University of Toronto
Asset Management Corporation

Responsible Investing Report

2020

NOW

Considering the potential ESG impact of every investment decision

WE HAVE A RESPONSIBILITY TO MAKE THE RIGHT CHOICES. RIGHT NOW.

As the economy shifts from COVID-19 response to post-pandemic recovery, long-standing inequalities have become magnified. Trends that many had taken for granted, such as globalization, are being called into question. And the world's attention has returned to a challenge that grows more urgent every day: climate change.

In this context, the University of Toronto has announced three critical next steps in advancing U of T's longstanding commitment to sustainability: divestment from investments in fossil fuel companies in the Endowment portfolio; a pledge to achieve net zero carbon emissions associated with the Endowment by no later than 2050; and allocating at least 10% of the Endowment portfolio to sustainable and low-carbon investments by 2025. Turning this landmark announcement into reality falls squarely within the mandate of University of Toronto Asset Management Corporation (UTAM).

After more than 20 years of managing the University's assets, UTAM has evolved a comprehensive responsible investing strategy. We rigorously evaluate how our external managers weigh material environmental, social and governance (ESG) factors in their investment processes. Moreover, as active owners, we play a leadership role in various responsible investing organizations and initiatives, championing best practices in Canada and worldwide.

More than ever, responsible investing requires us to look closely at how decisions today affect outcomes tomorrow. And it means making well-informed choices right now.

A note on the timing of this report:

While UTAM's annual responsible investing report is normally published midway through the following calendar year, we've held back publication of this 2020 report until late 2021 in order to include the University of Toronto's landmark announcement (referenced above) on divestment and other sustainable investing commitments. For more details, please see the message from U of T President Meric Gertler on page 3.

Message from the University of Toronto's President

DIVESTMENT AND OUR COMMITMENT TO NET ZERO

The publication of this Responsible Investing Report from the University of Toronto Asset Management Corporation (UTAM) comes at a watershed moment in the University of Toronto's history. On October 27, 2021, near the end of the period covered by the report, the University made three important announcements. First, UTAM will divest from investments in fossil fuel companies in our Endowment portfolio, beginning immediately. Second, UTAM has committed to achieving net zero carbon emissions associated with the Endowment portfolio by no later than 2050. And third, UTAM will allocate 10% of the Endowment portfolio to sustainable and low-carbon investments by 2025.

These decisions reinforce the university's longstanding commitment to promoting and strengthening environmental sustainability. However, as this comprehensive annual report makes clear, they are just the latest milestones in a multi-year journey that has seen UTAM become a leader in responsible investing among university asset managers globally.

Track record: a responsible investing leader

Since the release of the University of Toronto's 2016 white paper, *Beyond Divestment: Taking Decisive Action on Climate Change*, UTAM has managed our Endowment and Pension assets using a responsible investing approach. UTAM's investment team and the external managers they select and oversee apply an environmental, social and governance (ESG) framework to assess, among other factors, climate-related risks in the University's investment portfolios. This approach has aimed to reduce climate-related risk in our Endowment and Pension funds by shifting investments away from higher-risk holdings and, by employing active engagement – individually and through consortia of institutional investors – to exert pressure on firms' management and boards to adopt more sustainable practices.

This strategy has worked. In early 2020, UTAM formally adopted a goal of reducing the carbon footprint of the University's long-term investment portfolios (defined as tonnes of carbon emissions per million dollars invested) by 40% by the end of 2030, relative to 2017 levels. As detailed in this report, UTAM has achieved this objective well ahead of schedule (see page 14). Moreover, absolute carbon emissions of the investments held in the long-term portfolios were 21.1% lower than 2017 levels.

UTAM has achieved these reductions by integrating ESG considerations into all investment activities, not just in the energy sector but across all sectors of the economy. This makes considerable sense as a decarbonization strategy, given that sectors such as transportation, construction and manufacturing account for a very large share of Canada's – and the world's – total carbon emissions. At the same time, the University's investments in fossil fuel companies have also declined steadily; they comprised approximately 1.62% of the value of our long-term investments at June 30, 2021.[1]

This report highlights and details many of these achievements. In addition, it describes the United Nations–supported Principles for Responsible Investment (PRI), which UTAM has embraced and implemented with striking success. The report also provides examples of UTAM's stewardship and engagement, proxy voting and advocacy, and contributions to coalitions and collaborative partnerships. It is a remarkable record, compellingly and comprehensively described.

Moving forward: divestment and net zero

Now UTAM, at the University's direction, has taken this commitment to environmental sustainability significantly further with the three announcements I outlined above. Let me elaborate upon them in more detail.

First, UTAM will divest from investments in fossil fuel companies in the Endowment portfolio[2] beginning immediately. Within the next 12 months, it will be fully divested from all direct investments in fossil fuel companies. For those investments made indirectly, typically through pooled and commingled vehicles managed by third-party fund managers, UTAM will divest the Endowment from its investments in fossil fuel companies by no later than 2030, and sooner if possible.

Second, UTAM will commit to achieving net zero carbon emissions associated with the Endowment portfolio by no later than 2050. Moreover, UTAM has recently joined the United Nations–convened Net-Zero Asset Owner Alliance, *making the University of Toronto the first university in the world to join this group of institutional investors.* Membership in the Alliance compels signatories to achieve progressively demanding targets every five years en route to net zero emissions within the portfolio, ensuring achievement of this ambitious objective in a transparent and accountable way.

Third, UTAM will allocate at least 10% of the Endowment portfolio to sustainable and low-carbon investments by 2025. Based on the current size of the Endowment ($4.0 billion), this represents an initial commitment of $400 million to such investments.

These are ambitious goals. They are also attainable, as UTAM's record of responsible investment over the past five years inspires confidence – and if we can meet the goals ahead of schedule, we will. The investment industry has evolved considerably since UTAM adopted an ESG-based approach. Demand from investors has encouraged the industry to offer a wider and more diverse range of low-carbon investment vehicles, including fossil fuel-free and lower-carbon versions of a growing number of its traditional

1 Includes exposure to investments in fossil fuel companies in equity (including public equity, private equity, real estate and infrastructure) and corporate bond holdings of the university's Endowment portfolio. Holdings in the absolute return hedge fund portfolio are not included.

2 On July 1, 2021, the University of Toronto's pension assets became part of the combined holdings governed by the University Pension Plan Ontario, or UPP, a new entity jointly sponsored by the University of Toronto and two other Ontario universities. Decisions with respect to responsible investment of our pension assets are now the responsibility of UPP's Board of Trustees.

products. This shift has made it easier for investors like UTAM – which places much of our long-term investments with third-party managers through pooled and commingled vehicles that are invested alongside the assets of other investors – to divest from fossil fuels and reduce the carbon emissions associated with its investments. I sincerely hope that U of T's announcement provides further encouragement to the investment industry to accelerate its development of low-carbon offerings.

The value of collaboration

Decarbonizing our investments is one important tool among many in the fight to counter climate change. We have also declared our goal of achieving a climate positive St. George campus by 2050 – reducing more greenhouse gas emissions (GHGs) than we emit, thereby creating a net benefit for our community and the planet.

At the same time, we will continue the fight against climate change through our leadership in local, national and global engagement initiatives. In 2020, U of T co-founded, with McGill University, the national Climate Charter for Canadian Universities, whose signatory institutions from coast to coast commit to reducing the carbon footprint of their investment portfolios in meaningful, measurable and accountable ways. We have also joined the University Climate Change Coalition, a consortium of North American universities committed to concrete actions to tackle climate change. And as a founding member of the global U7+ Alliance, we are spearheading major actions by member institutions to reduce GHGs on their campuses, and to encourage their students to acquire a deeper understanding of sustainability principles and practices.

These initiatives are inspired and guided by the work of our own Committee on the Environment, Climate Change and Sustainability, which has pioneered many important initiatives in teaching, outreach and engagement with local partners, and provided the chance for students to learn by taking part in "living lab" projects to enhance sustainability on our campuses.

Pushing ahead with momentum – and hope

UTAM's commitment to responsible investing was solidified under the leadership of Daren Smith, who served as President and Chief Investment Officer from 2016 until the summer of 2021, when he stepped down to pursue a new opportunity abroad. His successor, Chuck O'Reilly, spent the past decade working alongside Daren, bringing an ESG lens to UTAM's portfolio construction, manager selection and risk management activities. I know that Chuck and his team will work diligently to implement our new divestment and net zero commitments. At the same time, UTAM will continue to advance the university's responsible investing goals with enthusiasm, focus and innovative thinking – all of which are clearly evident in this report.

Looking ahead, our diverse university community is united in the hope that discussions at COP26 and future gatherings will accelerate collective action to address climate change. We hope that such conversations will induce governments at home and abroad to adopt increasingly impactful policies and programs, speeding up the transition to a low-carbon future. The success of these global actions will ultimately depend upon the success of many local actions. Responsibly managing U of T's investments and operations, along with our other efforts to enhance sustainability, will provide local impetus to this urgent and vitally important global initiative.

Meric Gertler
President, University of Toronto

Message from the President and CIO

NOW IS THE TIME TO INTENSIFY RESPONSIBLE INVESTMENT

During the past year and a half, the global pandemic dominated most investors' decision-making and general outlook. But even the economic disruption of COVID-19 never fully eclipsed growing concern over the potential impacts of climate change.

In corporate boardrooms, climate action is increasingly seen not just as a sustainability initiative, but as a business imperative. As a result, the movement toward responsible investing has only gained momentum. More and more investors are systematically weighing environmental, social and governance (ESG) factors as they build and manage their portfolios for the long term.

UTAM, on behalf of the University of Toronto, continues to take a leadership role in responsible investing. We strive to lead by example, drawing on our expertise in applying an ESG lens to university asset management. As we collaborate with peer institutional investors, we share the insights and best practices we've developed through managing U of T's portfolios. And in maturing and refining our approach to responsible investing, our goal is to continue to drive strong returns while reinforcing the values we share with our stakeholders.

As we were preparing this 2020 Responsible Investing Report, the University of Toronto announced three new sustainability commitments: divestment from investments in fossil fuel companies in the Endowment portfolio; a pledge to achieve net zero carbon emissions associated with the Endowment by 2050; and allocating 10% of the Endowment to sustainable and low-carbon investments by 2025. These decisions do not reflect a change in strategy; rather, as U of T President Meric Gertler explains in his introductory message to this report, they are the next crucial steps in a multi-year effort to advance all aspects of sustainability, with the response to climate change at its core. And for UTAM, that means intensifying our focus on responsible investing.

Principles in action

We remain firmly committed to upholding the United Nations–supported Principles for Responsible Investment (PRI). In 2020, following the third annual PRI assessment of UTAM's investment practices, we were pleased to receive the highest possible mark (A+) in all six assessed categories, consistently scoring above the median relative to our national and global peers.

Other noteworthy responsible investing highlights from the past year:

- UTAM joined the International Corporate Governance Network (ICGN) and endorsed the organization's stewardship principles. We were subsequently shortlisted for an ICGN 2020 Global Stewardship Award and have again been shortlisted in 2021.
- We signed the Canadian Investor Statement on Diversity and Inclusion issued by the Responsible Investment Association, which represents mutual fund companies, financial institutions, asset managers and other investors.
- Our ESG integration approach was included in the ESG Roadmap and Resources produced by the Institutional Limited Partners Association to promote best practices in ESG-related investing.

Reducing our footprint

Many initiatives to advance the post-pandemic recovery, whether through government stimulus programs or private sector investment, are aimed at accelerating the transition to a lower-carbon economy. In early 2020, with the release of our second carbon footprint report for the Pension and Endowment portfolios, UTAM committed to reduce the footprint of equity and equity-like investments by at least 40% by the end of 2030, compared to 2017 levels.

This decarbonization effort is progressing well. As of December 31, 2020, UTAM had achieved the carbon footprint reduction target well ahead of schedule (see page 14). Encouraged by the rapid pace of reduction, we have now committed to achieving net zero carbon emissions for the Endowment portfolio by 2050. As noted previously (see page 3), comparable changes, if any, to the Pension portfolio will be made by the University Pension Plan Ontario.

As part of our commitment to net zero carbon emissions associated with the Endowment portfolio, we joined the United Nations-convened Net-Zero Asset Owner Alliance. The Alliance has established a framework to guide its members toward the 2050 objective. The framework includes setting ambitious five-year targets, including a carbon reduction target, and members of the Alliance must report regularly on their progress. In the coming months, UTAM will establish its 2025 targets, including a new carbon reduction target. UTAM's membership in the Alliance on behalf of the University's endowment makes U of T the first university in the world to join this group of institutional investors, which together represent US$10 trillion in assets under management.

Last year, our 2019–2020 Responsible Investing Report reflected the adoption of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) after U of T became the first Canadian higher-education institution to endorse the TCFD guidelines for its pension and endowment funds.

The TCFD was created by the Financial Stability Board to improve and increase reporting of climate-related financial information. As of October 2021, more than 2,600 public and private sector organizations, with a combined market capitalization of US$25 trillion, have pledged to support the TCFD recommendations – including 1,069 financial firms responsible for assets totalling US$194 trillion. This is a game-changing global initiative, and UTAM is proud to be part of it.

Anchored by our values

Our focus on responsible investing extends to every aspect of our investment decision-making and ongoing management of the University's Endowment and short-term working capital assets. We consider ESG factors in our research and analysis, in our assessment and management of risk, in our reporting and disclosure, and in our company engagement and proxy voting activities. In short, responsible investing is now integral to UTAM's mission and guiding values.

The foundational work that drove this transformation was led by Daren Smith, my predecessor as President and Chief Investment Officer, who left UTAM in July 2021 to assume a new role overseas. The entire team benefited from Daren's vision and leadership as we worked to integrate ESG factors into all aspects of our investment strategy. The rigorous process steps we developed together have become the building blocks of our commitment to responsible investing.

It's a commitment that will only strengthen over time. We're constantly evolving our responsible investing policies and processes, and exchanging ideas with similarly committed institutional investors. And as we work to meet the high expectations of the University of Toronto's diverse stakeholders, we ground our efforts in a fundamental pledge – paraphrasing UTAM's core values – to invest responsibly, pursue and promote sustainability, and consider the long-term impact of every decision.

C. O'Reilly

Chuck O'Reilly, CFA
President and Chief Investment Officer

VISION

To be one of the world's leading university investment managers.

MISSION

To produce strong investment results over the long term, advancing the University of Toronto's goals for its portfolios through skilled investment management, leadership in responsible investing and prudent risk management.

VALUES

Excellence

- Strive to be the best, continuously learning and improving.
- Set high expectations and achieve ambitious goals.
- Exemplify and advance best practices in investment management.

Integrity

- Always do the right thing.
- Report transparently on our activities and results.
- Meet our commitments and be accountable for our actions.

Collaboration

- Operate as a cohesive team in an open, creative, high-performance culture.
- Work closely with the University, serving as a trusted partner.
- Partner with investment managers, service providers and others to our mutual benefit.

Equity

- Treat people of all identities, talents and perspectives equitably.
- Promote and actively foster diversity and inclusion.
- Respect, value and embrace the power of difference.

Sustainability

- Invest responsibly, applying an ESG lens and guided by a clear set of principles.
- Pursue and promote sustainability in how we invest and how we operate.
- Consider the long-term impact of every decision.

INTEGRATING ESG INTO OUR OVERALL INVESTING STRATEGY

UTAM's commitment to responsible investing is driven from the top and extends throughout our organization. We weigh the potential impacts of environmental, social and governance (ESG) factors in our investment and risk management processes and apply those insights to the Pension[3], Endowment and short-term working capital assets under our management. We consider ESG in our research and analysis, in our investment decision-making, in our reporting and disclosure practices, and in stewardship activities such as engagement, proxy voting and advocacy.

UTAM has unique expertise in applying the principles of responsible investing to university asset management. As our approach has matured, it has become integral to how we manage the University of Toronto's assets and critical to our objective of generating consistently strong long term returns. And now, with the University's commitments to achieve net zero carbon emissions associated with the Endowment by 2050 and to allocate 10% of the Endowment to sustainable and low-carbon investments by 2025, our ESG integration efforts will further intensify across all areas of our investment activities.

3 On July 1, 2021, the University of Toronto's Pension assets became part of the combined holdings governed by UPP. Decisions with respect to responsible investment of our Pension assets are now the responsibility of UPP's Board of Trustees.

UTAM'S APPROACH TO RESPONSIBLE INVESTING

As a leader in responsible investing, we integrate environmental, social and governance (ESG) factors into all of our investment processes, including decision-making, active ownership (through engagement, proxy voting and advocacy), and reporting and disclosure. UTAM has embraced responsible investing because we believe that material ESG factors can have a material impact on investment returns.

ESG considerations are an integral part of UTAM's investment analysis and decision-making processes, particularly in our selection of investment managers. In our public equity portfolios, we cast proxy votes where possible, using an ESG-focused policy. At the same time, we've developed ways to engage with companies, both directly and through various organizations, to help ensure ESG-related risks are addressed and effectively managed. We also disclose our responsible investing activities on a regular basis, via this report and on our website. Applying an ESG lens to our activities allows us to make better-informed decisions and ultimately results in better outcomes for the Pension, Endowment and short-term working capital assets that we manage on the University's behalf.

Established as a separate corporation by the University of Toronto in 2000, UTAM invests funds according to objectives and guidelines set by the University administration, as well as by the Pension Committee[4], the Business Board and the Investment Committee. (For a more detailed explanation of UTAM's governance structure, please see our website.) Our mandate is clear: to serve as a strategic and disciplined manager, realizing the highest possible returns while respecting our sole client's risk tolerance and policy constraints.

Collaborating closely with U of T's administration and the Investment Committee, we focus exclusively on investing university-owned assets. As at December 31, 2020, we managed three portfolios for the University:

- Pension – the assets of the university's employee pension plan, officially called the University of Toronto Master Trust.[4]
- Endowment – known formally as the Long-Term Capital Appreciation Pool and consisting primarily of certain Endowment assets, but also including other funds invested for the long term.
- EFIP – or Expendable Funds Investment Pool, consisting of University funds that can be invested over the short to medium term, and principally comprising the University's working capital.

In fulfilling our mandate, UTAM typically allocates capital to third-party investment managers, following what is known in the investment industry as a manager of managers approach. We select investment managers that we believe are best in class, empowering them to invest on our behalf. As part of our evaluation process, we consider each manager's approach to ESG integration, as we believe that applying this additional lens to our investment process will lead to better outcomes for our client over the long term.

4 As previously mentioned, on July 1, 2021, the University of Toronto's Pension assets became part of the combined holdings governed by UPP. Decisions with respect to responsible investment of our Pension assets are now the responsibility of UPP's Board of Trustees.

PUTTING OUR PRINCIPLES INTO ACTION

UTAM is a signatory, on behalf of the University of Toronto, to the United Nations–supported Principles for Responsible Investment (PRI), a set of commitments adopted by institutional investors around the world as they integrate ESG considerations into their investment processes. The PRI framework has guided the development of our Responsible Investing Policy and informs the regular deliberations of our Responsible Investing Committee.

ESG FACTORS DEFINED

ENVIRONMENTAL

Factors relating to a company's interactions with the physical environment. These include but are not limited to climate change; greenhouse gas emissions; biodiversity loss; deforestation; air, water or resource depletion or pollution; waste management; change in land use; and ocean acidification.

SOCIAL

Factors relating to business practices that have an impact on the rights, well-being and interests of people and communities. These include but are not limited to human rights; labour standards in the supply chain; child, slave and bond labour; workplace health and safety; freedom of association and freedom of expression; human capital management and employee relations; diversity; relations with local communities (including indigenous communities); activities in conflict zones; health and access to medicine; consumer protection; and controversial weapons.

GOVERNANCE

Factors relating to the governance of a company. These include but are not limited to board structure, composition, size, diversity, skills and independence; executive pay; shareholder rights; stakeholder interactions; transparency; business ethics; bribery and corruption; internal controls; and conflicts of interest.

WE'RE GUIDED BY THE PRI FRAMEWORK

UTAM undertakes, where relevant and material, the following non-exhaustive list of actions, all of them aligned with the PRI framework for responsible investing:

01

PRI PRINCIPLE

We will incorporate ESG issues into investment analysis and decision-making processes.

UTAM Actions

- Assess ESG-related risks and opportunities across all portfolios
- Integrate consideration of ESG factors into all relevant policies and processes
- Implement an ESG rating framework for investment strategies across asset classes
- Support the development of ESG-related tools, metrics and analyses for organizations, governments and investors
- Encourage academic and other research on ESG integration into investment practices
- Provide internal training and encourage the pursuit of external training on ESG matters for all staff involved in investment decision-making, i.e., investment and risk management professionals, as well as staff engaged in operational and legal due diligence
- Endorse the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)
- Establish a target to decrease the carbon footprint of the Pension and Endowment investment portfolios

02

PRI PRINCIPLE

We will be active owners and incorporate ESG issues into our ownership policies and practices.

UTAM Actions

- Adopt a proxy voting policy that takes into account ESG considerations and apply this, where possible, to all public equity segregated account mandates, as well as to public equity funds in which our client portfolios are the only investors
- Encourage our investment managers to adopt proxy voting policies that take into account ESG considerations
- Implement a comprehensive engagement program that includes direct engagements, collaborative engagements, and engagements conducted by service providers
- Encourage our investment managers to engage with companies held in their portfolios on ESG matters
- Engage with governments, regulators and other policy-makers on ESG matters, which we refer to as advocacy
- Support policy-maker initiatives that contribute to improved ESG practices, including reporting and disclosures

03

PRI PRINCIPLE

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

UTAM Actions

- Discuss ESG risks in investment manager portfolios and in relation to particular securities held
- Ask investment managers to report on ESG-related engagements with companies held in their portfolios
- Ask investment managers to report on ESG incidents with companies held in their portfolios
- Support initiatives promoting corporate ESG disclosure
- Support the CDP's disclosure campaigns for climate, forests and water

04

PRI PRINCIPLE

We will promote acceptance and implementation of the Principles within the investment industry.

UTAM Actions

- Encourage investment managers to become signatories to the PRI
- Communicate our ESG expectations to investment managers
- Support the development of tools for benchmarking ESG integration
- Support legal, regulatory and policy developments that enable implementation of the Principles
- Assume leadership roles in respected responsible investment organizations
- Present at conferences and webinars, and publish or contribute to articles in support of the Principles

05

PRI PRINCIPLE

We will work together to enhance our effectiveness in implementing the Principles.

UTAM Actions

- Support and participate in responsible investing networks to share information and resources and stay informed about best practices
- Address relevant emerging issues collectively with other asset owners and investment managers
- Identify and support appropriate coalitions whose beliefs are aligned with the Principles

06

PRI PRINCIPLE

We will each report on our activities and progress towards implementing the Principles.

UTAM Actions

- Disclose how ESG considerations are integrated into our investment process
- Disclose active ownership activities (e.g., voting, engagement and advocacy)
- Communicate with stakeholders on ESG issues and the Principles
- Report on progress and achievements relating to the Principles
- Publish our PRI transparency and assessment reports
- Publish an annual responsible investing report with details of our responsible investing framework, our activities and progress
- Provide reporting consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

PRINCIPLES FOR RESPONSIBLE INVESTMENT

UTAM is a signatory to the Principles for Responsible Investment (PRI), the world's leading proponent of responsible investment, with over 4,000 signatories around the world.

OUR PRI SCORECARD

Since becoming a signatory in 2016, we have participated in formal PRI assessments of our responsible investing activities, for which we have received excellent scores. Each year, we have announced our results and shared our PRI assessment and transparency reports in this report as well as on our website.

PRI reports are usually available in midsummer for the period ending the previous calendar year-end. This year, the PRI piloted a new reporting framework intended to better capture signatories' responsible investing activities, but feedback from over 1,700 signatories identified several issues with the framework's structure and questions, as well as the online system's user experience. In early August 2021, the PRI explained in an update to signatories: "Issues with the new online reporting tool, which centred on navigation and functionality, contributed to the time taken to report and created problems during the review process for signatories. Unfortunately, this has also affected the quality of a portion of the 2021 dataset as some (but not all) signatories' submissions contained data gaps and/or errors."

Due to the delays, the PRI will take a staged approach to releasing the 2021 transparency and assessment reports that would normally be available during Q3 2021. It intends to deliver public versions of the reports to all signatories by June 2022. The PRI is also delaying the opening of the next reporting period until 2023 (for calendar year-end 2022), bypassing 2022 entirely. Read the PRI's statement regarding the issues it has experienced.

Since our 2021 PRI scorecard is not available (as discussed above), we have included some background on our 2020 PRI scorecard.

In 2020, we participated in our third annual PRI assessment, which evaluated our progress in implementing responsible investing practices over time, across asset classes and in comparison to peers at the national and global levels for the period ending calendar year 2019. We are pleased to report that we received the highest mark possible (A+) across all six categories for our responsible investing activities in managing U of T's Pension and Endowment assets, and once again we scored higher than the median PRI signatory in all applicable categories. For more information, view our Assessment Reports.

Below is the summary scorecard covering our management of the university's Pension and Endowment assets (the summary scores for the two portfolios are identical, given that we managed both portfolios in the same manner).

Summary Scorecard

AUM	Module Name	Your Score	Median Score
	01. Strategy & Governance	A+	A
Indirect - Manager Sel. App. & Mon			
10–50%	02. Listed Equity	A+	A
<10%	03. Fixed Income – SSA	A+	B
<10%	04. Fixed Income – Corporate Financial	Not reported	
<10%	05. Fixed Income – Corporate Non-Financial	A+	A
<10%	06. Fixed Income – Securitised	Not reported	
<10%	07. Private Equity	A+	A
<10%	08. Property	Not reported	
<10%	09. Infrastructure	Not reported	
Direct & Active Ownership Modules			
0	11. Listed Equity – Active Ownership	A+	B

TAKING DECISIVE ACTION ON CLIMATE CHANGE

Central to UTAM's responsible investing activities is a focus on addressing the climate crisis, as evidenced by the University of Toronto's October 2021 divestment and net zero announcements (see page 3). During 2020, we achieved several significant milestones:

In February 2020, UTAM, working closely with the University's administration, committed to an ambitious goal: reducing the carbon footprint of the Pension and Endowment investment portfolios by 40% or more compared to 2017 levels by the end of 2030. This aligns with U of T's Low-Carbon Action Plan, which aims to cut greenhouse gas emissions by 37% from 1990 levels by 2030 and put it on a path to becoming a "net-zero" institution.

The Pension portfolio's year-end 2020 footprint of 87.7 tonnes of carbon dioxide equivalent per million dollars invested (tCO_2e/$M) represents a cumulative reduction of 40.1% since 2017, achieving the target carbon footprint reduction well ahead of the 2030 target date. (Given its similar investment mandate, the Endowment portfolio is expected to have a substantially similar carbon footprint.) Importantly, the absolute emissions in the portfolios have also decreased by 21.1% since 2017.

Absolute emissions

Starting point 2017[5]
418,059.3 tCO_2e

Results 2020
329,860.8 tCO_2e

Change
-21.1%

Carbon footprint

Starting point 2017[5]
146.3 tCO_2e/$M invested

Results 2020
87.7 tCO_2e/$M invested

Change
-40.1%

While we are proud of the progress we have made with respect to reducing the carbon footprint of the long-term portfolios and achieving our initial carbon reduction target, we understand that we need to continue to push further on this front. As previously noted, in October 2021, as part of our commitment to net zero carbon emissions associated with the Endowment portfolio, UTAM joined the United Nations–convened Net-Zero Asset Owner Alliance. The Alliance has established a framework to guide its members towards the 2050 net zero objective. This framework includes setting ambitious five-year targets, including a carbon reduction target. In the coming months, UTAM will establish its 2025 targets, including its new carbon reduction target. UTAM will continue to report regularly to stakeholders on our progress towards achieving our carbon reduction target, as well as other targets established under the Alliance framework.

In February 2020, we publicly announced our endorsement of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The endorsement makes U of T (through UTAM) the first Canadian university to endorse the TCFD recommendations with respect to its Pension and Endowment funds. More than 2,600 public and private sector organizations in 89 countries and jurisdictions have supported the initiative. For the second time, we are providing disclosures in line with the TCFD recommendations (see page 24).

5 The previously reported 2017 carbon footprint of 139.2 tCO_2e/$M was inadvertently understated by approximately 5% because the beginning-of-year currency exchange rate was used to convert the $M invested from US to Canadian dollars, rather than the end-of-period rate. This had no impact on 2017 absolute emissions.

RESPONSIBLE INVESTING MILESTONES

We are constantly evolving and enhancing our responsible investing approach. The following timeline shows significant events in our responsible investing journey since 2016. For ongoing updates, please visit our website.

2021

- Joined the University Network for Investor Engagement (UNIE)
- Partnered with Impax Asset Management to launch a new sustainability-focused investment vehicle
- Chuck O'Reilly joined the IEN's net zero endowment steering committee
- Signed the 2021 Global Investor Statement to Governments on the Climate Crisis
- Signed the Canadian Investor Statement on Climate Change as a founding signatory
- Signed the CDP Science-Based Targets (SBTs) Campaign
- Shortlisted for an International Corporate Governance Network (ICGN) 2021 Global Stewardship Award
- Became a founding participant of Climate Engagement Canada (CEC)
- University of Toronto announced its aim to divest from investments in fossil fuel companies in the Endowment portfolio by 2030, achieve net zero carbon emissions associated with the Endowment by 2050, and allocate at least 10% of the Endowment portfolio to sustainable and low-carbon investments by 2025
- University of Toronto, in respect of its Endowment and represented by UTAM, became the first university in the world to join the UN-convened Net-Zero Asset Owner Alliance

RESPONSIBLE INVESTING MILESTONES

cont'd

2020

- Joined the ICGN and endorsed the organization's Global Stewardship principles
- Published our second carbon footprint report for the Pension and Endowment portfolios and announced our goal to reduce their carbon footprint by 40% compared to 2017 levels by the end of 2030
- Endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) on behalf of U of T – the first Canadian university to do so with respect to its Pension or Endowment funds
- Published our 2019–2020 Responsible Investing Report, including our inaugural disclosures in line with the TCFD recommendations
- Received the highest possible scores (A+) in our third PRI assessment, above median in all six categories
- Daren Smith, our former President and CIO, appointed Vice-Chair, Environmental & Social Committee, of the Canadian Coalition for Good Governance; in March 2021, he became the committee's Chair
- Signed the RIA's Investor Statement on Diversity & Inclusion
- Included in the Institutional Limited Partners Association (ILPA) ESG Roadmap and Resources, a compilation of best practices that limited partners can consider implementing to advance environmental, social and governance (ESG) investing efforts at their organizations
- Shortlisted for an ICGN 2020 Global Stewardship Award
- Finalist in the first Pension Leadership Awards sponsored by *Canadian Investment Review*, in the category of Sustainable Investing

2019

- Daren Smith, our former President and CIO, joined the board of the Canadian Coalition for Good Governance
- Received five A+ scores and one A in our second PRI assessment
- Became a signatory to the Global Investor Statement to Governments on Climate Change

2018

- Lisa Becker, COO, joined the board of the Responsible Investment Association (RIA)
- UTAM received four A+ scores and one A in our first PRI assessment
- Published the first carbon footprint report for the Pension and Endowment portfolios
- Joined the 30% Club Canada and its Investor Group
- Joined the Intentional Endowments Network (IEN)
- Became a member of the Standards Board for Alternative Investments (SBAI)

2017

- Doug Chau, UTAM's CRO, joined the PRI's Asset Owner Technical Advisory Committee
- Lisa Becker, COO, joined the Investor Stewardship Committee of the Pension Investment Association of Canada (PIAC) (position now held by Lu Yao, Associate Portfolio Manager, Public Equities)
- Signed the Montréal Carbon Pledge
- Published our Responsible Investing Policy
- Published first annual responsible investing report, covering 2016
- Joined Climate Action 100+

2016

- U of T's President, Meric Gertler, published *Beyond Divestment: Taking Decisive Action on Climate Change*
- Institutional Shareholder Services' Sustainability Policy implemented where possible for proxy voting
- Became a signatory to the Principles for Responsible Investment (PRI) on behalf of U of T's Endowment and Pension Plan
- Became a signatory to CDP (formerly known as the Carbon Disclosure Project)
- Joined the Responsible Investment Association (RIA)

SELECTING AND MONITORING THE RIGHT INVESTMENT MANAGERS

UTAM takes a rigorous, highly analytical approach to assessing and selecting our external investment managers. Our vetting process includes close scrutiny of potential managers' understanding of, and commitment to, the principles of responsible investing. As we monitor their performance over the long term, we factor in ESG-related data, including carbon footprints, alongside other key investment metrics.

The results of our collaborations reflect the University's commitment to responsibly managing the Pension, Endowment and short-term working capital assets.

SELECTING AND EVALUATING OUR MANAGERS

As UTAM's approach to responsible investing has evolved, we've become more systematic in weighing ESG considerations when we select and monitor investment managers. Below, we offer a more granular view of the many ESG-related factors that we typically take into account, where appropriate to the mandate.

When considering a potential investment manager, we discuss and evaluate the following, as applicable:

- Responsible investing approach
- Quality of investment and responsible investing policies
- Firm-level versus product-level approach to responsible investing
- Efforts to promote responsible investing practices in the investment industry
- Investment team and dedicated RI staff (if any) with respect to their ESG awareness, knowledge and integration into the strategy's investment process
- Current governance and management of responsible investing activities including how ESG implementation is enforced
- Involvement in collaborative and direct ESG-related engagements with investee companies
- Responses to due diligence questions related to ESG issues
- ESG materiality standards
- Process for defining and communicating ESG incidents
- Proxy voting policy and processes (where UTAM would not direct voting)
- Principles for Responsible Investment (PRI) signatory status, as well as any other relevant initiatives and organizations
- Responsible investing reporting to clients and/or the public and communicate our reporting expectations
- Coverage and quality of ESG-related research used and issued
- Approach to incorporating ESG factors, as well as ability to identify and manage ESG-related issues
- ESG-related characteristics and carbon footprint of the investment portfolio
- Impact of ESG factors on specific investment decisions
- Securities in the investment portfolio that appear to have material ESG risks and high carbon emissions
- ESG practices at the corporate level of the investment manager, such as equity, diversity and inclusion policies and programs

We incorporate a review of all these considerations in our internal recommendation framework, including our internal ESG rating of the investment manager.

To monitor our investment managers, we discuss and evaluate the following, as applicable:

- Responsible investing as a standard agenda item at update meetings with existing managers
- Continuing evolution of manager's approach to responsible investing
- Examples of good responsible investing practices by other investment managers, where relevant
- Participation in responsible investing initiatives and organizations engaged in promoting responsible investing practices
- Participation in collaborative projects with other investors
- Responsible investing and ESG incident reporting
- Any changes in responsible investing approach and updates on current research
- ESG-related characteristics and carbon footprint of the investment portfolio
- Integration of ESG considerations in specific investment decisions
- Securities in the investment portfolio that appear to have material ESG risks and specifically those with higher carbon emissions
- Proxy voting policy and processes (in cases where UTAM would not direct voting), and proxy voting record
- Corporate-level ESG practices such as equity, diversity and inclusion issues
- Any ESG incidents on the largest investment portfolio holdings
- Our internal ESG rating of the investment manager and strategy

MANAGER SPOTLIGHT: IMPAX ASSET MANAGEMENT

REDUCING CARBON EMISSIONS: WORKING WITH OUR MANAGERS

UTAM works closely with our external investment managers to integrate ESG considerations into investment decision-making. Our partnership with Impax Asset Management illustrates how we work with managers that have best-in-class approaches to responsible investing. Founded in 1998 by CEO Ian Simm, Impax pioneered investment in the transition to a more sustainable global economy. Today, it is one of the largest investment managers dedicated to this area, with C$59 billion in assets under management (as of June 30, 2021). In March 2021, following an extensive global search by our public equities team, we partnered with Impax to create and seed a new institutional commingled vehicle, which is invested in Impax's Global Opportunities Strategy. Here's how Impax incorporates ESG considerations into its investment process.

Impax's investment philosophy

Impax believes the economy is in transition from a depletive economic model to a sustainable economic model. Capital markets will be shaped profoundly by global sustainability challenges, particularly climate change, environmental pollution, natural resource constraints, and demographic and human capital issues such as diversity, inclusion and gender equity. These trends will drive growth for well-positioned companies and create risks for those unable or unwilling to adapt. Fundamental analysis, which incorporates long-term risks, including environmental, social and governance (ESG) factors, enhances investment decisions.

Impax invests in companies and assets that are well positioned to benefit from the shift to a more sustainable global economy. They seek companies with strong business models and governance that demonstrate sound risk management.

Impax's **Global Opportunities Strategy** ("the Strategy") is an all-cap global equity strategy that invests in companies possessing sustainable competitive advantages, in order to achieve long-term capital growth. The Strategy incorporates sustainability into all core parts of the investment process, from idea generation to fundamental company analysis, and from portfolio management to risk management.

The Impax Sustainability Lens

The Strategy uses the Impax Sustainability Lens ("Sustainability Lens" or "the Lens") to help identify companies best positioned to seize opportunities and mitigate risks arising from the transition to a more sustainable global economy.

The Lens is a proprietary, dynamic idea generation tool that highlights areas of the market with transition tailwinds and headwinds, enabling Impax's investment team to identify those with higher economic, social and environmental opportunities and lower company, stakeholder and wider landscape risks.

The Lens comprises eight categories of opportunity and nine categories of risk. Impax scores each MSCI GICS[6] sub-industry against these 17 categories to produce composite opportunity and risk scores. Based on these scores, the sub-industries are ranked as high, neutral or low for both opportunity and risk. These rankings help the investment team in their search for durable businesses.

ESG research: an integrated risk management tool

ESG analysis is an integral part of Impax's investment research process, providing risk mitigation and important insight into the character of a company. Their research is based on a materiality approach. This focuses on corporate governance structure, the most material environmental and/or social risks for a company, and any controversies that a company has faced. Impax looks for strong policies, processes and management systems to address these material risks.

Using a proprietary system, Impax analysts conduct an ESG analysis for each company, evaluating a wide range of factors. Their Sustainability and ESG team reviews each analysis and adds the proprietary ESG rating to ensure consistency with Impax's process

6 The Global Industry Classification Standard (GICS) is a widely recognized industry standard for assigning a public company to the economic sector and industry group that best defines its business. It was jointly developed by MSCI and Standard & Poor's and is used by the MSCI indexes.

MANAGER SPOTLIGHT: IMPAX ASSET MANAGEMENT

cont'd

and philosophy. Companies are then assigned one of five ESG categories: Excellent, Good, Average, Fair or Excluded. Those in the last category are not eligible for investment, and those categorized as Fair have a capped position size within the Strategy.

Ultimately, all companies must be approved by Impax's Investment Committee on both a financial and an ESG basis.

Stewardship and engagement

Active engagement on ESG issues is a core part of Impax's investment process. They regularly engage with the management of investee companies on both stock-specific and wider issues and participate in collaborative engagements. Impax supports and encourages investee companies to manage risk rather than to radically change their core activities. They track engagement outcomes which they use to inform further discussions with management.

Engagement allows Impax to manage risks by proactively identifying and mitigating issues, enhancing company analysis (how companies respond to engagement is informative of their character), and strengthening investee companies over time by improving quality, processes, transparency and resilience.

ENGAGEMENT EXAMPLE: DANAHER CORPORATION

Since 2017, Impax has engaged several times with Danaher, an American health care equipment company, on a number of corporate governance and sustainability-related topics, including its gender diversity profile.

The direction of changes in the board's structure following a series of engagement activities in 2019 and 2020 has been encouraging. The board now has a lead independent director, and the average tenure among directors declined by 20% between 2019 and 2020 through the addition of three new directors and a couple of retirements. The board is also diverse in multiple ways: it is one-third female, two members are under age 50, three members were born outside the U.S., and members have a broad range of corporate experience relevant to Danaher's business. In May 2021, the company also fulfilled a previously announced commitment to further diversify its board.

Danaher remains committed to continuous improvement. Impax plans to follow up on its progress regarding diversity in Q4 2021, and they look forward to continuing their engagement with Danaher and supporting the company.

Fossil fuel free, low-carbon portfolio

The Strategy is fossil fuel free. In short, Impax defines fossil fuel free as not investing in securities of companies significantly involved in the extraction and/or refining of fossil fuels. By eliminating exposure to fossil fuel companies, Impax aims to build more resilient portfolios, reduce climate-related risks and participate in the low-carbon energy transition.

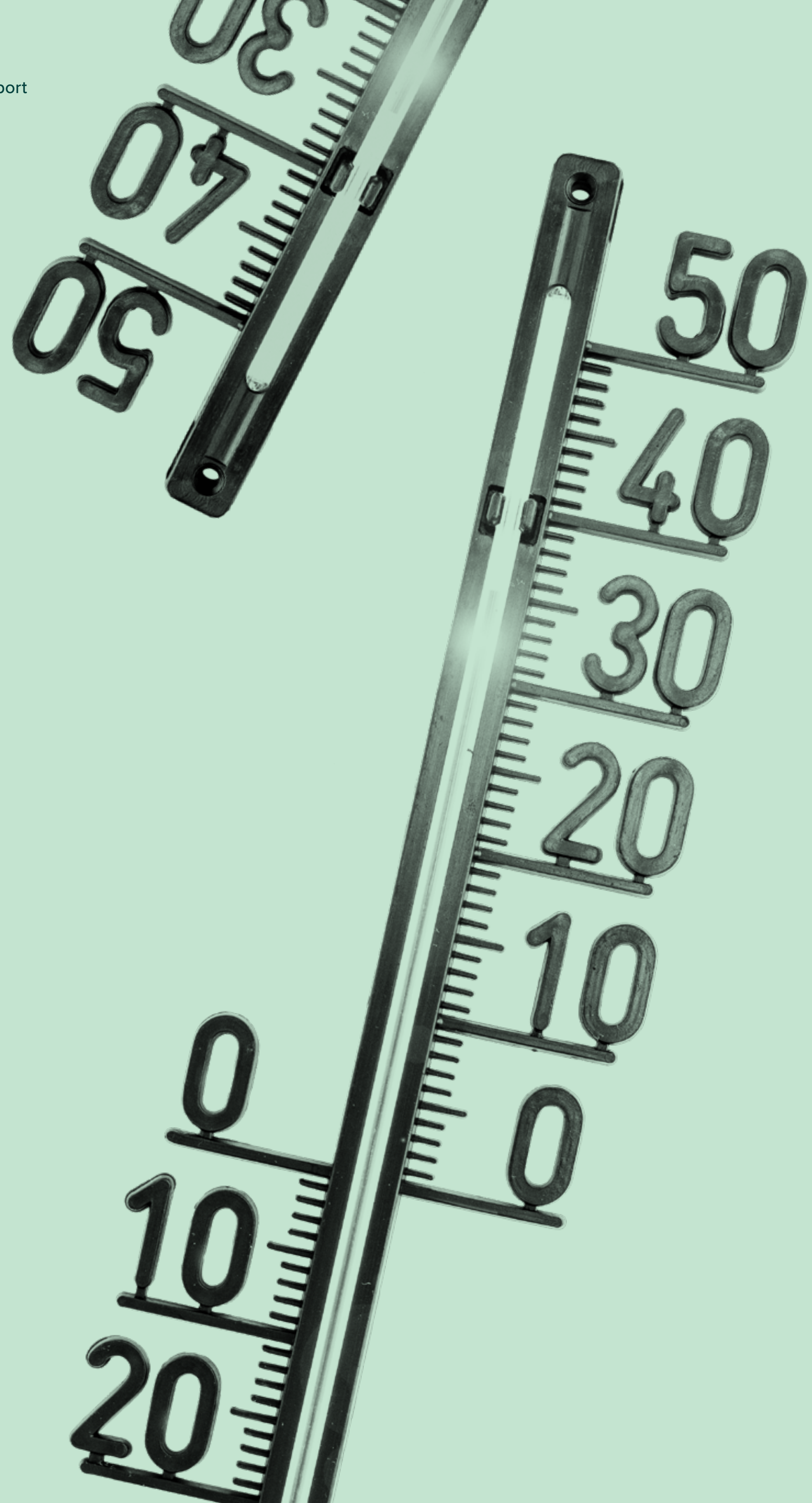
The use of the Sustainability Lens results in a natural alignment with the climate transition. The Lens identifies carbon-, materials- and energy-intense sectors as posing much higher risks with lower corresponding opportunities. This means that the Strategy is underweight these sectors, resulting in a lower-carbon portfolio. Overall, stock selection has led to the Strategy having a low CO_2 footprint.

Sustainable Development Goals (SDGs)[7] alignment

As part of a post-investment analysis, Impax considers the activities of each investee company and its alignment to the UN's SDGs. This enables Impax to link the relevant percentage of revenues to the most relevant SDGs.

7 The Sustainable Development Goals (SDGs) are a set of 17 interlinked global goals designed to be a "blueprint to achieve a better and more sustainable future for all." The SDGs were established by the United Nations General Assembly in 2015 and are intended to be achieved by the year 2030. They address global challenges including poverty, inequality, climate change, environmental degradation, peace and justice. Further information on the SDGs is available at https://www.un.org/sustainabledevelopment/. Refer also to page 33.

MEASURING AND MANAGING CLIMATE-RELATED INVESTMENT RISKS



Even at the height of the pandemic, concern continued to grow over the actual and potential impacts of climate change. As the public health threat now recedes in many countries and the global economy regains momentum, the need to reduce our collective carbon footprint is increasingly apparent to governments, institutions, companies and individuals. And therefore it is top of mind for all strategic investors.

UTAM has been working for several years to deepen our understanding of climate-related risks and opportunities. As we gain added insights into this rapidly evolving area, we continuously adjust how we manage investments and measure performance.
In early 2020, we committed to reducing the carbon footprint of equity (and equity-like) investments in the Pension and Endowment portfolios by at least 40% relative to 2017 levels by the end of 2030. We also announced our support, on behalf of the University of Toronto, for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Our previous responsible investing report included an initial set of TCFD-recommended disclosures, as U of T became the first Canadian university to adopt this approach in reporting on pension and endowment assets. This year we've built on that foundation.

RECOMMENDED CLIMATE-RELATED FINANCIAL DISCLOSURES

The TCFD recommendations are structured around four thematic areas that represent core elements of how organizations operate: Governance, Strategy, Risk Management, and Metrics and Targets. Below are UTAM's disclosures for each area.

GOVERNANCE

a) Describe the board's oversight of climate-related risks and opportunities.

Addressing climate-related risks and opportunities is a key priority for UTAM. Our Board of Directors approves our Responsible Investing Policy and overall approach to responsible investing, which includes climate change. The Board approved the 40% carbon footprint reduction target (as discussed in the Metrics and Targets section below) and regularly monitors our progress towards the target.

The Board also approves our annual responsible investing reports. There is an annual standing agenda item at Board meetings to discuss climate-related issues, and we bring relevant issues and developments to the Board's attention as they arise.

b) Describe management's role in assessing and managing climate-related risks and opportunities.

The Board has delegated the assessment and management of climate-related risks and opportunities to UTAM. These activities are integrated within our investment processes and committees in several ways:

Our **Responsible Investing Committee (RIC)**, which includes our most senior executives across all teams, sets the tone from the top. This Committee oversees all matters relating to the development and implementation of our responsible investing practices, and it has a mandate to consider climate-related risks and opportunities as part of our broader responsible investing practices. The Chief Investment Officer (CIO), our investment heads, the Chief Risk Officer (CRO) and the Chief Operating Officer (COO) all sit on the RIC. This senior and diverse group ensures that the RIC's decisions reflect input and buy-in from the investment team and that our desired approach is implemented.

We have embedded our approach to ESG and climate change across our firm. More than half of our staff are directly involved in RI activities.

RIC members and others provide ongoing RI training to everyone involved in investment decision-making, which includes investment, risk management and operational due diligence team members. We also encourage staff to pursue external RI training opportunities.

We believe that enhancing our professionals' knowledge of ESG issues is so important that we have included it as a personal development goal for all relevant staff. In addition, RIC members are evaluated on RI-related objectives in their performance reviews.

In conjunction with the RIC, the following internal committees have oversight of climate-related risks and opportunities:

Management Investment Committee (MIC) – This Committee's mandate is to review activities related to investment strategy, investment manager selection and monitoring, asset mix and investment performance. This broad mandate includes responsibility for assessing and managing climate-related risks and opportunities and for carrying out the activities described in the Responsible Investing Policy. The MIC is chaired by the President and CIO and comprises all investment staff and senior members of the Risk and Research and Operations teams. The Committee typically meets monthly.

Management Investment Risk Committee (MIRC) – This Committee is responsible for developing investment risk policies, reviewing risk reports, reviewing client portfolio investment risk positions and addressing all investment-related risk issues. Climate change has been identified as a key risk and is considered alongside other investment-related risk issues on an annual (or more frequent) basis. The MIRC is chaired by our Chief Risk Officer (CRO) and comprises our Risk and Research team, our CIO and other senior investment staff. The Committee typically meets quarterly, or more frequently as necessary.

STRATEGY

a) Describe the climate-related risks and opportunities the organization has identified over the short, medium and long term.

Climate change has the potential to significantly affect a company's value and risk. As part of our investment management processes, we identify and assess climate-related physical risks and transition risks.

Physical risks can be either acute (related to extreme weather events, such as hurricanes and wildfires, becoming more frequent and more severe) or chronic (related to increasing global temperatures, such as more frequent heat waves and droughts, rising sea levels and changes in weather patterns).

Examples of transition risks that we have identified include policy and legal risks (such as new regulations designed to reduce negative environmental impacts), technology risks (such as pressure on companies to develop technology that lowers product emissions), market risks (changing consumer behaviours in the face of climate change) and reputation risks (changing perception of certain sectors or products amidst growing concern about climate change).

The climate risks noted above could have wide-ranging effects on capital markets and our portfolios, with the impacts likely to play out in different ways and over different time horizons.

In the short term, policy and legal risks are likely to be the most significant transition risks. Physical risks, like acute weather events, may have some near-term impacts but are likely to be amplified over longer time horizons.

In the medium term, all of the risks in the short term will apply in addition to technology, market and reputation risks.

In the long term, physical risks are likely to be more material and will impact certain asset classes (e.g., real estate) more than others. All of the transition risks noted above will be present in the long term and have a more material impact than in the short term.

While climate change creates many risks, it also creates opportunities. In the short term, there are opportunities to benefit from investing in companies that offer products and services that provide solutions for a lower-carbon economy. In the medium and long term, companies that effectively manage their climate-related risks are likely to outperform. In addition, companies operating in less carbon-intensive sectors and countries are likely to be better positioned in the long term.

b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy and financial planning.

Responsible investing, including climate change, is a strategic priority for UTAM, and we devote significant time and resources to it. Over the past several years, UTAM has worked with University of Toronto leadership to strengthen and formalize our shared commitment to responsible investing. In 2016, U of T President Meric S. Gertler released his report, *Beyond Divestment: Taking Decisive Action on Climate Change*, which laid out his vision for the University's comprehensive approach to addressing climate change. The report spurred us to significantly enhance our responsible investing practices. Later that year, we became a signatory to the UN-supported Principles for Responsible Investment (PRI) on behalf of the Pension and Endowment portfolios.

Since then, we have taken an increasingly sophisticated and holistic approach to ESG integration. In 2017, we created a Responsible Investing Committee that includes our most senior executives across all teams, and we developed a comprehensive Responsible Investing Policy. Consideration of ESG factors is built into our Mission and Values, our Investment Beliefs and our investment decision-making and risk processes. Several members of UTAM's senior management have assumed leadership or advisory roles on various professional committees, boards and associations related to responsible investing (see page 42), and more than half of our staff are engaged in responsible investing activities.

The carbon footprint reduction target described in the Risk Management section below forms a key part of our overall investment strategy.

c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

To assess our portfolios' resilience to climate risk, we use exposure-based reporting and climate scenario analysis tools. Climate risk analysis is directly integrated into our investment risk management framework. Exposure-based reporting provides a quick snapshot of the portfolios' exposures to sectors and countries that are expected to be especially vulnerable to the effects of climate change.

Scenario analysis complements the exposure-based portfolio resilience assessment by providing information on how the different components of the portfolios could react (negatively or positively) over time under various climate scenarios. We use climate scenario information from several sources including specific climate pathways from the International Energy Agency's annual *World Energy Outlook* report: Current Policies Scenario, Stated Policies Scenario and Sustainable Development Scenario. Our team takes the scenarios and translates the macroeconomic forecasts into financial shocks, which are then applied to the holdings of our portfolios at a point in time.

Our scenario approach focuses on both transition and physical risk scenarios with portfolio impacts expressed as Value at Risk. This allows us to determine the potential performance impact due to the various climate scenarios and whether the impacts are expected to be temporary or permanent. In addition to internally developed models, we also employ external tools. One such external tool is the Paris Agreement Capital Transition Assessment (PACTA), which allows us to assess the overall alignment of the portfolios with various climate scenarios.

The results of our scenario analysis spur discussion on potential downside shocks to the portfolios and help UTAM's investment and risk teams gauge the resilience of our investment strategy across multiple time horizons. Climate resilience analysis is constantly developing, and we intend to evolve our processes as more data and new techniques become available.

RISK MANAGEMENT

a) Describe the organization's processes for identifying and assessing climate-related risks.

Climate-related risks are evaluated by sector, country and company and over various time horizons. Our processes for identifying and assessing climate-related risks are overseen by the MIRC and are carried out by our team of risk professionals under the leadership of our CRO.

We identify the portfolios' relevant climate-related risks and their associated time horizons (i.e., when these risks may unfold). We consider transition and physical risks across countries and sectors in an effort to ascertain the parts of the portfolios that could be most at risk to the effects of climate change. This part of the process leverages country and sector climate scores from various external research groups as described in the Metrics and Targets section.

After identifying the relevant risks, we assess and measure them to promote discussions and to evaluate the potential impacts to the portfolios. This includes modelling the portfolios' exposure to at-risk sectors, undertaking carbon footprinting and performing forward-looking scenario analysis.

Another way that we identify and assess climate-related risks is through engagement with public companies. As explained more fully in section b) below, we undertake engagement through a variety of means including direct engagement, through an engagement service provider, and through collaborative groups.

b) Describe the organization's processes for managing climate-related risks.

Managing climate-related risks is a fundamental part of our investment and risk management approach. We address climate-related risks in different ways and via different tools at various stages of the process. Our risk and investment teams bring any relevant analysis to our internal committees for review and flag any identified risks for discussion. Specific processes for managing climate-related risks include the following:

Target setting

In 2020, we committed to reducing the carbon footprint (tonnes of CO_2 equivalent per million dollars invested) of the Pension and Endowment portfolios by 40% by the end of 2030, compared to 2017 levels. As previously indicated, we have achieved this target carbon footprint reduction well ahead of schedule. Given this, in October 2021, in conjunction with a commitment to divest the Endowment portfolio from fossil fuel investments by 2030, we also set a new target of net zero carbon emissions in the Endowment portfolio by 2050. As part of our commitment to net zero carbon emissions associated with the Endowment portfolio, UTAM joined the United Nations–convened Net-Zero Asset Owner Alliance. The Alliance has established a framework to guide its members towards the 2050 net zero objective. This framework includes setting ambitious five-year targets, including a carbon reduction target. In the coming months, UTAM will establish its 2025 targets, including its new carbon reduction target. Going forward, UTAM will continue to report regularly to stakeholders on our progress towards achieving our carbon reduction target, as well as other targets established under the Alliance framework.

Decreasing the carbon footprint of the portfolios allows us to track the tangible impact of our approach over time. One of the virtues of this approach is that the impact will be felt across all of the sectors within the portfolios, not only in high-emitting sectors. By identifying the climate-related risks associated with actual and prospective investments (as part of our broader responsible investing framework), and through our active ownership efforts (proxy voting, engagement and advocacy), we expect the carbon footprint of the investments to decline over time. As the companies in the portfolios adopt more sustainable practices, their carbon footprint will decline, and the portfolios will become more resilient to climate-related risks.

To achieve our carbon footprint reduction goal, we have deployed a variety of tools, including shifting assets to lower-emitting countries and sectors, as well as investing in strategies and asset classes with lower carbon emissions. Most recently, as mentioned previously, we will divest the Endowment portfolio from investments in fossil fuel companies, which will further reduce the carbon emissions generated by investments in this portfolio. Moreover, as part of our ESG-based framework for responsible investing, we will continue to engage with companies on climate change, including fossil fuel companies, through our collaborative engagement initiatives, and advocate with policy-makers and regulators to act on climate change.

Manager due diligence

Given our belief that ESG factors can have a material impact on long-term investment returns, we have incorporated ESG considerations into our investment analysis and decision-making processes, particularly with respect to our selection and monitoring of investment managers. This process starts with talking to managers about their ESG integration practices. Where possible and relevant, these discussions are supplemented by third-party ESG data sets, which UTAM uses to track the E, S and G scores (independently as well as on a combined basis) of manager portfolios over time and compared to a relevant benchmark. Climate change is one of the four themes that determine the E score from MSCI.

Our analysis includes, where possible and relevant, a review of the carbon emissions attributable to the manager's portfolio. These ESG data sets are also used to identify specific holdings in manager portfolios that may have higher ESG risks. For such holdings, we utilize third-party ESG research to better understand the primary ESG risks at these companies, and we use this information as the basis for further conversations with managers. We summarize all analytics and discussions in our investment manager due diligence reports, and we rate each active manager's ESG integration practices, both at the time of allocation and on an ongoing basis. Moreover, post-allocation, we continue to engage with our managers to help them improve their approaches to ESG integration and their management of climate-related risks.

Stewardship

Our stewardship activities are critically important in our efforts to manage climate-related risks. We bring a responsible investing viewpoint to the exercise of shareholder voting rights, our engagement with public companies and our advocacy efforts. We have long supported the stewardship principles of the Canadian Coalition for Good Governance (CCGG). In 2020, we also endorsed the stewardship principles of the International Corporate Governance Network (ICGN).

Proxy voting

We have adopted the ISS Sustainability Guidelines for proxy voting. UTAM typically votes on climate-related shareholder proposals according to the following framework:

- Vote for shareholder proposals seeking information on the financial, physical or regulatory risks related to climate change – with regard to a company's operations and investments, or related to how the company identifies, measures and manages such risks.
- Vote for shareholder proposals calling for the reduction of greenhouse gas (GHG) emissions.
- Vote for shareholder proposals requesting a report and/or disclosure of goals on GHG emissions from company operations and/or products.
- Vote for shareholder proposals seeking reports on responses to regulatory and public pressures surrounding climate change, and for disclosure of research that aided in setting company policies around climate change.

Engagement

We bring an ESG perspective to our engagements with public companies. Given our size and our practice of investing through external managers, we more often take part in collaborative engagement groups and initiatives. We believe that the collective influence of like-minded investors with substantial combined holdings will typically lead to better outcomes than we could achieve on our own. The objectives of engagement include seeking a better understanding of a company's position on various ESG issues and communicating our views with the goal of improving management of ESG risks and opportunities at portfolio companies.

We augment our own engagement efforts by utilizing EOS at Federated Hermes ("EOS") for its global corporate engagement service. EOS has extensive experience and expertise engaging with public companies on a global basis on behalf of its clients, including UTAM. EOS prides itself on having a consultative process with clients when determining its engagement priorities, and UTAM is an active participant in this process. In 2020, EOS engaged with 815 companies on 2,914 environmental, social, governance, strategy, risk and communication issues and objectives. Environmental topics featured in 24.4% of engagements, and 78.5% included climate change. See page 35 for examples of climate-related engagements conducted by EOS on our behalf.

We are also an active contributor to various CDP initiatives, including the Non-Disclosure Campaign, in which we engage with companies that have not responded to CDP's disclosure requests.

Advocacy

Advocacy refers to interactions with governments, regulators and other policy-makers on ESG matters. We often work with other investors on these initiatives because we believe that our impact is magnified when we join forces.

As part of our advocacy efforts, we encourage policy-makers to place more emphasis on corporate governance and shareholder accountability. We often lend our support to investor statements sent to policy-makers and governments. For example, in June, we joined more than 450 investors, representing US$41 trillion in assets, in signing the 2021 Global Investor Statement to Governments on the Climate Crisis, which urges world leaders to accelerate action to address climate change. Such advocacy is consistent with our PRI commitment and our ESG-integration approach to responsible investing.

c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organization's overall risk management.

We have integrated climate-related risks directly into our investment and risk teams' processes. Our approach considers climate-related risks alongside traditional financial risks.

Our risk management framework consists of three pillars: market and active risk, concentration/credit risk and liquidity risk. Climate risk is directly integrated as a regular component of the market and active risk pillar. In order to incorporate climate risk into our regular reporting processes, we've researched and developed analytics to support total portfolio climate risk analyses. All of this information is presented to and reviewed by our internal risk committee (the MIRC) as part of its regular deliberations at least annually.

Climate-related risks are also integrated into our manager due diligence processes. As discussed in our answer to question b), we consider climate-related risks in our selection and monitoring of external managers. Evaluating managers through an ESG lens, including climate change, is a critically important part of our due diligence process.

METRICS AND TARGETS

a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

The primary metrics that we use are total carbon emissions and carbon footprint (tonnes of CO_2 equivalent per million dollars invested).

We also employ a variety of secondary metrics to obtain country- and sector-level climate-related insights. Here, the focus is on the allocation of assets to specific countries or sectors and not individual securities. We evaluate the portfolio's stand-alone scores and identify areas of concern (such as high allocations to poorly scoring countries). We also evaluate these scores against the scores of the Reference Portfolio to identify any active climate risks arising from country/sector over/underweights. Secondary metrics used include the following:

Country level

Notre Dame Global Adaptation Initiative Country Index: This index assesses countries' vulnerability to climate change and other global challenges, as well as their readiness to improve resilience.

Germanwatch Global Climate Risk Index: This index analyzes to what extent countries and regions have been affected by the impacts of weather-related loss events (storms, floods, heatwaves, etc.).

Climate Action Tracker: This independent scientific analysis quantifies and evaluates climate change mitigation commitments and assesses whether countries are on track to meet them.

Sector level

Bloomberg ESG Disclosure scores: Bloomberg's ESG Disclosure scores measure the transparency of a company's disclosure of quantitative and qualitative ESG-related data. We use company-level data to create sector scores.

MSCI Industry Risk Intensity Scores: These scores measure the aggregate ESG risks of different industries, based on the interplay of key ESG risk issues facing their core business activities.

b) **Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.** The greenhouse gases in our analysis are those covered by the internationally recognized GHG Protocol and include, where available, carbon dioxide (CO_2), nitrogen trifluoride (NF_3), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF_6). All gases are converted to a CO_2 equivalent (CO_2e) to calculate the carbon footprint.

Carbon emissions for the Pension portfolio have been calculated by determining its share of GHG emissions (Scopes 1 and 2) for equity and equity-like included investments (as defined below). (Scope 3 emissions are not included due to data limitations, double-counting and the lack of a consistent measurement standard.)

The portfolio's share of a company's GHG emissions has been calculated by dividing the market value of the portfolio's investment in a company by the total market capitalization of the company.

The results presented below are for the Pension portfolio as of December 31, 2020. The Pension and Endowment portfolios have identical investment mandates, and we manage them the same way. As a result, the carbon footprints of the portfolios are substantially similar, so we use the footprint of the Pension portfolio as a proxy for the Endowment portfolio. (Note: The total carbon emissions of the Pension and Endowment portfolios differ because they have different asset sizes.)

Included investments

All public equity holdings (long and short[8]) and equity-like private investments (private equity, private real estate and private infrastructure) within the Pension portfolio were included in the analysis except for these holdings in the absolute return hedge fund portfolio. In total, the investments included in the analysis represented approximately 60% of the Pension portfolio's assets as of December 31, 2020.

Source of emissions data

All calculations were completed by UTAM using GHG emissions data from MSCI. We approximated the emissions for private holdings by using emissions for corresponding public equity indexes (e.g., country and/or sector indexes).

Results

Total carbon emissions

The table below shows the total absolute carbon emissions in the Pension portfolio since we started to measure total portfolio carbon emissions, as well as the cumulative reduction since 2017. As the table indicates, total absolute emissions have decreased by 21.1% since 2017.

Year	Carbon emissions (tonnes of CO_2 equivalent)	Cumulative reduction in carbon emissions
2017	418,059.3	
2018	418,200.1	0.0%
2019	364,121.9	-12.9%
2020	329,860.8	-21.1%

Carbon emissions by country

The table below shows the 10 countries with the highest share of emissions within the Pension portfolio. In total, these countries represent 80.5% of total emissions, with the top five accounting for 59.0%. The country with the largest share of emissions is the United States (28.0%), followed by Switzerland (9.4%) and Japan (7.7%).

Country	Share of emissions	Share of market exposure
United States	28.0%	52.7%
Switzerland	9.4%	2.7%
Japan	7.7%	5.4%
France	7.5%	2.2%
China	6.4%	8.0%
United Kingdom	5.0%	4.3%
Canada	4.5%	2.4%
Russia	4.3%	0.6%
India	3.9%	1.2%
Ireland	3.7%	1.4%
Total for top 10	**80.5%**	**81.0%**

Carbon emissions by sector

The table below shows the share of market exposure by sector and the share of carbon emissions attributable to each sector. Nearly 90% of the portfolio's emissions come from just four sectors: materials, utilities, energy and industrials.

Sector	Share of emissions	Share of market exposure
Materials	43.5%	5.1%
Utilities	19.5%	1.5%
Energy	15.3%	2.3%
Industrials	11.6%	11.9%
Consumer discretionary	3.0%	15.4%
Information technology	2.2%	22.0%
Consumer staples	1.9%	5.1%
Health care	0.9%	9.7%
Financials	0.8%	11.4%
Communication services	0.6%	9.1%
Real estate and other	0.7%	6.5%
Grand total	**100.0%**	**100.0%**

8 A short position occurs when an investor sells shares of borrowed stock in the open market; the investor hopes to subsequently buy the stock back at a lower price than they sold it for. Emissions from short positions are included as negative emissions. If all investors calculated their total GHG emissions in this way, the sum would match the total GHG emissions of all underlying companies.

Carbon footprint

Consistent with the TCFD recommendations, we calculate the carbon footprint by the total market value of included investments in millions as shown in the formula below.

Carbon emissions (tonnes CO_2e) per CAD $million invested

$$\left(\frac{\sum_{i=1}^{n} \frac{\text{\$ market value of investment}_i}{\text{Total market cap of issuer}_i} \times \text{Scope 1 and Scope 2 carbon emissions in tonnes}_i}{\text{Market value of included investments in millions}} \right)$$

The Pension portfolio's carbon footprint as of December 31, 2020, is 87.7 tCO_2e per million Canadian dollars invested.

c) **Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.**

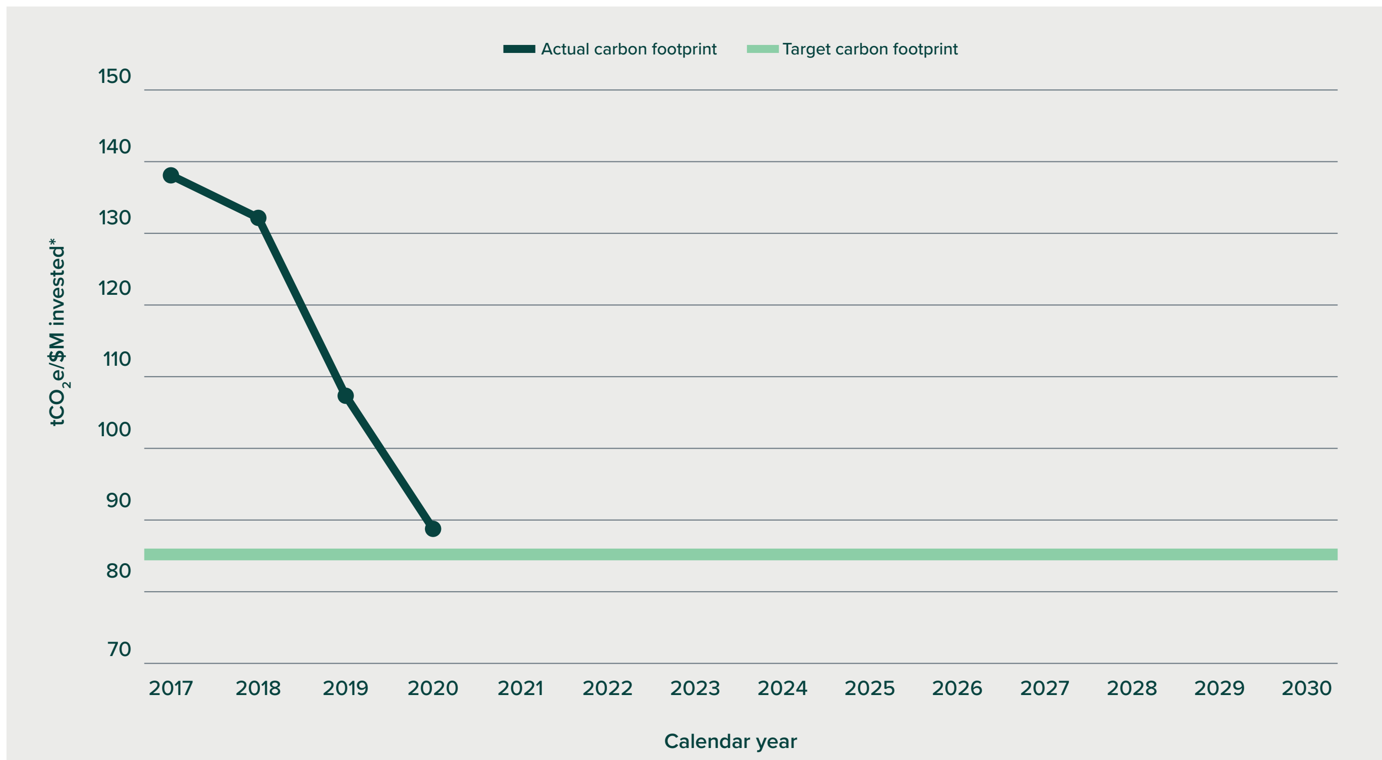
As previously mentioned, we set a target to reduce the carbon footprint of the Pension and Endowment portfolios by 40% or more compared to 2017 levels by 2030.

The Pension portfolio's 2020 footprint of 87.7 tonnes of carbon dioxide equivalent per million dollars invested (tCO_2e/$M) represents a cumulative reduction of 40.1% since 2017; we have achieved our target 40% reduction well ahead of the scheduled target date of 2030. (The carbon footprint of the Endowment portfolio is substantially similar.) Importantly, the absolute carbon emissions of the Pension portfolio are 21.1% lower than 2017 levels.

PORTFOLIO CARBON FOOTPRINT

Starting point 2017[9]	Results 2020	Change
Absolute emissions	**Absolute emissions**	**Absolute emissions**
418,059.3 tCO_2e	**329,860.8** tCO_2e	**-21.1%**
Carbon footprint	**Carbon footprint**	**Carbon footprint**
146.3 tCO_2e/$M invested	**87.7** tCO_2e/$M invested	**-40.1%**

Carbon footprint over time compared to 2030 target



* tCO_2e/$M = tonnes of carbon dioxide equivalent per million dollars invested

9 The previously reported 2017 carbon footprint of 139.2 tCO_2e/$M was inadvertently understated by approximately 5% because the beginning-of-year currency exchange rate was used to convert the $M invested from US to Canadian dollars, rather than the end-of-period rate. This had no impact on 2017 absolute emissions.

ENGAGING WITH COMPANIES AND LEVERAGING OUR VOTING RIGHTS

A key component of responsible investing is engagement with the companies we invest in to ensure alignment on ESG-related issues. UTAM engages either directly or, more typically, via formal and informal collaborations with other institutional investors. We also work with specialized providers of corporate engagement services to extend our global reach.

Whatever engagement avenue we pursue, the goal is the same: to seek accountability on ESG matters affecting companies' risk management, ongoing operations and long-term performance. We want to understand companies' assumptions while providing our perspective – with the ultimate aim of improving how ESG risks and opportunities are managed across the University of Toronto's portfolios.

We also apply a responsible investing lens to shareholder voting for the public equity securities in our Pension and Endowment portfolios. Wherever possible, we direct our managers' voting practices with a policy that gives appropriate weight to ESG factors.

ENGAGING WITH COMPANIES ON ESG MATTERS

One of the pillars of a best-in-class active ownership approach is engagement with the management and boards of companies on ESG considerations. We believe that engagement influences corporate management teams to more effectively manage ESG risks and opportunities, which is essential for long-term outperformance.

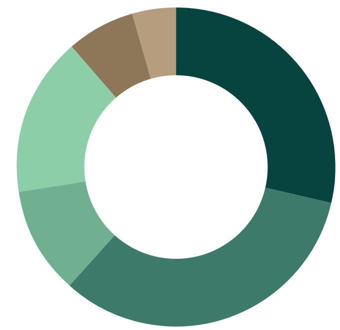
We undertake select direct engagements with companies, but given our size and our practice of investing through third-party investment managers, we more often participate in collaborative engagement groups and initiatives. We believe that the collective influence of like-minded investors with substantial combined holdings will typically lead to better outcomes than we could achieve on our own. Here are a few examples:

- Since 2008, we have worked in collaboration with other institutional investors through our membership in the Canadian Coalition for Good Governance (see page 43), which promotes sound governance practices to the boards and management of issuers in Canada.
- In 2016, we became a signatory to CDP (formerly the Carbon Disclosure Project) (see page 43), which operates the global environmental disclosure system. We actively contribute to various CDP initiatives, including its Non-Disclosure Campaign, in which we engage with companies that have not responded to CDP's disclosure requests.
- Through our 2017 commitment to Climate Action 100+ (see page 39), an initiative to directly engage with the world's largest corporate greenhouse gas emitters, we are active participants in encouraging companies to recognize and address carbon risk in the management of their operations.
- In 2018, we joined the 30% Club Canada (see page 43), an initiative to promote the inclusion of women on the boards and at the executive management level of public companies. We actively participate in the 30% Club Canada Investor Group, which undertakes direct engagement with S&P/TSX listed companies whose boards have a gender imbalance.
- In early 2021, UTAM became a founding participant of the University Network for Investor Engagement (UNIE) (see page 46), a coalition of Canadian university endowments and pension plans. UNIE's coordinator is SHARE (Shareholder Association for Research & Education), a non-profit investor advocacy organization. In partnership with SHARE, UNIE engages with companies in the investment portfolios of participating universities, with the goals of reducing greenhouse gas emissions and accelerating the transition to a low-carbon economy.

We augment these efforts with the services of specialized engagement service providers. By adding these services to our multi-pronged engagement approach, we leverage the influence of a larger asset base and extend the reach of engagement to represent our ESG concerns to issuers globally.

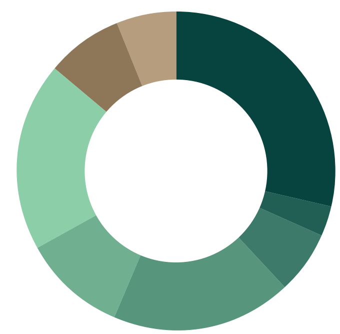
The following graphics summarize our 2020 engagement activities by our engagement service provider and through collaborative initiatives including the Canadian Coalition for Good Governance, CDP, Climate Action 100+ and 30% Club for companies in the Pension and Endowment portfolios. All of the case studies that follow relate to 2020 engagement activities.

Companies engaged by country/region 2020



Europe	271
United States	309
Asia (excluding Japan)	104
Canada	151
Japan	64
Other	41

Companies engaged by issue 2020



Corporate governance	783
Labour standards	82
Environment	177
Strategy, risk and communication	501
Social and ethical	284
Climate change	527
Human rights	212
Business conduct	163

Other statistics 2020

Companies engaged

940

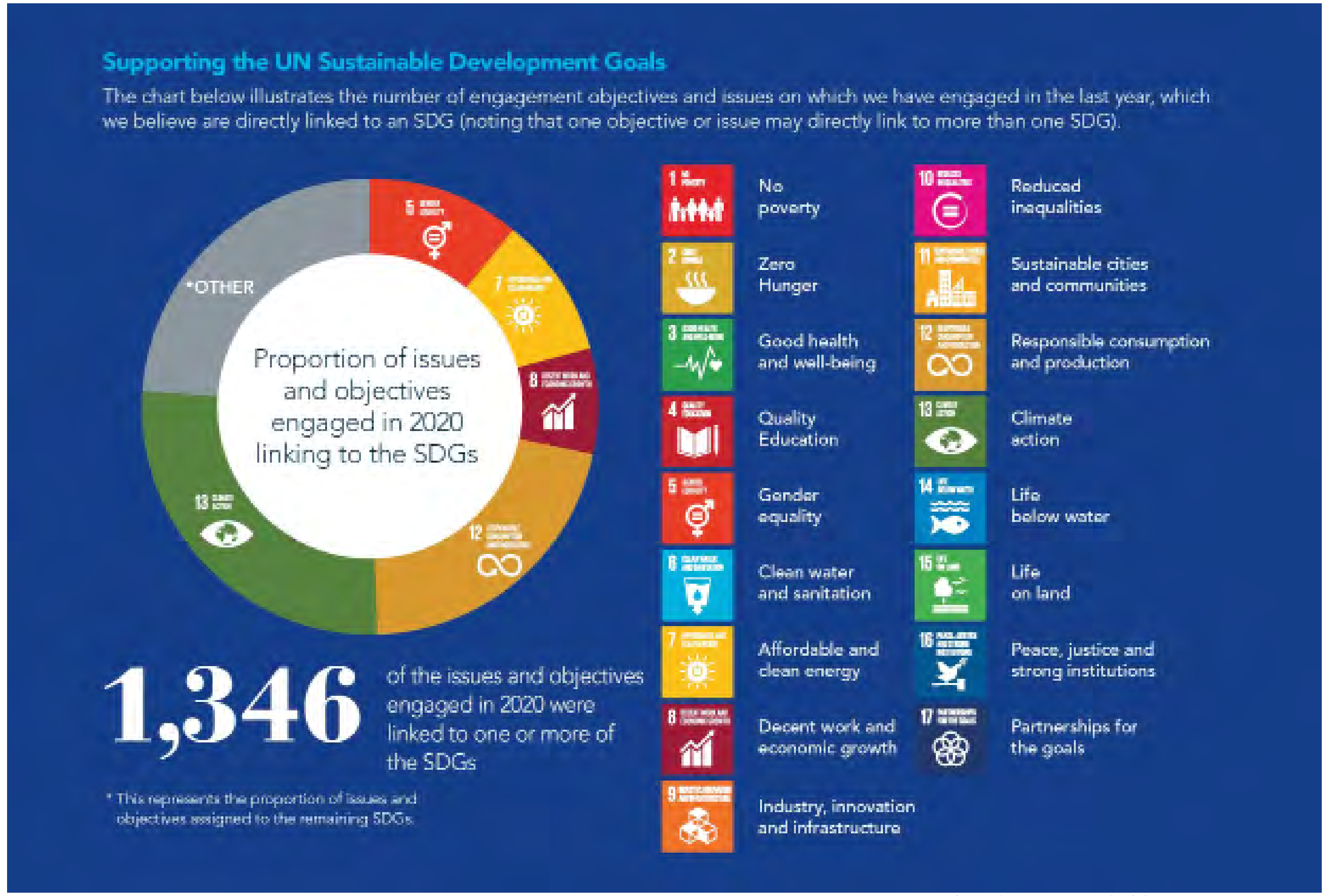
Countries covered

42

ENGAGEMENT CASE STUDIES

UTAM works with EOS at Federated Hermes ("EOS"), a leading stewardship service provider whose engagement activities enable long-term institutional investors such as UTAM to be more active owners of the assets they own or manage, through dialogue with public companies on ESG issues. EOS takes a collaborative approach, seeking client input in setting priorities and providing opportunities to participate in select engagements and learn from their experienced engagement professionals.

In 2020, through EOS, UTAM engaged with 815 companies in the Pension and Endowment portfolios on 2,914 environmental, social, governance, strategy, risk and communication issues and objectives. Of these, 1,346 were linked to one or more of the UN Sustainable Development Goals (SDGs). The SDGs were adopted in 2015 as a global call to end poverty, protect the planet and ensure that everyone enjoys peace and prosperity by 2030.



Graphics courtesy of EOS at Federated Hermes

EOS's proprietary milestone system tracks progress in its engagements relative to the objectives set at the beginning of interactions with each company:

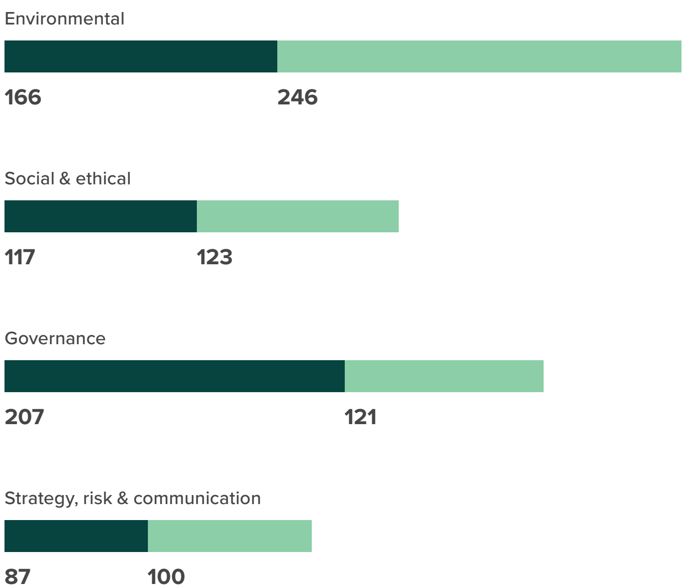
Milestone 1:
Concern raised with the company at the appropriate management level

Milestone 2:
The company acknowledges the issue as a serious investor concern

Milestone 3:
Development of a credible strategy / Stretching targets set to address the concern

Milestone 4:
Implementation of a strategy or measures to address the concern

In 2020, EOS made progress in delivering engagement objectives across regions and themes, moving forward at least one milestone for about 51% of objectives.



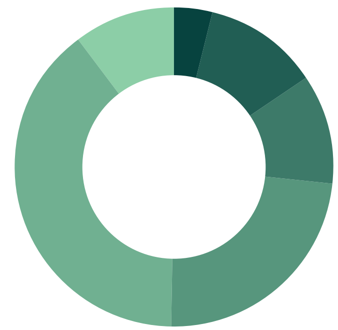
- No change
- Positive progress (engagement moved forward at least one milestone during the year to date)

EOS's engagement plan for 2021 covers 12 key themes and 36 sub-themes that reflect the diversity of issues affecting companies around the globe. Climate change is the top priority for EOS's clients. Last year, climate change was discussed at 78.5% of engagements featuring environmental topics, as shown in the chart below. Further details are available in EOS's 2020 Annual Review.

Issues and objectives engaged

Environmental	24.4%
Social and ethical	18.0%
Governance	40.2%
Strategy, risk and communication	17.4%

Companies engaged by region



Australia and New Zealand	33
Developed Asia	96
Emerging markets	90
Europe	191
North America	322
United Kingdom	83

Environmental

Climate change	78.5%
Forestry and land use	4.1%
Pollution and waste management	10.8%
Supply chain management	3.7%
Water	3.0%

Environmental topics featured in 24.4% of EOS engagements over the last year.

Below are four examples of EOS's engagement with companies in the Pension and Endowment portfolios.

- **Kinder Morgan** is a North American energy infrastructure company. EOS began engaging with the company on sustainability reporting and greenhouse gas emissions in 2016. Before Kinder Morgan's 2017 annual meeting, EOS expressed support for all shareholder proposals, including an annual sustainability report and reporting on methane emissions. These proposals failed but were proposed again in 2018. Kinder Morgan produced its first ESG report that year, including methane emissions data. Kinder Morgan has also committed to achieving a methane emission intensity target of 0.31% across its natural gas transmission and storage operations by 2025. The company's emissions intensity for 2018 was 0.02%, far surpassing the target. Kinder Morgan has committed to reporting company-wide Scopes 1 and 2 emissions in 2021. EOS continues to engage on disclosing and setting a baseline with robust, Paris Agreement–aligned emissions targets.

- **Holcim** (formerly LafargeHolcim) is a global manufacturer of construction materials such as cement, concrete and asphalt. EOS became a Climate Action 100+ co-lead for Holcim in late 2017, encouraging the company to develop science-based emission reduction targets and to link such targets to executive remuneration. In 2019, EOS was pleased that Holcim submitted a "below 2°C" target to the Science-Based Targets initiative (SBTi) but questioned whether it could be aligned to a more ambitious pathway. In 2020, Holcim included a carbon reduction target as a metric in the ESG section of the executive long-term incentive plan. Then, in September 2020, Holcim signed the Business Ambition for 1.5°C pledge, announced intermediate targets approved by the SBTi in alignment with a net zero pathway, and announced a partnership with SBTi to develop a 1.5°C roadmap for cement.

- **Nintendo** is a Japanese-listed leader in interactive entertainment. Originally a toy manufacturer, the company was founded in 1889, and until recently it had never had a woman or a non-Japanese national on its board. EOS began engaging with Nintendo on board gender diversity in 2016 and board independence in 2017, encouraging the company to conduct an independent board evaluation, strengthen its search for female candidates and create a nomination advisory committee. In January 2020, Nintendo announced plans to establish a nomination advisory committee, and in May 2020, it appointed a woman to the board. EOS continues to engage with the company on board gender diversity and talent management.

- **Baidu** is a leading search engine, internet platform and artificial intelligence (AI) company, headquartered in Beijing. In 2018, EOS engaged with the company on the risk related to its lack of compliance with General Data Protection Regulation. EOS later intensified engagement and progressed its dialogue towards responsible use of big data and AI. Baidu has since developed a robust governance structure and measures to protect data privacy, including a privacy protection committee composed of the company's top executives. The company has also established a data assets committee, safety committee and committee of professional ethics. EOS continues to engage with Baidu on connected issues, such as AI ethics and content governance.

OUR VOTING RECORD AS A RESPONSIBLE INVESTOR

Proxy voting is one of the most important rights available to public equity investors. UTAM's approach to proxy voting reflects our fiduciary duty to act in the best interest of our client. We also expect our third-party investment managers to act in the best interest of their clients when voting proxies. To that end, we routinely review the proxy voting practices of our public equity investment managers as part of our due diligence reviews. As a responsible investor and PRI signatory, UTAM has adopted the Institutional Shareholder Services (ISS) Sustainability Guidelines for proxy voting. These guidelines are consistent with the objectives of investors who take an integration approach to responsible investing. We apply these guidelines wherever possible. The guidelines, updated annually by ISS and disclosed on our website, reflect the following considerations:

> *ISS recognizes the growing view among investment professionals that sustainability or environmental, social, and corporate governance (ESG) factors could present material risks to portfolio investments. Whereas investment managers have traditionally analyzed topics such as board accountability and executive compensation to mitigate risk, greater numbers are incorporating ESG performance into their investment-making decisions in order to have a more comprehensive understanding of the overall risk profile of the companies in which they invest to ensure sustainable long-term profitability for their beneficiaries.*
>
> *ISS has developed proxy voting guidelines that are consistent with the objectives of sustainability-minded investors and fiduciaries. On matters of ESG import, ISS' Sustainability Policy seeks to promote support for recognized global governing bodies promoting sustainable business practices advocating for stewardship of environment, fair labor practices, non-discrimination, and the protection of human rights.*
>
> *On matters of corporate governance, executive compensation, and corporate structure, the Sustainability Policy guidelines are based on a commitment to create and preserve economic value and to advance principles of good corporate governance.*

In the following section, we provide a summary of proxy voting statistics for public equity mandates where either the ISS Sustainability Guidelines were applied in 2020 or our third-party investment managers provided proxy voting information for the pooled funds in which the Pension and Endowment are invested.

Our proxy voting record

In 2020, nearly 6,800 meetings were voted, representing over 82,000 proposals and agenda items put forward by either management or shareholders. In 9% of cases, votes were cast against management's recommendations.

Meetings voted by country/region	
Canada	1%
US	64%
Europe	15%
Asia	15%
Other	5%

LEADING AND WORKING ALONGSIDE OTHER RESPONSIBLE INVESTORS

UTAM continues to expand our leadership role, on behalf of the University of Toronto and its stakeholders, in shaping and advancing the goals of responsible investing. We take on a wide range of board and committee roles with respected organizations in this area, helping to develop and evolve best practices. Over the past year, we once again made presentations at key (virtual) events and contributed our perspective on investing responsibly to forums of leading institutional investors. We also collaborated on advocacy initiatives and policy-related discussions in Canada and around the world.

Through these collaborations, we share insights and experiences that we feel will benefit other investors while evolving our own policies and processes. Leading by example, we also encourage better responsible investing practices among the companies we invest in and the managers we work with. And by forging productive alliances with like-minded institutional investors, we magnify our collective impact.

PRINCIPLES IN ACTION: AFFILIATIONS AND COLLABORATIVE PARTNERSHIPS

INTERNATIONAL CORPORATE GOVERNANCE NETWORK

In February 2020, UTAM joined the International Corporate Governance Network (ICGN), a leading authority on global standards of corporate governance and investor stewardship. The ICGN is led by investors responsible for assets under management in excess of US$59 trillion in over 39 countries. We also endorsed the ICGN Global Stewardship Principles, which set out ICGN's view of best practices in relation to investor stewardship obligations, policies and processes. In 2020 and again in 2021, we were shortlisted for an ICGN Global Stewardship Disclosure Award (see page 40).

CANADIAN COALITION FOR GOOD GOVERNANCE

In 2019, Daren Smith, UTAM's former President and CIO, was appointed to the board of the Canadian Coalition for Good Governance (CCGG). In 2020, he was appointed the Vice-Chair of the organization's Environmental & Social Committee. In March 2021, he became the committee's Chair. The CCGG represents the interests of institutional investors in promoting sound corporate governance practices among Canadian public companies. UTAM has been a member since 2008.

AN UPDATE ON CLIMATE ACTION 100+

In 2017, UTAM, on behalf of the University of Toronto, became a founding participant in Climate Action 100+, an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The initiative seeks to achieve its objectives by engaging directly with these companies.

The initiative started by identifying the 100 companies around the world that had the highest combined direct and indirect greenhouse gas emissions, according to data modelled and reported by CDP (formerly the Carbon Disclosure Project). Since then, more companies have been added, bringing the list of companies to be engaged to over 160. These companies represent more than 80% of global industrial emissions. They are either critical to the transition to a net-zero-emissions economy or they are exposed to climate-related financial risks not captured by emissions data.

Officially launched on December 12, 2017 – the second anniversary of the Paris Agreement – this initiative seeks the following three commitments from companies on the focus list:

- Implement a strong **governance framework** that clearly articulates a board's oversight of, and accountability for, climate change risks and opportunities;
- Take action to **reduce greenhouse gas emissions** across the value chain, consistent with the Paris Agreement's goal of limiting the global average temperature increase to well below two degrees Celsius above pre-industrial levels, aiming for 1.5 degrees (notably, this implies the need to move towards net-zero emissions by 2050 or sooner); and
- Provide enhanced **corporate disclosure** in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and, where applicable, sector-specific Global Investor Coalition on Climate Change (GIC) Investor Expectations on Climate Change guidelines to enable investors to assess the robustness of companies' business plans against a range of climate scenarios, including well below two degrees Celsius, and improve investment decision-making.

Climate Action 100+ has become the largest-ever global investor engagement initiative on climate change, with growing influence and impact. The initiative now has 615 investor signatories (170% growth in investor participation since launch), including some of the world's largest asset managers. Together, they represent approximately US$55 trillion in assets under management. Participating investors are engaging with 167 companies across 33 markets, with a total market capitalization of about US$10.3 trillion (as of December 15, 2020).

Along with other participating investors, UTAM takes part in engagement planning calls and then collaboratively engages with a number of focus companies.

PROGRESS IN 2020

Since the launch of Climate Action 100+, we have seen great progress, with numerous companies making public and private commitments that align with the initiative's objectives. In its 2020 Progress Report, Climate Action 100+ shared highlights from company commitments made last year, including new goals and targets set by companies in the following six sectors: oil and gas, mining and metals, utilities, industrials, transportation, and consumer products.

While there is still much work to be done, we are encouraged to see that nearly half (43%) of the focus companies engaged by Climate Action 100+ have set a clear ambition to reach net-zero GHG emissions by 2050, including 69% of utility companies and 54% of oil and gas companies. Below are just a few examples of companies that made climate-related commitments in 2020:

- **Delta Air Lines** announced a commitment to become carbon neutral by 2030 and to offset all of its emissions (Scopes 1 and 2) starting in March 2020. Delta has committed US$1 billion towards meeting these goals.
- **ArcelorMittal**, a steel and mining company headquartered in Luxembourg, announced in October 2020 its commitment to becoming carbon neutral by 2050. The company previously announced an interim target to reduce carbon emissions 30% by 2030, compared to 2018 levels. In 2020, ArcelorMittal also published its second climate action report.
- **Rolls-Royce**, a civil aerospace, power systems and defence company headquartered in the United Kingdom, announced in June 2020 that it has committed to net zero carbon emissions in its operations by 2030 and net zero emissions across its value

chain by 2050. It plans to play a leading role in enabling the sectors in which it operates to also reach net zero emissions by 2050.
- **Unilever**, a British multinational consumer goods company, announced it would achieve net zero emissions from all its products by 2039, adding to its existing science-based target to eliminate its Scope 1 and 2 emissions by 2030. The company also intends to establish a €1-billion Climate and Nature Fund to invest in projects such as reforestation, carbon sequestration and conservation.

Climate Action 100+ Net-Zero Company Benchmark

In March 2021, the Climate Action 100+ initiative introduced the Climate Action 100+ Net-Zero Company Benchmark. The benchmark assesses focus companies on their progress in the transition to a net zero future, and it provides investors with a transparent and robust tool to facilitate focus company engagement. The benchmark's key indicators include, among other things, an expectation that companies will set an ambition to achieve net zero GHG emissions by 2050 or sooner, set GHG reduction targets, have a decarbonization strategy, and commit to implementing the measures of the Task Force on Climate-related Financial Disclosures (TCFD). The first assessments of focus companies have been released on the Climate Action 100+ website.

Looking ahead

Climate Action 100+ will focus on several priorities, in addition to ongoing engagements with focus companies, and projects led by regional engagement working groups. Key priorities include:

- Company engagement on the Climate Action 100+ Net-Zero Company Benchmark and rollout of the first company scorecards
- Producing global sector decarbonization position papers
- Further development of lobbying, just transition and other indicators for the Climate Action 100+ Net-Zero Company Benchmark

RECOGNITION

In June 2020, UTAM was added to the Institutional Limited Partners Association (ILPA) ESG Roadmap and Resources, a compilation of best practices that limited partners can consider implementing to advance environmental, social and governance (ESG) investing efforts at their organizations.

In 2020 and then again in 2021, UTAM was shortlisted for an International Corporate Governance Network (ICGN) Global Stewardship Disclosure Award. This award recognizes investors whose public disclosures provide genuine insight into their stewardship policies and how they have been implemented, and whose approach to transparency and reporting provides a model that others might follow.

In 2020, UTAM was honoured to be one of the three finalists for *Canadian Investment Review*'s first Pension Leadership Awards in the category of Sustainable Investing. The awards celebrate pension plan sponsors and pension investors who work hard to ensure strong investment outcomes.

OTHER RESPONSIBLE INVESTING ACTIVITIES

We have undertaken a number of additional activities that reflect our commitment to responsible investing, a few of which are highlighted below.

INVESTOR STATEMENTS

- In October 2020, UTAM was one of the 10 founding signatories of the **Canadian Investor Statement on Diversity & Inclusion** developed by the Responsible Investment Association (RIA). Signatories to the statement commit to advancing diversity and inclusion in their investment portfolios and their institutions. The statement acknowledges the existence of systemic racism and its impacts on Black and Indigenous communities and People of Colour in Canada and globally. It also acknowledges the existence of inequities and discrimination with respect to factors including, but not limited to, gender, sexual orientation, age, disability, religion, culture and socio-economic status. As of December 31, 2020, the D&I Statement had 66 signatories, including 48 institutional investors with more than $4 trillion in assets under management.

- In October 2020, UTAM joined fellow investor signatories of CDP (formerly the Carbon Disclosure Project) in supporting the organization's **Science-Based Targets Campaign**, which aims to accelerate the corporate sector's adoption of science-based reduction targets for greenhouse gas (GHG) emissions. In a statement released on October 13, 2020, 137 global financial institutions representing nearly US$20 trillion in assets called on more than 1,800 companies that are high GHG emitters to set 1.5°C science-based emissions reduction targets and achieve net zero emissions by 2050. Together, the companies have annual Scope 1 and 2 emissions of 13.5 gigatons, equivalent to 25% of global GHG emissions.

- In June 2021, UTAM joined more than 450 investors, representing US$41 trillion in assets, in signing the **2021 Global Investor Statement to Governments on the Climate Crisis**, urging world leaders to accelerate action to address climate change. The signatories called on governments to undertake five priority actions before the 26th United Nations Climate Conference of the Parties (COP26) in November 2021, including strengthening their Nationally Determined Contributions (NDCs) for 2030 in line with limiting warming to 1.5°C, committing to implementing mandatory climate risk disclosure requirements aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and ensuring that COVID-19 economic recovery plans support the transition to net zero emissions and enhance resilience.

- In June 2021, UTAM and more than 70 other institutional investors signed a letter to Canada's Standing Senate Committee on Banking, Trade and Commerce regarding Bill S-216, the **Modern Slavery Act**. The letter asks the committee to strengthen parts of the bill, including widening the scope of human rights risks beyond forced and child labour to include other human rights issues that companies and investors encounter. The signatories share an interest in addressing human rights risks within their investment portfolios. Together, they have $857 billion in assets under management.

Read more UTAM news at utam.utoronto.ca/news

LEADERSHIP IN RESPONSIBLE INVESTING

In the past few years, UTAM has increasingly taken a leadership role in responsible investing, helping to identify, shape and promote best practices. Several members of our senior management, drawn from diverse areas of our organization, have assumed leadership or advisory roles on professional committees, boards and associations that are advancing responsible investing practices.

Our former President and CIO, Daren Smith, joined the board of the Canadian Coalition for Good Governance (CCGG) in 2019. In 2020, he was appointed Vice-Chair of the CCGG's Environmental & Social Committee, and in 2021 he became its Chair. Daren also served on the Public Policy Committee, and he was previously on the Member Engagement Committee. As a board member, Daren participated in some of the CCGG's engagement activities. The CCGG's mission and objectives are to promote good governance practices in Canadian public companies and the improvement of the regulatory environment to best align the interests of boards and management with those of their shareholders, and to promote the efficiency and effectiveness of the Canadian capital markets. UTAM has been a member of the CCGG for more than 10 years.

Our Chief Risk Officer, Doug Chau, is a member of the PRI's Asset Owner Technical Advisory Committee, which provides advice, tools and support to asset owners implementing the PRI, as well as insights into the opportunities offered by incorporating ESG factors into investment decision-making. The committee also undertakes engagement with industry stakeholders, including existing and potential PRI signatories, about responsible investment practices.

Our Chief Operating Officer, Lisa Becker, was a long-time member of the Investor Stewardship Committee of the Pension Investment Association of Canada (PIAC). In June 2020, Lu Yao, a senior member of our investment team, took Lisa's place on the committee, which aims to develop, monitor and promote robust standards and best practices for investor stewardship of pensions in Canada. Activities reviewed by the committee include proxy voting, corporate engagement, governance, integrating ESG factors into the investment process, and advocacy around responsible investing with policy-makers and standard-setters.

Lisa serves on the board of the Responsible Investment Association (RIA). She was appointed Secretary of the Executive Committee in 2019 and subsequently moved to the role of Treasurer. Lisa also served as Chair of the RIA's Governance Policy Committee until June 2020, when she became Chair of the Finance and Audit Committee. The RIA believes that the integration of ESG factors into the selection and management of investments can provide superior risk-adjusted returns and positive societal impact.

UTAM'S OPERATIONS CONTINUE TO BE CARBON NEUTRAL

UTAM as a corporation is now substantially carbon neutral. In 2020, we continued our program of purchasing carbon offsets to mitigate the carbon footprint of our business travel, our electricity and gas consumption, and our use of paper. We recognize that purchasing carbon offsets is not a perfect or complete solution to mitigating the climate impact of our activities. However, we feel it is an important step in the right direction. To cover our activities in 2020, we purchased carbon offsets representing 40 tonnes of CO_2 equivalent. This is significantly lower than in years past, reflecting reduced travel due to the pandemic.

OUR AFFILIATIONS

30% CLUB CANADA

30% Club Canada members commit to a Statement of Intent that expresses the collective objective to achieve a minimum of 30% women on the boards and at the executive management level of S&P/TSX Composite Index listed companies by 2022.

UTAM actively participates in the 30% Club Canada Investor Group, which coordinates the investment community's approach to promoting diversity on boards and within senior leadership at investee companies. The group also promotes the exercise of ownership rights to effect change, and it encourages all investors to engage on the issue of diversity with board chairs and senior management teams. Activities include direct engagement with S&P/TSX listed companies that have gender imbalance on their boards.

30percentclub.org

Member since 2018

CANADIAN COALITION FOR GOOD GOVERNANCE

The Canadian Coalition for Good Governance (CCGG) represents the interests of institutional investors in promoting sound corporate governance practices among Canadian public companies.

In 2018, the CCGG published The Directors' E&S Guidebook, which provides practical insights and recommendations for effective board oversight and company disclosure of environmental and social (E&S) factors. We support the CCGG's efforts to assist boards in developing a robust, principles-based approach to the governance and oversight of E&S factors and to bring a deeper dialogue between companies and investors in this area. Daren Smith, our former President and CIO, was appointed to the board of the CCGG in 2019. In 2020, he was appointed the Vice-Chair of the E&S Committee.

ccgg.ca

Member since 2008

CDP

The CDP, formerly the Carbon Disclosure Project, operates the global environmental disclosure system. Each year CDP supports thousands of companies, cities, states and regions to measure and manage their risks and opportunities on climate change, water security and deforestation.

UTAM is an active contributor to various CDP initiatives, including its Non-Disclosure Campaign, in which we engage with companies that have not responded to CDP's disclosure requests.

cdp.net

Signatory since 2016

CLIMATE ACTION 100+

Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The companies include 100 "systemically important emitters," accounting for two-thirds of annual global industrial emissions, alongside more than 60 others.

We were a founding participant in the initiative and are working with other investors to engage with a number of companies on the list.

climateaction100.org

Signatory since 2017

OUR AFFILIATIONS

INSTITUTIONAL LIMITED PARTNERS ASSOCIATION

The Institutional Limited Partners Association (ILPA) advances the interests of private equity investors globally through education programs, independent research, development of best practices, and opportunities for networking and collaboration.

UTAM has endorsed ILPA's Private Equity Principles, which stipulate that managers should provide investors with portfolio information on all material risks, including those related to environmental, social and governance (ESG) factors. ILPA has included several examples from UTAM in its ESG Roadmap and Resources. The Roadmap includes a compilation of best practices that limited partners can consider implementing to advance ESG investing efforts at their organizations.

ilpa.org

Member since 2002

INTENTIONAL ENDOWMENTS NETWORK

The Intentional Endowments Network (IEN) is a membership organization of like-minded institutions of higher education that collectively seek to advance consideration and implementation of their individual responsible investing initiatives.

Chuck O'Reilly, our President and CIO, is on the IEN's net zero endowment steering committee. We have also participated in a number of IEN webinars, where we have shared our approach to responsible investing.

intentionalendowments.org

Member since 2018

INTERNATIONAL CORPORATE GOVERNANCE NETWORK

The International Corporate Governance Network's mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide.

UTAM has endorsed the ICGN Global Stewardship Principles, which set out ICGN's view of best practices in relation to investor stewardship obligations, policies and processes.

icgn.org

Signatory since 2020

MONTRÉAL CARBON PLEDGE

By signing the Montréal Carbon Pledge, investors commit to measure and publicly disclose the carbon footprint of their investment portfolios on an annual basis. The Pledge was launched in September 2014 at PRI in Person in Montreal, and it is supported by the Principles for Responsible Investment (PRI) and the United Nations Environment Programme Finance Initiative (UNEP FI).

We publish the carbon footprint of the Pension and Endowment portfolios on an annual basis.

montrealpledge.org

Signatory since 2017

OUR AFFILIATIONS

UN-CONVENED NET-ZERO ASSET OWNER ALLIANCE

The Net-Zero Asset Owner Alliance (the "Alliance") is an international group of 61 institutional investors (representing US$10 trillion of assets under management) delivering on a bold commitment to transition their investment portfolios to net zero greenhouse gas (GHG) emissions by 2050.

The Alliance has established a framework to guide its members towards the 2050 net zero objective. The framework includes setting ambitious five-year targets, and members must report regularly on their progress towards these targets. UTAM's membership in the Alliance on behalf of the University's Endowment makes U of T the first university in the world to join the Alliance.

unepfi.org/net-zero-alliance

Member since 2021

PENSION INVESTMENT ASSOCIATION OF CANADA

The Pension Investment Association of Canada (PIAC) promotes and evaluates sound pension and corporate governance standards and practices.

Until June 2020, our Chief Operating Officer, Lisa Becker, was a member of PIAC's Investor Stewardship Committee, and since then, Lu Yao, a senior member of our investment team, has taken her place. The committee aims to develop, monitor and promote robust standards and best practices for investor stewardship of pensions in Canada. Activities reviewed by the committee include proxy voting, corporate engagement, governance, integrating ESG factors into the investment process, and advocacy around responsible investing with policy-makers and standard-setters.

piacweb.org

Member since 2004

PRINCIPLES FOR RESPONSIBLE INVESTMENT

The Principles for Responsible Investment (PRI) supports a global network of signatories as they incorporate ESG factors into their investment decisions. The PRI acts in the long-term interests of financial markets, economies, society and the environment.

Doug Chau, our Chief Risk Officer, is a member of the PRI's Asset Owner Technical Advisory Committee, which provides advice, tools and support to asset owners implementing the PRI. The committee also undertakes engagement with industry stakeholders, including existing and potential PRI signatories, about responsible investment practices.

unpri.org

Signatory since 2016

RESPONSIBLE INVESTMENT ASSOCIATION

The Responsible Investment Association (RIA) brings together Canadian mutual fund companies, financial institutions, asset managers, advisors, consultants, researchers and individual investors who believe that integrating ESG factors into investment management can yield superior risk-adjusted returns and positive societal impact.

Lisa Becker, our Chief Operating Officer, serves on the RIA's board. Until June 2020, she served as Secretary of the RIA and Chair of the Governance Policy Committee. She now serves as Treasurer and the Chair of the Finance and Audit Committee. UTAM actively contributes to the RIA Toronto Working Group, regularly hosting its meetings.

riacanada.ca

Member since 2016

OUR AFFILIATIONS

STANDARDS BOARD FOR ALTERNATIVE INVESTMENTS

The SBAI is a standard-setting body for the alternative investment industry and acts as custodian of the Standards. It provides a powerful mechanism for creating a framework of transparency, integrity and good governance, which improves how the industry operates, facilitates investor due diligence and complements public policy.

Daren Smith, our former President and CIO, joined the SBAI's Responsible Investing working group in 2020.

sbai.org

Member since 2018

UNIVERSITY NETWORK FOR INVESTOR ENGAGEMENT (UNIE)

UNIE is a corporate engagement program for Canadian university endowments and pension plans, launched in February 2021. UNIE is coordinated by Shareholder Association for Research & Education (SHARE), a leading not-for-profit organization in responsible investment services, research and education. SHARE works with a growing network of institutional investors, helping them to become active owners and develop and implement responsible investment policies and practices.

UTAM is a founding participant of UNIE. Chuck O'Reilly, our President and CIO, represents UTAM and the University of Toronto in this initiative.

share.ca/UNIE

Member since 2021

UTAM TEAM

As of September 30, 2021

UTAM is the investment manager of the University of Toronto's Pension, Endowment and short-term working capital assets. UTAM's Board delegates day-to-day investment management activities to UTAM. Our team of professionals works closely with the Board, the expert Investment Committee, the University administration and various governance bodies in our management of the University's assets.

Chuck O'Reilly
CFA, CAIA
President and Chief Investment Officer

Stephanie Zed
Executive Assistant

INVESTMENTS

Leon Lu CFA, CAIA, MSc
Head of Fixed Income

Jean Potter
Head of Private Markets

Kelvin Hu CFA, FRM, MFE
Associate Portfolio Manager, Public Equities

Lu Yao CFA, CAIA, FRM, MSc, MA
Associate Portfolio Manager, Public Equities

Jonathan Yeung CFA, FRM, MFin
Associate Portfolio Manager, Fixed Income

Victor Zheng CFA, CPA, MBA
Associate Portfolio Manager, Private Markets

Kiana Xu CFA, CAIA
Senior Associate, Public Equities

Angela Liang MBA
Associate, Fixed Income

Lakshman Namburi MSc
Associate, Private Markets

RISK AND RESEARCH

Douglas Chau CFA, PRM, MSc, PhD
Chief Risk Officer and Head of Research

Ivan Siew CFA, FRM, MFin
Director, Risk and Research

Ayako Dorotheo
Senior Analyst, Investment Systems and Data

Ye Long MMF, PRM
Senior Analyst, Risk and Research

Robin Warner CFA
Senior Analyst, Risk and Research

Angie Wu
Analyst, Investment Systems and Data

OPERATIONS

Lisa Becker FCA (ICAEW)
Chief Operating Officer
Chief Compliance Officer

Zohair Ahmed CPA, CMA, CFA
Director, Operations

Toan Duong CPA, CMA
Manager, Investment Operations

Anne Lee
Manager, Investment Operations

Logan Li CFA
Senior Analyst, Investment Operations

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