

2024

University of Toronto
Asset Management Corporation

TCFD Report



Introduction

To enhance the transparency of our reporting on UTAM's responsible investing activities, we follow the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). When we announced our support for these recommendations in February 2020, the University of Toronto became the first Canadian university to adopt the TCFD framework in reporting on its long-term assets, including the Endowment.

The evolution of climate-related financial disclosures

Over the past decade, the global investment community has increasingly focused on companies' exposure to climate-related risks and business opportunities. Initially, as investors tried to quantify the potential impact of climate change on their portfolios, they found many companies were not disclosing sufficient information to allow rigorous assessments. In response, the Financial Stability Board, the international body that monitors and recommends best practices for the global financial system, established the TCFD in December 2015. The task force's goal was to develop voluntary, consistent disclosure recommendations that companies would follow in providing information on climate-related financial risks to investors, lenders and insurance underwriters.

The TCFD released its final recommendations in June 2017. They were welcomed by the Canadian finance and investment communities, and they informed the June 2019 report of the Expert Panel on Sustainable Finance – chaired by Tiff Macklem, then Dean of the University of Toronto's Rotman School of Management (and now Governor of the Bank of Canada). Indeed, the expert panel explicitly endorsed and extended the task force's central findings, notably in its own recommendation to “define and pursue a Canadian approach to implementing the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).”

The panel was unequivocal in stating the importance of such disclosures:

A reliable, consistent and comparable bottom-up view of climate risk exposure is essential to proper assessment and pricing, which in turn avoids systemic risk implications and helps direct investment to clean innovation. This is particularly relevant to Canada, given the severe physical and financial risks associated with our country's accelerated rate of warming.

Reporting aligned with the TCFD recommendations has since become a best practice. In adopting the TCFD reporting framework since 2020, UTAM joined a global community of support that at that time comprised nearly 5,000 public supporters in over 100 jurisdictions.

Having completed its objectives, the TCFD disbanded in October 2023. In 2024, at the request of the Financial Stability Board, the International Financial Reporting Standards Foundation (IFRS) took over the monitoring of the TCFD's recommendations, incorporating them into IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and S2 Climate-related Disclosures. UTAM continues to follow the TCFD's recommendations and report progress in applying them.

Past TCFD reporting

UTAM's previous reporting under the TCFD framework can be found in our Responsible Investing Reports (2021, 2020, 2019–2020) and our stand-alone 2019 Carbon Footprint Report. Since 2022, we supplement our TCFD overview in our Annual Report with more detailed analysis in dedicated annual TCFD reports.

The structure of this report

The climate-related financial disclosures presented in this report follow the structure of the TCFD recommendations, which are organized into four thematic areas:

Governance: the organization's oversight and direction of climate-related risks and opportunities.

Strategy: how the organization's business, strategy and financial planning are affected by the actual and potential impacts of climate-related risks and opportunities.

Risk management: the processes by which the organization identifies, assesses and manages climate-related risks.

Metrics and targets: how the organization measures and manages progress in addressing relevant climate-related risks and opportunities.

Governance

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

Addressing climate-related risks and opportunities in the portfolios that we manage is a key priority for UTAM. Our Board of Directors approves our [Responsible Investing Policy](#) and overall approach to responsible investing (RI), which includes climate change as well as the carbon footprint reduction target (as discussed in the Metrics and Targets section below). The Board monitors our progress toward this target along with other targets established by UTAM as well as those established under the United Nations-convened Net-Zero Asset Owner Alliance (NZAOA).

There is a 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.

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 the mandate to consider climate-related risks and opportunities as part of our broader responsible investing practices. The Committee is composed of the President and Chief Investment Officer (CIO), the Head of Fixed Income, the Head of Private Markets, the Chief Risk Officer (CRO) and the Chief Operating Officer (COO). From time to time, other staff may be invited to join the Committee. This senior and diverse group ensures that the RIC's decisions reflect input and buy-in from the investment team and that UTAM's desired approach is implemented. The RIC typically meets quarterly.

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 members of the investment, risk management and operational due diligence teams. We 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 assessing and managing climate-related risks and opportunities and 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 risk has been incorporated into the regular risk measurement and monitoring process and is reviewed by the Committee alongside other investment-related risk issues. The MIRC is chaired by the Chief Risk Officer (CRO) and comprises the Risk and Research team, the President and 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 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 will likely be the most significant transition risks. Physical risks, such as acute weather events, may have some near-term impacts but are likely to be amplified over longer time horizons.

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

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 will likely outperform. In addition, companies operating in less carbon-intensive sectors and countries will likely be better positioned in the long term. We continue to source investment opportunities across various asset classes in strategies that are expected to benefit from opportunities created by climate change.

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

Responsible investing and sustainability, including addressing climate change, is a strategic priority for UTAM, reflected in our [Foundational Statements](#), to which we devote significant time and resources. UTAM has worked with University of Toronto leadership for many years to strengthen and formalize our shared commitment to responsible investing.

This began in earnest in 2016 when we became a signatory to the United Nations-supported Principles for Responsible Investment (PRI) on behalf of the university's long-term portfolios.

Since then, we have taken an increasingly sophisticated and holistic approach to ESG integration. In 2017, we formed the Responsible Investing Committee, 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, and more than half of our staff are engaged in responsible investing activities.

The carbon footprint reduction target described in the Taking Decisive Action on Climate Change section (page 22) of our [2024 Annual Report](#), as well as in the Metrics and Targets section below, forms a key part of our overall investment strategy. Moreover, since joining the NZAOA in 2021, in addition to its carbon footprint reduction target, UTAM has also established interim targets on engagement and financing transition. More information on these targets is available in our [2024 Annual Report](#) (page 22).

UTAM's organizational operations have been carbon-neutral for many years. We participate in the University of Toronto's Air Travel Emission Mitigation Initiative for our business travel, and purchase offsets from a third party for other sources of carbon emissions such as our electricity and gas consumption and our use of paper.

U of T is also a leader in sustainability amongst global peers. The university has declared its goal of achieving a climate-positive St. George campus by 2050 – reducing more greenhouse gas emissions (GHGs) than it emits, thereby creating a net benefit to the community and planet.

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 the resilience of the Endowment portfolio 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 Endowment portfolio's 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 portfolio could react (negatively or positively) over time under various climate scenarios. We use climate scenarios from several different sources. Our team takes these scenario outcomes and translates them back into financial shocks, which are then applied to the holdings of the Endowment portfolio at a point in time.

Our scenario analysis approach focuses on 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.

The results of our scenario analysis spur discussion on potential downside shocks to the portfolio 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 undertaken by the investment team, as they discuss company-specific climate risks with investment managers, and by our risk team under the leadership of the Chief Risk Officer, as we assess climate risk more holistically at the overall portfolio level.

For the Endowment, we identify the relevant climate-related risks and their associated time horizons. We consider transition and physical risks across countries and sectors to ascertain the parts of the Endowment portfolio that could be most at risk of effects of climate change.

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

Another way we identify and assess climate-related risks is through engagement with public companies. These initiatives are led primarily by professionals in our investment team, who undertake engagement primarily through engagement service providers and collaborative engagement groups, as explained more fully in section b) below.

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. Our investment team discusses company-specific climate risks with investment managers on an ongoing basis. We also 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

To achieve our carbon footprint reduction goals, we deploy a variety of tools, including shifting assets to lower-emitting countries and sectors, and investing in strategies and asset classes with lower emissions. In late 2021, U of T committed to divest the Endowment portfolio from investments in fossil fuel companies. As discussed in our Annual Report, considerable progress has been made towards this objective. Moreover, to better align our efforts with the university's divestment initiative, in 2022 we began transitioning the Reference Portfolio's asset class benchmarks to indexes that exclude fossil fuels. This process was completed for the fixed income portion of the Reference Portfolio in 2022, and for the equity portion effective October 1, 2024.

As previously noted, a key part of our responsible investing framework and our emission reduction strategy continues to be engagement, as we engage with our investment managers and with corporate issuers, including fossil fuel companies, on climate change. We typically work with collaborative engagement initiatives, advocating with policymakers 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 incorporate 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.

Our analysis includes, where possible and relevant, a review of the carbon emissions attributable to a 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 meeting notes. We also 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 encourage 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 investment managers and public companies, and our advocacy efforts.

We have long supported the stewardship principles of the Canadian Coalition for Good Governance. In 2020, we also endorsed the stewardship principles of the International Corporate Governance Network. Moreover, we achieved our interim NZAOA engagement target of engaging – through collaborative initiatives, as well as via our investment managers and EOS, our engagement service provider – with 20 public companies by 2025, focusing on those that are the world's largest corporate GHG emitters and those that contribute to the most owned emissions in the Endowment portfolio. As required under the NZAOA Target Setting Protocol, we will be establishing new 2030 interim engagement targets for our engagement with corporate issuers as well as with asset managers.

Proxy voting

We have adopted the ISS Sustainability Proxy Voting Guidelines, where we have the ability to do so. Where relevant, 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.

We also encourage our third-party investment managers to adopt sustainability-based proxy voting guidelines.

Engagement

UTAM actively engages with companies on sustainability matters. Given the size of our assets under management and our practice of investing through external managers, we focus our efforts on collaborative engagement groups and initiatives, such as Climate Engagement Canada, the Canadian Coalition for Good Governance, Climate Action 100+, and the University Network for Investor Engagement. A full list of [RI organizations and initiatives](#) that UTAM has joined is available on our website.

We believe that the collective influence of like-minded investors with substantial combined holdings and assets under management will typically lead to better outcomes than we could achieve on our own. The objectives of these engagements include improving the management of material, relevant ESG risks and opportunities at portfolio companies, aligning company behaviours with the transition economy, and achieving a net zero future.

We augment our collaborative engagement efforts with engagement service providers. For example, we have had a relationship with EOS at Federated Hermes, a third-party stewardship service provider, for many years. EOS has extensive experience and expertise in 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. We provide a summary of engagement statistics in our annual reports.

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 to do so. In 2024, we sent letters to 1,998 companies during this campaign (either in a lead or co-signer role) to drive further corporate transparency around climate change, deforestation, and water security. Across six years of data, CDP has demonstrated that companies contacted by investors through this campaign are more than twice as likely to disclose data than companies who were not contacted. In 2024, following CDP and participant investor efforts, 17.6% of target companies disclosed climate change, forest, or water security data.

Advocacy

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

As part of our advocacy efforts, we encourage policymakers to place more emphasis on corporate governance and shareholder accountability. We often lend our support to investor statements sent to policymakers and governments.

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 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. To incorporate climate risk into our regular reporting processes, we have researched and developed analytics to support total portfolio climate risk analyses. All this information is presented to and reviewed by our internal risk committee (MIRC).

Climate-related risks are also integrated into our manager due diligence processes and ongoing monitoring of existing managers. As discussed in section b) above, we consider climate-related risks in our selection and monitoring of external managers. Evaluating managers through an ESG lens, including climate change, is critically important in our due diligence and monitoring processes.

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 we use are total carbon emissions and carbon footprint (tonnes of CO₂ equivalent per million dollars invested). For detailed information refer to our [2024 Carbon Footprint Report](#).

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 or sector positioning.

- 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 (CO₂), nitrogen trifluoride (NF₃), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆). All gases are converted to a CO₂ equivalent (CO₂e) to calculate the carbon footprint.

Carbon emissions for the Endowment have been calculated by determining its share of GHG emissions (Scope 1 and 2) for equity and equity-like investments as well as publicly traded corporate bonds. Scope 3 emissions are not included due to data limitations, double-counting, and the lack of a consistent measurement standard. We began tracking Scope 3 emissions in 2022 and we continue to evaluate how the data could be used going forward. For additional details, please refer to our [2024 Carbon Footprint Report](#).

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

UTAM's current carbon footprint target is a 50% reduction in emissions by 2030, measured against a 2019 baseline. This target forms a key part of our overall investment strategy.

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