Bond Index ETF (XRB)	1.0	7%	-
Real Estate			
Vanguard Real Estate Index Fund (VNQ)	0.5	3%	n.a
Alternatives			
Invesco DB Commodity Tracking (DBC)	0.3	2%	n.a
Total	11.0	73%	

Environmental, Social & Governance (ESG) Considerations

NLPIB encourages companies and organizations to adopt policies and practices that promote responsible corporate and organizational behavior with respect to environmental, social and governance (ESG) factors. NLPIB firmly believes in the engagement and integration of ESG factors into the evaluation and management of both public and private investments. In addition, following recent pressures to conform to ESG standards, NLPIB has recently begun to invest in two ETFs specifically focused on ESG-focused investment strategies.

With escalating tensions following the SeaRose oil spill and pressure from activist groups, NLPIB has been urged to do more. Proponents of the ESG movement are calling for NLPIB to divest away from oil & gas and to implement a transparent ESG investment screening process to be used in all investment decisions.

The Divestment Question

Global Divestment Movement

The divestment movement around the world stemmed from a group of American students in 2011, which they contend is “a moral call to climate action”. In recent years, this movement has taken a new direction with pension funds, banks, and insurance companies around the world announcing they would start divesting their holding in non-ESG industries. Based on the recently published Global Fossil Fuel Divestment and Clean Energy Investment Movement 2018 Report, nearly 1000 institutional investors from all around the world with a combined \$6.24 trillion in assets have committed to divesting their funds to improve the state of the environment for future generations. Since then, the divestment movement has seen increasing popularity around the globe, particularly in developed economies.

Divestment Movement in Newfoundland and Labrador

The recent offshore oil spill in NL has exacerbated protests against large polluting firms and strengthened the divestment movement in NL. The most immediately affected are the indigenous communities living in coastal areas, who have seen increasing environmental damage from the release of the oil. Tensions are escalating between these communities and oil companies, sometimes requiring police intervention. Following a major protest that brought together thousands of citizens, students and indigenous groups, both the Prime Minister and the Mayor – who also face pressure from international activist groups – have made a strong case to the NLPIB Board to consider a strategy divesting the Fund’s fossil-fuel investments. An alternative to complete divestment from the oil & gas sector would be a moratorium similar to that imposed on the cod-fishing industry in 1992. Under these conditions, no new oil extraction projects could be pursued in NL.

Implications of Divestment

It is important to clarify that divestment does not necessarily imply a halt in oil production. After careful review, the board of NLPIB anticipates two likely outcomes if it divests from its direct investments in oil-related assets. First, it is possible that NLPIB cannot find a buyer for the South White Rose project, meaning the project would need to be shut down. This would result in a significant reduction in revenues, notably from offshore royalties. More likely is that NLPIB successfully finds a buyer, but the degree to which this buyer would be concerned with environmental protection is uncertain. Moreover, a portion of tax revenues on profits from the industry would be shifted to an external entity.

NLPIB would also need to sell its position in all ETFs with oil related equities. While divestment will surely appease activists, NLPIB is likely to face new pressures from pensioners to invest in assets with similar risk-return profiles as that of the oil & gas sector. Another consideration is whether divestment from oil & gas will set a precedent for divestment from other polluting industries such as mining or logging, thereby putting further pressure on pensioners.

Impact of Divestment on NL's Economy

As previously mentioned, NL's economy is highly concentrated among few industries, with the oil extraction (13.2%), construction (12%), and finance, insurance, real estate & business support services (15.6%) making up 40% of the province's GDP. Furthermore, these industries are highly interrelated. Construction in the province is largely focused on developing the infrastructure needed for oil extraction. The financial services sector is also dependent on the oil extraction industry given the industry's clients and capital expenditures.

Regarding the possibility of job loss, the oil extraction and construction industries only make up 1.3% and 9.2% of NL's population. However, the economic benefits reaped from these industries trickle down to the larger economy, such as the retail sector, which accounts for 16.2% of total employment. The potential impact of divestment on NL's economy thus cannot be overlooked.

Impact of Divestment on NL's Public Finances

Approximately 50% of NL's \$5.8B in annual revenue comes from provincial taxation, with other major revenue sources including transfers from the Government of Canada (17%) and Offshore Royalties (13%).

Provincial Taxation

Tax revenue itself is comprised of personal and income tax (72%), with the remainder coming from corporate taxes. As such, NLPIB must consider the effects of divestment on government tax revenue. If the fund chooses to divest from South White Rose but cannot find a buyer, the government may be forced to shut down the operation and lose a significant portion of its revenues.

Federal Government Transfers

The government of Canada's equalization program seeks to ensure reasonably comparable levels of services and taxation across provinces. As such, the government may transfer funds to a province that is not generating enough revenue to sustain basic universal services. While federal government transfers have historically comprised nearly 50% of NL's total income, the development of the oil industry has significantly increased the province's ability to generate revenues, leading to a reduction in payments. As of 2008, NL's Government has stated that it is no longer eligible for equalization—nor will it be in the near future. As such, if the industry saw a reduction in activity, it is possible that the Federal Government would not intervene by increasing transfers.

Offshore Royalties

NL is the third largest oil producing province, generating 4.4% of Canada's petroleum. Specifically, most of NL's oil facilities are offshore - where NL's government collects royalties from oil companies in exchange for offshore drilling rights. In 1985, the Atlantic Accord was negotiated between the Federal Government and NL to ensure that royalties from oil drilling off the coast of NL would primarily benefit the province. In part, the accord was a mechanism intended to partially offset reduced equalization entitlements.⁵ Historically, oil royalties outweighed the effects of reduced transfers. However, the oil industry is highly cyclical in nature. If industry activity were to be reduced following divestment because NLPiB could not find a buyer, the provincial government could risk losing one of its most important sources of revenue.

Government Spending

Government spending in NL has increased significantly in the last two decades, amounting to \$7.8B in 2018 and resulting in a total net deficit of \$14.6B. In efforts to address this, NL's government sought to reduce spending on bureaucracy, eliminating 795 positions within numerous departments. The government is also looking for savings in all areas of public service, notably by negotiating benefits offered to public employees with labor unions.

⁵ Equalization is the Government of Canada's transfer program for addressing fiscal disparities among provinces. Equalization payments enable less prosperous provincial governments to provide their residents with public services that are reasonably comparable to those in other provinces, at reasonably comparable levels of taxation. (Source: Department of Finance Canada)

Key Stakeholders

Provincial Government

The provincial government must balance the needs for economic development and environmental protection. On the one hand, the oil & gas industry is the most significant contributor to GDP for the province, allowing for government funding of infrastructure, social services and benefits. Due to slower economic growth, however, investment in environmental cleaning and waste management is limited – making complete divestment from oil & gas difficult. The government is also facing a deficit of \$547 million in 2018, which requires continuous cash injection for debt-servicing costs (which amounted to nearly \$1B in 2018).

On the other hand, the provincial government is aware that being dependent on a single industry is risky. In the 1990s, overfishing of cod led to the collapse of the industry, which represented an important source of revenue for the province. The provincial government also seeks to abide to its commitment to the Paris Climate agreement and limit carbon emissions. Ultimately, the government needs to strike a balance between economic growth and environmental protection.

Taxpayers

Personal and sales taxes are primary sources of revenue for the NL government. Beyond this, taxpayers are influential because of their voting power and ability to limit government action in dealing with important issues. As such, taxpayer satisfaction is an important decision factor in this case. For one, taxpayers expect a minimum level of social services to be provided by the government, such as education, healthcare and infrastructure maintenance. If these services cannot not be met due to lack of government revenue, taxpayers may choose to vote out the current government or leave the province altogether.

Demographic shifts are also influencing the need for taxpayer funding. For one, the ageing population in the province is increasing demand for hospitals and retirement homes. Furthermore, the aforementioned government debt burden is being partially passed on to taxpayers, with the government considering the possibility of raising taxes by another 26%. Taxes in the province are already considered high and any further increases could cause political upset. The balance between future and current benefits leaves considerable debate among citizens of NL.

Pensioners

In order to maintain its fiduciary duty to plan members, NLPIB must consider the impact of any decision it makes on current beneficiaries, who want to continue receiving benefits as promised. New plan beneficiaries are also concerned with receiving the same benefits as older generations and maintain equality.

Following the oil spill, NLPIB surveyed pensioners to determine their views on supporting the oil & gas sector in the province, as well as the wide-scale adoption of ESG principles in all future investment decisions. The results were interesting: although respondents indicated that they preferred a portfolio of sustainable investments, the overwhelming majority was unwilling to accept lower returns in exchange for ESG compliance.

Indigenous Groups

In 1995, the Federal Government declared that Aboriginal groups have an inherent right to self-government. This allows groups to negotiate for complete political autonomy in some areas and obtain some natural resource management rights on their land. NL's Aboriginal groups are generally against oil exploration because of ancestral ties to the land, and deep respect for the environment. In 2005, the Inuit communities formed the Nunatsiavut Government and secured a board seat on NLPIB and giving them a strong voice over oil extraction on their lands.

The Oil & Gas Labor Union (OGLU)

Oil exploration and extraction employees are largely unionized, with most bargaining units falling in the jurisdiction of the NL Oil & Gas Labor Union (NLOGLU). Payment of union dues is mandatory for workers in the sector. As a private-sector union, the NLOGLU has no direct ties to NLPIB or its assets. Despite this, it has a strong and unified presence in the NL community; well-known for a long history of strikes and protests. Moreover, their large size and high visibility in local media and politics makes them a strong adversary to the divestment decision.

NLPIB's Board

NLPIB is led by a Board of 7 members with diverse backgrounds. Each member brings forth a distinct perspective on the divestment decision, motivated by the constituents and parties of interest they represent. As such, the best proposals brought forward by consultants will need to convince board members to change their initial stances when voting on the issue at the November meeting.

Debra Michael – Ex-Assoc. Dean of Faculty of Business, Memorial Univ. of Newfoundland

Ms. Michael has over a decade of experience as the Associate Dean of Memorial University's School of Business. As current Chairwoman of NLPIB, Ms. Michael has been appealed to numerous times by proponents of both sides of the divestment movement. She wants to ensure that all sides of the issue, and the people they affect, are considered ahead of the vote in November. She remains undecided about what should be the optimal investment strategy.

Tim Anders – NL Minister of Advanced Education, Skills and Labour

Mr. Anders is responsible for developing NL's human capital. He oversees provincial educational activities at all levels. Through his pro-divestment stance, Mr. Anders hopes to publicly display his commitment to sustainable development and ecological protection – particularly to student voters. Mr. Anders intends to run for the position again in the upcoming provincial elections and is trying to garner as much support as possible.

Jeffery Hutchinson – Canadian Coast Guard Commissioner

Mr. Hutchinson has served as Canadian Coast Guard ("CCG") Commissioner since 2010. Under his leadership, CCG was tasked with marine search and rescue, communication, navigation and transportation issues in Canadian waters, and was also responsible for managing marine pollution issues. Mr. Hutchison has always been in favor of divestment, and since the recent oil spill, he has become concerned that oil & gas companies have become negligent to the environmental impact of their actions.

Emily Ross – President, Labrador Inuit Association

Ms. Ross was appointed by the active beneficiaries of the NLPIB for a 3-year term which began in May 2017. This seat was created in 2005 for Inuit communities in conjunction with the provincial and federal governments to give them a voice in the investment decision process. Mr. Ross has a wealth of experience with the Labrador Inuit Association, and has held the position of President since 2015. As a representative of the Indigenous community with a deep spiritual and ancestral connection to the surrounding lands, she favors divestment to prevent natural heritage in NL from being further exploited.

Jim Rogers – Chief Risk Officer, Canadian Tire Bank

As a CFA charterholder and Chief Risk Officer of a Canadian bank, Mr. Rogers brings financial expertise to the Board. He believes that divesting from fossil fuel and O&G stocks would significantly lower the portfolio's overall return and that there is no existing combination of assets that could replicate this return at the same level of risk. Subsequently, Mr. Rogers asserts that divestment is not consistent with the board's fiduciary duty to pensioners.

Derek Butler - Chairman, Association of Sea Food Producers

Mr. Butler has led the Trade Union for Seafood Producers since 2012 and has witnessed the adverse impact of the Cod fishing ban on the workforce in NL. While most fear that over-extraction of oil and gas could lead to a recession, Mr. Butler is more concerned with the impact of divestment on workers in the sector and their dependents. He argues that it would be nearly impossible to replace all the lost jobs by creating new ones, and further, believes that the increased cost of unemployment insurance will outweigh the benefits to the province.

Steve Frank – Professional Pension Lawyer

Mr. Frank has over 10 years of experience in pension law and has sat on two pension investment boards in Canada prior to joining NLPIB. Mr. Frank is concerned that by divesting away from oil & gas may significantly reduce the overall return profile of the fund, amounting to significant underperformance over time. He is worried that the fund may not be able to pay out its liabilities and face legal repercussions from pensioners.

Report Guidelines

The purpose of this case is to develop a long-term sustainable investment strategy for a fund that currently has a large stake in the oil & gas sector and is led by a board of decision-makers that are deeply conflicted on the issue of divestment. It is a complex case that applies to many funds around the world and has no clear solution.

Here are guidelines and tips for participating teams:

- The report must not exceed 7 pages, excluding the Appendix. Note that while no font size or text formatting is imposed, factors such as clarity, readability, presentation, and conciseness will be considered in the overall evaluation of the report.
- The report should not contain any indication of the participants' university to avoid any possible bias from the judges. Please create an alternative team name to put on your cover page. This alternative name should have no link to your university, nor should it contain any geographic references to your school's location - it should be completely neutral.
- You are expected to pitch a long-term asset allocation strategy for the entire portfolio of NLPIB. This may involve changing the direct vs. indirect mix, the fund holdings inside the indirect portfolio, or the assets inside the direct portfolio. You are welcome to propose a radical overhaul of the portfolio but please take into account the costs associated with the switch. Ultimately, your proposal needs to be realistic for NLPIB.
- The question of divestment from oil & gas is at the core of the case, but your proposal should go beyond a pure yes/no response to divestment. The Board wants to see a clear and comprehensive strategy for NLPIB's portfolio.
- The case is purposely left open along many dimensions. Feel free to make assumptions wherever needed. Make sure to clearly state your assumptions in the report.
- The case does not provide a lot of information about past portfolio performance. This is because the Board is more interested in hearing what their optimal portfolio should look like moving forward. The case includes a lot of information about NLPIB's current situation and precise holdings. From this information you have the opportunity to do a fair amount of quantitative analysis on the fund's current portfolio.
- We strongly recommend that you take a look at the post-mortem document from MIPC 2018 that is included in the emailed case package. This document will give you a lot of clues about what judges look for in winning proposals.

Appendix

Statement	Fact	Source
Anything related to NLPIB	N	
Existence of the NL Oil & Gas Labor Union (NLOGLU).	N	
The population of NL is 525,000	Y	https://www12.statcan.gc.ca/census-recensement/2016/dp-pd/hlt-fst/pd-pl/Comprehensive.cfm
The oil and gas, logging, fishing, and mining industries comprised 23% of NL's GDP last year.	Y	https://www.economics.gov.nl.ca/pdf2018/theeconomicroview2018.pdf
Between 2007 to 2013, oil royalties on average accounted for more than 25% of total government revenue.	Y	https://www.gov.nl.ca/taxreview/files/Summary-Report-Final.pdf
The unemployment rate in NL is 14.8%.	Y	https://www.stats.gov.nl.ca/Statistics/Labour/PDF/LFC_Gender.pdf
The Searose oil spill released 250,000 litres of oil into NL's coastal waters and was the largest in provincial history.	Y	https://www.cbc.ca/news/canada/newfoundland-labrador/searose-spill-size-1.5043228
The clean-up of the remaining oil is no longer viable	Y	https://www.ctvnews.ca/canada/remainder-of-oil-spill-off-n-l-coast-won-t-be-cleaned-up-1.4533779
NL's economy is highly concentrated among few industries, with the oil extraction (13.2%), construction (12%), and finance, insurance, real estate & business support services (15.6%) making up 40% of the province's GDP	Y	https://www.economics.gov.nl.ca/pdf2018/theeconomicroview2018.pdf
Approximately 50% of NL's \$5.8B in annual revenue comes from provincial taxation, with other major revenue sources including transfers from the Government of Canada (17%) and Offshore Royalties (13%)	Y	https://www.gov.nl.ca/taxreview/files/Summary-Report-Final.pdf
The government is facing a deficit of \$547 million in 2018, which requires continuous cash injection for debt-servicing costs	Y	https://www.gov.nl.ca/budget/2019/wp-content/uploads/sites/2/2019/04/News-Releases1.pdf
In the 1990s, overfishing of cod led to the collapse of the industry, which represented an important source of revenue for the province	Y	https://www.heritage.nf.ca/articles/economy/moratorium.php
The NL government was considering the possibility of raising taxes by another 26%.	Y	https://www.gov.nl.ca/taxreview/files/Summary-Report-Final.pdf
In 1995, the Federal Government of Canada declared that Aboriginal groups have an inherent right to self- government.	Y	http://publications.gc.ca/collections/Collection-R/LoPBdP/CIR/962-e.htm
The Nunatsiavut Government was established in 2005.	Y	https://www.nunatsiavut.com/government/the-path-to-self-government/

This table provides additional details regarding what is factual and what is fictional in the case.