University of Toronto
Asset Management Corporation

Responsible
Investing Report

2019–2020

Guiding Principles

↗ How we invest responsibly in a challenging world

2019–2020 Responsible Investing Report

Guiding Principles

AT A TIME WHEN CLIMATE CHANGE, GEOPOLITICAL TENSIONS, CONCERNS over economic inequality and other challenges are reshaping the global investment landscape, it is more important than ever that we manage our portfolios thoughtfully, transparently and sustainably.

To navigate this complex world, UTAM has embraced a clear set of principles. They guide our investment decision-making as we manage the Pension, Endowment and short-term working capital assets of the University of Toronto. And they help us evaluate how our current and prospective external managers weigh material environmental, social and governance (ESG) factors in their investment processes.

Because of the COVID-19 pandemic, we're publishing our fourth responsible investing report later than usual this year. This report therefore spans 2019–2020, with select metrics in some areas updated to June 30, 2020. As in previous years, our primary goal is to develop and implement a comprehensive responsible investing program that applies to all asset classes. This effort includes promoting best practices and taking on leadership roles in various organizations and initiatives related to responsible investing.

↖ Disciplined decision-making through an ESG lens

→ Committed to the global PRI framework

↑ Rigorous evaluation of investment managers

↙ Decisive action on climate change

↗ Growing leadership role in responsible investing

A recognized leader in responsible investing

It is my great pleasure to offer an opening message for the 2019–2020 Responsible Investing Report of the University of Toronto Asset Management Corporation.

This year's report shows UTAM continuing to develop and refine the application of its ESG framework while also advancing its status as a leader in institutional responsible investing. It is a characteristically transparent and comprehensive report, and I encourage readers to review these pages closely to appreciate the full breadth of UTAM's approach.

There are many highlights in this year's report, including the discussion of UTAM's engagement strategy, which offers important insights into how UTAM works to influence decisions made by the management and boards of public companies to advance ESG objectives. This ability to affect corporate behaviour directly and actively is one of the most significant advantages of the responsible investing approach UTAM has adopted. It makes for fascinating reading.

The sections on UTAM's collaborative actions and affiliations are similarly noteworthy. UTAM has long recognized that its voice and influence are amplified by joining together with like-minded investors and coalitions. Over the years, the organization and its senior leadership have been active and enthusiastic participants in collective advocacy. Whether endorsing the recommendations of the Task Force on Climate-related Financial Disclosures, helping lead the Canadian Coalition for Good Governance or welcoming evaluations based on the UN-supported Principles for Responsible Investment, UTAM has continued to expand and deepen its partnerships over the past year.

Perhaps most importantly, I would highlight and applaud UTAM's commitment over the next decade to reducing the carbon footprint of investments in the Pension and Endowment portfolios by 40% compared to 2017 levels. Decarbonizing investments is the natural next step in progressively sharpening an ESG strategy that leads from measurement and engagement to *change*. UTAM's ambitious plan aligns with the university's own Low-Carbon Action Plan and with our goal of achieving net-zero carbon emissions.

Indeed, this partnership helped inspire U of T and McGill University to launch the Climate Charter for Canadian Universities, whose signatories pledge to adopt the kind of responsible investing framework pioneered by UTAM. As I write this, 15 of Canada's leading universities have signed on, and we look forward to having others join us in the future.

To conclude, I commend UTAM for its success and continued leadership in responsible investing, as documented in this report. And I extend my congratulations to Daren Smith and his entire team on another superb year.

Meric Gertler
President, University of Toronto

> "I applaud UTAM's commitment over the next decade to reducing the carbon footprint of investments in the Pension and Endowment portfolios by 40% compared to 2017 levels."

Investing ↘ responsibly ↖ for Canada's largest university

THE SCOPE OF UTAM'S RESPONSIBLE INVESTING ACTIVITIES CONTINUES TO grow, as does the depth of our research and analysis. Weighing the potential impacts of environmental, social and governance (ESG) factors is now integral to our overall investment process. And as we collaborate with like-minded organizations on responsible investing activities, we not only share information and best practices, but increasingly find opportunities to play a leadership role within respected organizations in the responsible investment area.

UTAM is a signatory, on behalf of the University of Toronto's Pension and Endowment, to the UN-supported Principles for Responsible Investment (PRI). In 2019, we completed our second annual PRI assessment, providing information that was used to evaluate our investment practices across asset classes and in comparison to national and global peers. We maintained our high standing of the previous year, earning five A+ marks and one A for our responsible investing activities. And as this report was being finalized for publication, we were pleased to learn that UTAM's scores for 2020 were even better: we achieved A+ marks in all six categories evaluated by the PRI this year, scoring above the median in each.

40% carbon footprint reduction target

UTAM remains committed to factoring the impacts of climate change into our investment decisions. This report includes a new section highlighting how we measure and manage climate-related risks (see page 38). As of December 2019, the carbon footprint of the Pension and Endowment portfolios (measured by tonnes of CO_2 equivalent per million dollars invested) had decreased by 21.5% from September 2017 – the first time a footprint was calculated. This represents significant progress toward the goal we announced in early 2020: to reduce the footprint of equity and equity-like investments in the Pension and Endowment portfolios by at least 40% compared to 2017 levels by the end of 2030. Our efforts align with U of T's Low-Carbon Action Plan, in which the university has committed to cut its own greenhouse gas emissions by 37% (from 1990 levels) by 2030 in pursuit of its ultimate aim – achieving "net-zero" carbon emissions for its operations.

Building on our rigorous tracking and reporting over the past two years, we've now expanded the universe of investments included in our carbon footprint calculations to cover not only public equities, but also private equity and equity-like investments such as private real estate and private infrastructure. As we continue adjusting the portfolios to further reduce their overall carbon footprints, the progress we've made to date puts us well on track to achieve our ambitious reduction target by the end of this decade.

Milestones of progress

Adopting the carbon footprint reduction target is an important addition to UTAM's comprehensive approach to responsible investing. At the same time, during the period covered by this report we were busy strengthening our existing processes and undertaking a number of new activities. The following selection of activities illustrates the breadth and depth of our efforts:

- In June 2019, I was honoured to be appointed to the board of the Canadian Coalition for Good Governance (CCGG). In 2020, I became Vice-Chair of the organization's Environmental & Social Committee. I also serve on the Public Policy Committee, and I was previously on the Member Engagement Committee. Representing institutional investors, the CCGG works to promote good governance practices in Canadian public companies; to ensure that the regulatory environment aligns the interests of shareholders with those of corporate boards and management; and to promote the efficiency and effectiveness of Canadian capital markets. UTAM has been a member of the CCGG since 2008.
- In September 2019, we joined institutional investors worldwide in reiterating our full support for the Paris Agreement on climate change and urging all governments to take action to achieve its goals. The statement was signed by 515 investors managing over US$35 trillion in assets. This is the largest-ever investor group to call on global leaders to phase out thermal coal power, end subsidies for fossil fuels, put a price on carbon pollution and strengthen nationally determined measures aimed at meeting the Paris emissions reduction goal.
- Throughout 2019, UTAM was called upon to share our responsible investing approach with our peers by participating on panels covering a wide range of topics, including: ESG investing in private equity, at a conference of the Institutional Limited Partners Association; responsible investing practices of Canadian asset owners, at the Climate Week conference of the CFA Society New York; breaking barriers to diversity and inclusion, at an event hosted by the Alternative Investment Management Association; and ESG and impact investing, at the CAiP East forum on investment strategies for Canadian pensions. In addition, we participated – alongside the PRI's Head of the Americas – in a webinar for the Intentional Endowments Network on applying an ESG lens to investment decisions.
- In early 2020, we endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The University of Toronto was the first Canadian university to make this endorsement with respect to its Pension and Endowment funds. To date, more than 1,440 public and private sector organizations have pledged to support the global initiative (as of September 2020). For the first time, we are providing disclosures in line with the TCFD recommendations (see page 38).

A continuing responsibility

As we emphasize in all of our reporting and communications, responsible investing is by definition an ongoing commitment. By constantly evolving our own policies and processes, and through collaborating and sharing best practices with other thoughtful institutional investors, UTAM works to build support for responsible investing across all of the industries, sectors and geographical regions spanned by our portfolios.

The university's investment performance goal remains unchanged: to generate the best possible returns in the Pension and Endowment portfolios and the short-term working capital pool, within the allowable risk budget. Indeed, we believe it is only by including ESG considerations in our investment process that we can achieve these goals and deliver sustainable long-term value.

UTAM's commitment to responsible investing aligns with and strengthens our broader scope of responsibility: to the members of the University of Toronto Pension Plan, who expect to enjoy a secure, well-earned retirement; to the many generous donors who've contributed to the university's Endowment; and to the vibrant community of students, faculty and staff who make U of T one of the world's leading centres of teaching, learning and research.

Daren M. Smith, CFA
President and Chief Investment Officer

> "Our 2020 PRI scores were our strongest yet: we achieved A+ marks in all six categories evaluated this year."

How we integrate ESG into our investing strategy

OUR INVESTMENT APPROACH HAS ALWAYS TAKEN INTO ACCOUNT VARIOUS dimensions of ESG. But in recent years we've embraced an increasingly formalized process for responsible investing. By weighing the relevant ESG implications of potential investments, we make better-informed decisions today. And we expect to see superior results over the long term for the university's Pension, Endowment and short-term working capital assets.

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 activities and 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 significant 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, 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, which we manage in three portfolios:

- Pension – the assets of the university's employee pension plan, officially called the University of Toronto Master Trust.
- 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 does not make direct investments in traded securities. Rather, we follow 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.

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 globe 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 across all portfolios
- Integrate consideration of ESG factors into our external manager selection and monitoring policies and processes, and into other relevant policies and processes
- Support the development of ESG-related tools, metrics and analyses
- Encourage academic and other research on ESG integration
- Provide internal training, and encourage the pursuit of external training on ESG matters for all staff involved in investment decision-making, including our investment professionals 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 a service provider
- 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 ESG disclosure by companies
- 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 managers
- Support the development of tools for benchmarking ESG integration
- Support legal, regulatory and policy developments that enable implementation of the Principles
- Assume leadership positions in leading responsible investment organizations
- Speak at conferences, participate in webinars, and publish or contribute to articles in support of the PRI

05

PRI Principle

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

UTAM Actions

- Support and participate in networks and information platforms in order to share tools and pool resources
- Address relevant emerging issues collectively with other asset owners and 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 issues are integrated within our investment process
- Disclose active ownership activities (e.g., voting, engagement and advocacy with policy-makers)
- 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 on our responsible investing framework and activities
- Provide reporting consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

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Principles for Responsible Investment
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Our 2019 and 2020 PRI scorecards

IN 2019, WE PARTICIPATED IN OUR SECOND FORMAL ASSESSMENT AS A signatory of the PRI. Responding to a series of asset-specific modules in the PRI's reporting framework, we provided data on UTAM's activities relative to various responsible investing indicators. The resulting report evaluated our progress in implementing responsible investing practices across asset classes and compared to peers at the national and global levels.

As the scorecard below shows, UTAM received five A+ marks and one A for our responsible investing activities in managing the University of Toronto's Pension and Endowment assets. Once again, we scored higher than the median PRI signatory in all relevant categories.

As this report was being finalized, we received our PRI scores for 2020, which reflect our strongest responsible investing performance to date: A+ marks in all six categories evaluated, scoring above the median in each.

As Daren Smith, UTAM's President and Chief Investment Officer, commented when the results were announced: "The PRI is the pre-eminent responsible investing organization in the world, and we are pleased to once again receive excellent scores from its assessment process. Our goal has been to develop a comprehensive RI program that applies to all asset classes, and we believe our PRI scores are a strong indication that we are on the right track."

Module name	Our 2019 scores	Our 2020 scores	2020 median scores
Strategy & Governance	A+	A+	A
Indirect – Manager Selection, Appointment & Monitoring			
Listed Equity	A+	A+	A
Fixed Income – Supranational, Sub-Sovereign and Agency	A+	A+	B
Fixed Income – Corporate Non-Financial	A+	A+	A
Private Equity	A+	A+	A
Direct and Active Ownership Modules			
Listed Equity – Active Ownership	A	A+	B

Taking decisive action on climate change

CENTRAL TO UTAM'S RESPONSIBLE INVESTING ACTIVITIES IS A FOCUS ON addressing climate change in the portfolios we manage. During 2019–2020, we achieved several significant milestones in this area:

In our 2019 Carbon Footprint Report (using data as of September 30, 2018), we built on our inaugural report of the previous year, expanding the analysis to include not only public equity holdings but also private equity and equity-like investments such as private real estate and private infrastructure. Including these additional investments provided a more accurate and complete picture of the carbon footprint of the portfolios. We have since used the same universe of investments to calculate the Pension portfolio's carbon footprint as of December 31, 2019. The result was 109.3 tonnes of CO_2 equivalent per million dollars invested (tCO_2e/$M), a reduction of 19.7% from 2018 and 21.5% from 2017. Importantly, the absolute emissions in the portfolios have also decreased by 12.9% since 2017, as more fully described on page 45 of this report.

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.

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. More than 1,440 public and private sector organizations have supported the initiative (as of September 2020). For the first time, we are providing disclosures in line with the TCFD recommendations (see page 38).

Starting point 2017

139.2

tCO_2e/$M invested

Results 2019

-21.5%

or 109.3 tCO_2e/$M invested

Target 2030

-40%

or 83.5 tCO_2e/$M invested

Responsible investing milestones

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

2016

- Became a signatory to the Principles for Responsible Investment (PRI) on behalf of U of T's Endowment and Pension portfolios
- Became a signatory to CDP (formerly known as the Carbon Disclosure Project)
- Joined the Responsible Investment Association (RIA)
- Initiated proxy voting under Institutional Shareholders Services' Sustainability Policy

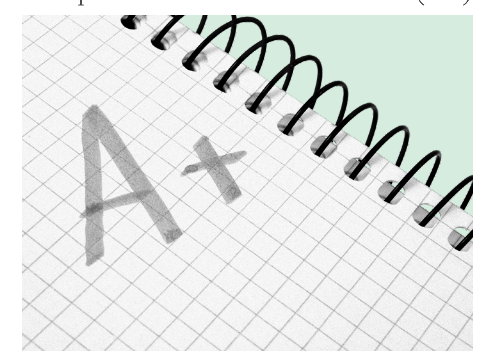
2017

- Doug Chau, UTAM's CRO, joined the PRI's Asset Owner Advisory Committee
- Lisa Becker, UTAM's COO, joined the Investor Stewardship Committee of the Pension Investment Association of Canada (PIAC)
- Signed the Montréal Carbon Pledge
- Published Responsible Investing Policy

- Joined Climate Action 100+
- Published first annual responsible investing report, covering 2016

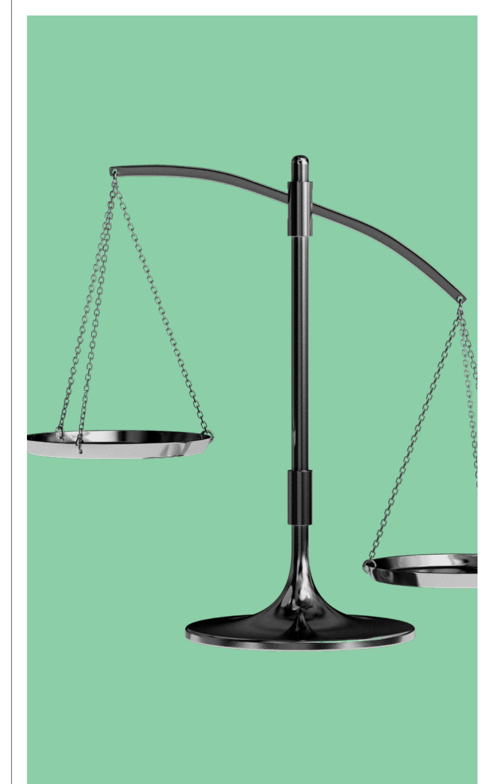
2018

- Lisa Becker joined the board of the Responsible Investment Association (RIA)



- Received four A+ scores and one A in our first PRI assessment
- Published the first carbon footprint of the Pension and Endowment portfolios
- Joined the 30% Club Canada
- Joined Intentional Endowments Network (IEN)
- Joined Standards Board for Alternative Investments (SBAI)
- Achieved carbon neutrality in our operating activities

2019



- Daren Smith joined the board of the Canadian Coalition for Good Governance, of which UTAM has been a member since 2008
- Received five A+ scores and one A in our second PRI assessment
- Signed the Global Investor Statement to Governments on Climate Change

2020

(as of mid-August)

- Endorsed the Task Force on Climate-related Financial Disclosures (TCFD) recommendations
- Daren Smith appointed Vice-Chair of the Canadian Coalition for Good Governance's Environmental & Social Committee

- Adopted a target to reduce the carbon footprint of the Pension and Endowment portfolios by 40% or more by the end of 2030 compared to 2017 levels
- Received six A+ scores in our third PRI assessment
- Joined the International Corporate Governance Network (ICGN)

2019–2020 Responsible Investing Report

How we select and monitor our investment managers

UTAM'S COMMITMENT TO RESPONSIBLE INVESTING IS REFLECTED IN OUR processes for selecting and monitoring the managers that we choose to invest with for the university's Pension, Endowment and short-term working capital assets. We're highly analytical in how we evaluate these external managers, establishing clear steps for identifying strong candidate firms, vetting their investment practices and monitoring long-term performance. And we constantly seek new ways to further improve the collaboration, bearing in mind our ultimate investment goals. At every stage, we take into account the ESG dimensions of our managers' investment activities and reflect that in our decision-making.

Guiding Principles

Choosing 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 our 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:

Investment manager selection

- Evaluate the manager's responsible investing approach
- Review the manager's responsible investing policies
- Evaluate the quality of the manager's investment policy and its reference to ESG
- Review the manager's firm-level versus product-level approach to responsible investing
- Review the manager's responsible investing promotion efforts and engagement within the industry
- Meet with staff members who are focused on responsible investing in order to assess their skills and competence
- Discuss the current governance and management of the firm's responsible investing activities including how ESG implementation is enforced
- Discuss the manager's involvement in collaborative and direct ESG-related engagements with companies in the manager's investment portfolio
- Discuss relevant ESG due diligence questions with the manager and follow up where appropriate
- Review how the manager evaluates ESG materiality
- Discuss the process for defining and communicating ESG incidents
- Review the manager's proxy voting policy and processes (in cases where UTAM would not direct voting)
- Determine whether the manager is a signatory to the PRI and/or other relevant initiatives and organizations
- Review responsible investing reporting to clients and/or the public
- Communicate the type of ESG reporting we expect
- Evaluate the coverage and quality of the firm's ESG-related research
- Assess current strategies for incorporating ESG factors, as well as the manager's ability to identify and manage ESG-related issues
- Review ESG-related characteristics of the investment portfolio
- Investigate the impact of ESG factors on specific investment decisions and, where relevant, subsequent performance
- Discuss securities in the manager's portfolio that appear to have material ESG risks
- Incorporate a review of ESG considerations in our internal manager recommendation memos, including rating the manager from an ESG perspective

Investment manager monitoring

- Discuss how the manager has evolved its responsible investing approach
- Include responsible investing as a standard agenda item at manager update meetings
- Where relevant, highlight examples of good practices by other managers in the area of responsible investing
- Encourage the manager to participate in responsible investing initiatives or to join organizations engaged in promoting ESG integration and responsible investing
- Discuss and monitor the manager's participation in collaborative projects with other investors
- Review the manager's responsible investing reporting
- Meet with staff members who are focused on responsible investing to discuss current research and review any changes in the manager's approach since the last meeting
- Review ESG-related characteristics of the investment portfolio
- Request details of the integration of ESG considerations in specific investment decisions
- Discuss securities in the manager's portfolio that appear to have material ESG risks
- Incorporate a review of ESG considerations in our internal manager review memos, including updating the manager's ESG score

Manager spotlight: RPIA

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 RPIA LP, a Toronto-based asset management firm that provides fixed income solutions for a broad range of investors, illustrates how we collaborate with managers on responsible investing initiatives. We invited RPIA, which has over $5.3 billion in assets under management (as of June 30, 2020), to share how it is incorporating ESG considerations in the world of fixed income.

RPIA Global Fixed Income Experts

RPIA AND UTAM HAVE MAINTAINED A COLLABORATIVE RELATIONSHIP since 2010, designing corporate bond solutions that play an integral role in helping UTAM achieve its client's goals. UTAM's leadership in responsible investing and its strong belief that ESG factors can have a material impact on company performance is aligned with our views.

We have long included certain ESG considerations in our investment analysis and decision-making processes, and in recent years we have amplified our responsible investing (RI) efforts. UTAM's adoption of the UN-supported Principles for Responsible Investment (PRI) in December 2016, coupled with its continued support and promotion of these principles, encouraged us to become a signatory as well. We did so in August 2018, marking an important milestone in our own RI journey. We filed our first PRI Transparency Report in the spring of 2020, and in July we received an "A" rating for all the assessment modules on which we reported. While we are proud of this, responsible investing is a journey, and we know that there is still more we can do.

We believe that ESG considerations are integral to in-depth fundamental credit research, and that our clients benefit from the enhanced contemplation of these factors. We consider ESG factors alongside more traditional financial and market risk measures, recognizing that both are critical in sound investment decision-making. Understanding the combination of these factors has enabled us to better manage downside risk and identify attractive investment opportunities – helping us to create value for our clients.

Like UTAM, we believe ESG should not be a separate, stand-alone function within an investment firm. Rather, it should be embedded throughout the organization. In recognition of this, we have established a cross-functional ESG Committee, which is chaired by our Chief Investment Officer. The Committee also includes RPIA's Head of Portfolio Management, Head of Research, Risk Committee Chair and Chief Financial & Operating Officer, as well as representatives from each of our other business units. The Committee has a dual mandate of overseeing RPIA's ESG philosophy and framework while also encouraging the entire firm to keep evolving our thinking and processes so that we can continue to demonstrate RI leadership in fixed income investing.

We are also integrating ESG factors into how we operate as a business. The ESG Committee is performing a self-assessment of our firm using the same ESG factors we use to analyze the issuers in which we invest. This is helping us identify ways to improve our ESG integration across both investment and corporate activities.

Manager spotlight: RPIA

cont'd

RPIA and UTAM developed the RP Corporate Index Plus (RPCIP) Fund in 2013 as an index outperformance mandate. Since inception, it has been a top-decile performer among Canadian corporate bond mandates (reported relative to the eVestment Canada Corporate Fixed Income Universe), with strong outperformance relative to its benchmark (the FTSE Canada All Corporate Bond Index). In 2019, RPIA and UTAM began discussing how we could build on the success of RPCIP with a similar customized mandate that would, in addition, require the portfolio to have a significantly lower carbon intensity than its benchmark. We collaborated closely on the design of the new mandate, with each of us sharing best practices in analyzing ESG factors and carbon emissions criteria as they applied to fixed income portfolios and global corporate bond issuers.

We launched the resulting portfolio, RP Corporate BBB Index Plus Fund, in January of 2020. It actively invests across global corporate bond markets to build a portfolio with substantially lower carbon intensity (emissions per million dollars of sales) than the strategy's benchmark (the FTSE Canada All Corporate BBB Bond Index). We are confident that this will help drive risk-adjusted outperformance over the long term. Since January, the market-value-weighted carbon intensity of the portfolio of companies in the fund has been on average more than 50% lower than that of the benchmark companies. This composition of issuers has not only produced meaningful outperformance (as market participants reward issuers with low carbon footprints or viable plans to reduce carbon emissions), but it has also resulted in a portfolio that we believe is better positioned to manage future downside risks.

"Since inception, the RP Corporate BBB Index Plus Fund has been on average more than 50% below its benchmark in greenhouse gas emissions, as measured per million dollars of sales, while meaningfully outperforming. This is a testament to the importance of ESG and responsible investing considerations in driving high-quality investment returns."

– Michael Quinn, Chief Investment Officer, RPIA

The portfolio proactively invests in companies with a strong track record of reducing GHG emissions or credible plans to do so in the future. We apply our in-depth experience of global corporate bond markets to engage with issuers around the world on the importance of carbon reduction and disclosures, as well as broad ESG considerations. On the next page, we provide an example of one of our engagements.

To ensure that reporting produced under this mandate will be consistent with best practices, RPIA has endorsed the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and intends to follow the TCFD framework when reporting on this new portfolio.

Like UTAM, we believe that taking ESG considerations into account reduces investment risk and helps identify investment opportunities, which improves the quality and sustainability of returns. Our integration of ESG considerations into our investment process and the management of our company continues to advance, and we are fortunate to have a strong partner in UTAM.

2019–2020 Responsible Investing Report

Manager Selection

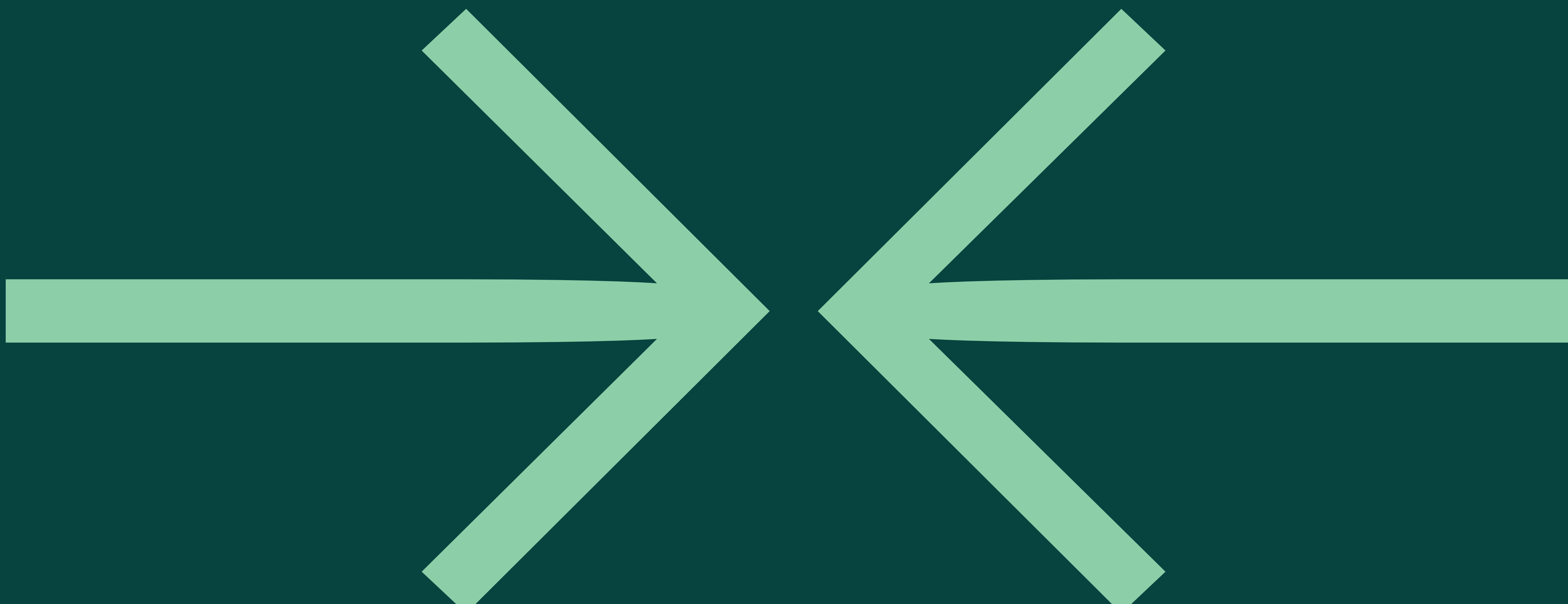
Guiding Principles

RPIA engagement example: Medical Properties Trust

MPT is a real estate investment trust company and a global leading provider of real estate capital to hospitals. RPIA was introduced to MPT's management team during a debt issuance roadshow. As RPIA's Credit Research team evaluated the opportunity, we proactively engaged the management team with questions about, and suggestions for improvement on, their ESG-related information. Through this active engagement, MPT's management provided details about the company's ESG strategy and listened to comments on our ESG and investment analysis, which facilitated increased comfort with our investment thesis.

In part due to RPIA's engagement, MPT has dedicated a section on its website to educating investors on its corporate responsibility initiatives. This includes active engagement with its largest tenants, focusing on implementing and improving environmentally sustainable practices; spotlighting environmental sustainability goals from leading tenants; communicating its own statistics on environmental impact, and diversity and inclusion; and presenting transparent company policies on ethics and governance. Most recently, MPT established a formal ESG committee and incorporated ESG performance measures into its executive compensation program, ensuring accountability.

"MPT has been at the forefront of corporate and social responsibility since its founding in 2003," said Edward K. Aldag, Jr., MPT's Chairman, President and Chief Executive Officer. "MPT's hospitals provide high-quality care to millions of patients in the United States and around the globe annually, and the company has been fully committed to its communities and its people. Through engagement with investors such as RPIA, MPT has enhanced the visibility of its ESG policies and initiatives. We are committed to making a positive difference in the communities in which we operate. We run, and encourage our tenant operators to run, all aspects of operations with environmental and social sustainability in mind."



How we engage with companies and exercise our voting rights

AS WE SYSTEMATICALLY APPLY AN ESG LENS TO OUR INVESTMENT activities, we engage with companies on ESG issues. Our engagement can be through direct consultation with boards and management or, more typically, through formal and informal collaborations with other institutional investors. We also work with specialized engagement service providers to extend our reach as they represent significant institutional investor assets globally. In 2017, we began using the reo® (responsible engagement overlay) service of BMO Global Asset Management; since August 2019 our engagement services have been provided by EOS at Federated Hermes.

In all of these engagement activities, one of our key goals is to strengthen accountability on the ESG-related issues that are increasingly vital to companies' effective operations, risk management and long-term performance. We also seek a better understanding of companies' positions on ESG matters and share our views, aiming to improve the management of ESG risks and opportunities across U of T's portfolios.

As an active owner, we also bring a responsible investing view to the exercise of shareholder voting rights for the public equity securities in our Pension and Endowment portfolios. In the past, we delegated proxy voting to our investment managers, reviewing their voting records and policies annually; since 2016, where possible, we have directed their voting practices with a policy that takes ESG factors into account.

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 fully embrace engagement as part of our approach because we believe that sound management of ESG risks and opportunities at companies is essential for long-term outperformance.

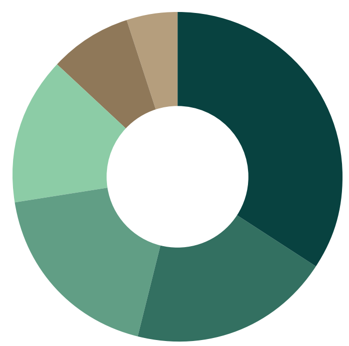
Given our size and our practice of investing through third-party investment managers, we typically undertake engagement activities as part of formal and informal collaborative groups. We believe that the collective influence of like-minded investors with substantial combined holdings will typically lead 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, which promotes sound governance practices to the boards and management of issuers in Canada.
- Through our 2017 commitment to Climate Action 100+ (see page 30), 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 35), 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 that have gender imbalance on their boards.

We augment these efforts – particularly with regard to issuers outside Canada – by utilizing the services of one or more specialized engagement service providers. By adding these services to our multi-pronged engagement approach, we leverage the influence of a larger asset base, extending the reach of responsible engagement to represent our ESG concerns to issuers globally.

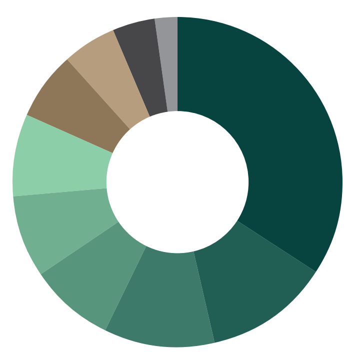
The following graphics summarize our 2019 engagement activities by our engagement service providers and through the Canadian Coalition for Good Governance for companies in the Pension and Endowment portfolios. All of the case studies that follow relate to 2019 engagement activities.

Companies engaged by country/region



Europe	234
United States	135
Asia (excluding Japan)	127
Canada	99
Japan	54
Other	34

Companies engaged by issue



Corporate governance	604
Labour standards	218
Environment	191
Environmental standards	147
Strategy, risk and communication	144
Social and ethical	138
Climate change	120
Human rights	95
Business conduct	71
Public health	37

Companies may have been engaged on more than one issue.

Companies engaged	Countries covered
683	42

Engagement case studies

As noted earlier, UTAM has appointed EOS at Federated Hermes ("Hermes"), a leading provider of stewardship services, to engage with public companies on a global basis. Below we include two case studies provided by Hermes with respect to engagements with companies in the Pension and Endowment portfolios.

Tencent

Tencent, founded in 1998, is one of the world's largest technology companies. Its businesses include value-added services across communications and social platforms, games and digital content, online advertising as well as mobile payment, FinTech and cloud services. Tencent promotes technological innovation and the internet industry with partners in various areas, such as artificial intelligence (AI) and smart industries in a wide range of sectors including: education, finance, healthcare, municipal services, retail and transportation.

We initiated engagement on board diversity after we strengthened our corporate governance principles for the mainland China and Hong Kong market at the start of 2019. We met the senior legal counsel and wrote to the company's chair to call attention to the amended Hong Kong Corporate Governance Code of July 2018, which set higher expectations on the board nomination process and on diversity. We also highlighted that in October 2018 the chief executive of Hong Kong called for all listed companies to appoint more women as board members. In early May 2019, we received confirmation that the board acknowledged that gender diversity throughout the organization should be improved. In August 2019, the company successfully appointed a female director.

Tencent continues to implement its board diversity policy to ensure that the board has the appropriate balance of skills, experience and diversity of perspective to support and take the company forward. We continue to engage on its broader diversity agenda under human capital management, which is a material issue in the technology industry, and look for opportunities to set more specific targets at the executive management level.

Hyundai Motor

Hyundai Motor is a South Korean manufacturer of automotive vehicles, which is also engaged in financial and other businesses. Including its approximately one-third share in KIA Motors, it is one of the world's largest vehicle manufacturers, selling over seven million vehicles in 2018, over 50% of which were sold overseas.

In our meeting with the newly appointed lead independent director in 2015, we raised concerns as to whether the independent directors displayed the requisite balance of skills and experience for a major international company. We followed this up with a series of meetings in Seoul from 2016, which included pressing for an externally facilitated board evaluation. We also suggested that the company allow shareholders to propose candidates to the nomination committee. We proposed that the company develop a self-assessed board director skills matrix as a means of triggering improved diversity.

Over the next three years, we questioned vehicle sustainability performance, including at a meeting with the independent chair in 2018. The same year, the company announced it would seek shareholder nominations for an independent director and conduct an internal board evaluation. In early 2019, a team of five external governance specialists reviewed a range of candidates suggested by shareholders; this exercise helped to identify skills gaps in the current board. The subsequent election at the AGM of one of these candidates and others nominated by the company has materially improved relevant skills and experience. In our meeting with the new shareholder-nominated independent director, we were

Engagement case studies
cont'd

comforted by his clear understanding of shareholder concerns about the need to strengthen minority protection, and by the proposals he had made to improve board effectiveness.

The company has also made good progress on improving the sustainability of its vehicles, including the launch of lower-emissions models and the creation of an ESG taskforce. We will continue to assess the effectiveness of the board, press for the appointment of the first female director and argue for an external board evaluation. We will also monitor improvements in overall fleet emissions to ensure that the company makes progress against its peers.

Facilitating collaborative action on climate change

At Hermes, we have actively engaged with some of the world's largest emitters of greenhouse gases, asking for development of more sustainable long-term business models, reductions in greenhouse gas emissions and improved governance and disclosure. A key pillar of our engagement strategy is to support and facilitate effective collaborative engagement. Working together with global investors helps to develop our approach to engagement and explore solutions.

Hermes' active ownership strategy seeks tangible corporate outcomes such as the setting of science-based targets, conducting climate-risk stress tests, linking executive pay to the achievement of climate change outcomes and enhanced disclosure. We engage with a broad range of companies on climate change across Asia, North America and Europe, making full use of the size and breadth of our stewardship team.

Approaches to active engagement

Hermes has used a number of noteworthy approaches in furthering our active engagement strategy, using a broad range of engagement tools in pursuit of achieving engagement objectives. In 2018–2019, these included:

- Facilitating collaborative engagement on climate change with a broad range of companies across different sectors and regions, working alongside investors in the initiative to develop the engagement strategy and coordinate the agenda of engagement meetings between the support group of nominated investors and senior executives.
- Sharing best practices on climate change with companies across different geographies, including Petrobras, PetroChina and Sinopec.
- Attending annual shareholder meetings, raising climate change at seven such meetings in 2018 and six in 2019 (Anglo American, BP, Centrica, Daimler, General Motors and Volkswagen) to promote action on climate change.

Success against objectives

Notable positive outcomes at companies following collaborative engagement supported by Hermes include:

- Anglo American announcing greenhouse gas targets to 2030, set using a science-based methodology.
- Centrica announcing the ambition to help its customers reduce emissions by 25% by 2030, and to develop a path to net zero by 2050.
- Chevron improving disclosure of its portfolio resilience to climate change.
- Daimler and Volkswagen announcing the ambition or goal for all new car sales to be carbon neutral by 2040.
- Maersk setting the goal to reach carbon neutrality by 2050.
- PetroChina improving disclosure of its climate change risks and opportunities, including its plans to contribute to the goal of limiting climate change to below two degrees Celsius.

Building on this progress to date, which reflects the collaborative work of many investors, Hermes, on behalf of our clients, will continue to actively encourage some of the world's biggest polluters to reduce emissions and take tangible action on climate change.

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 interests of our client. We also expect our third-party investment managers to act in the best interests 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 the ISS Sustainability Guidelines were applied in 2019.

Our proxy voting record

In 2019, we voted at nearly 200 meetings representing over 2,000 proposals and agenda items put forward by either management or shareholders. In 9% of cases, we voted against management's recommendations.

Meetings voted by country/region

Canada	58%
US	33%
Europe	4%
Asia	2%
Other	3%

Shareholder proposals

In 2019, all of the shareholder proposals that we voted on were opposed by management. However, we voted in favour of approximately 70% of the proposals. Unfortunately, only 4% of the shareholder proposals passed, but encouragingly almost half received over 20% of votes in favour and 17% received over 30% of votes in favour.

In the table below, we highlight the categories of shareholder proposals that represented most of the proposals voted on in 2019. We also provide our position with respect to each voting matter.

Voting matter	Our position
Encouraging disclosure on environmental and social matters	We voted to support proposals for increased accountability and disclosure on environmental matters.
Proxy access and other voting and governance matters	We voted to support proposals that give shareholders a meaningful say in director nominations and call for improved proxy access.
Compensation matters	We voted in favour of proposals that would improve compensation disclosure and alignment of interests between executives and shareholders, and proposals that address gender pay gaps.
Independent board chair	We voted to support proposals that reinforce strong board leadership.

2019–2020 Responsible Investing Report

Guiding Principles

How we lead and work with other responsible investors

UTAM DEMONSTRATES LEADERSHIP THROUGH OUR PARTICIPATION IN A wide range of responsible investing boards, committees and forums, where we share our insights and experiences with peers from around the globe. In 2019 and through the first half of 2020, we gave presentations at key events and engaged in ongoing discussions with many other organizations on how UTAM is investing responsibly. We also reinforced and expanded our leadership role by collaborating on joint initiatives and advocacy efforts across Canada and around the world. All of our efforts reflect a fundamental insight: by joining forces with like-minded responsible 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 $US54 trillion in over 45 countries. The organization is celebrating its 25th anniversary this year. We have 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.

Canadian Coalition for Good Governance

In 2019, UTAM's President and CIO, Daren Smith, 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. 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 companies include 100 "systemically important emitters," accounting for two-thirds of annual global industrial emissions, alongside more than 60 others. Officially launched on December 12, 2017 – the second anniversary of the Paris Agreement – this five-year initiative seeks to secure the following key commitments from the boards and management of the 100+ companies:

- 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 objective of limiting global average temperature gains to less than two degrees Celsius above pre-industrial levels.
- Provide enhanced disclosure practices – 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.

In 2019, UTAM continued to participate with other investors in engagement activities with a number of the companies, writing letters and having calls with company management.

In September 2019, Climate Action 100+ published its first progress report, providing a sector-by-sector analysis of progress to date. At that time, this coalition had 373 investor signatories representing US$35 trillion in assets under management.

Climate Action 100+ has seen great progress over the course of 2019 and into 2020, with a number of the 161 focus companies making both public and private commitments that align with its objectives. Here are just a few examples of positive company actions highlighted by Climate Action 100+ in its 2019 Progress Report:

- **Royal Dutch Shell PLC** (Shell) is a British-Dutch multinational oil and gas company. Engagement with Shell has resulted in industry-leading commitments, including reduction goals for the full range of its carbon emissions. After the Climate Action 100+ progress report was published, Shell set a target to reduce the net carbon footprint of its energy products around 30% by 2035, and around 65% by 2050.

- **Duke Energy Corporation**, one of the largest electric power holding companies in the United States, announced an update to its carbon transition plan, committing to a 50% reduction in GHG emissions by 2030 and net-zero emissions by 2050. The company also announced it would transition away from coal and invest in solar, nuclear and other carbon-free technologies.

- **Volkswagen** (VW) is a German automaker, and one of the world's largest automobile companies by sales. Following engagement by Climate Action 100+, VW announced a goal to make its vehicle fleet carbon neutral by 2050 and launch nearly 70 electric vehicles by 2028.

- **HeidelbergCement**, headquartered in Germany, is the world's second-largest cement maker. It has committed to becoming carbon neutral by 2050. It is the first cement company to set a verified science-based target to 2030, committing to reduce Scope 1 GHG emissions by 15% per ton of cementitious materials, and Scope 2 GHG emissions by 65% per ton of cementitious materials, by 2030 compared to 2016 levels.

Other responsible investing activities in 2019

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 September 2019, UTAM, on behalf of the University of Toronto, joined more than 500 other institutional investors, representing well over US$35 trillion in assets, in signing the **Global Investor Statement to Governments on Climate Change**. The statement strongly urged governments to implement the actions set out by the Paris Agreement on climate change "with the utmost urgency." It calls upon G7 and G20 governments to do three things:
  - Update and strengthen national commitments to the emissions reduction goal of the Paris Agreement, completing the process no later than 2020.
  - Accelerate, through specific policy and legislative changes, private sector investment in companies that are driving the low-carbon transition.
  - Commit to improve climate-related financial reporting by supporting globally recognized standards and recommendations.

- In May 2019, we joined 57 other investment organizations representing approximately US$7.9 trillion in assets under management in calling for the palm oil industry to adopt and implement No Deforestation, No Peat and No Exploitation policies. The investors have endorsed a statement, **Investor Expectations on Sustainable Palm Oil**, which applies to companies across the palm oil value chain. The statement, released in April 2019, was coordinated by the Principles for Responsible Investment (PRI) with input from members of the PRI Investor Working Group on Sustainable Palm Oil.

- In September 2019, we joined fellow investors in expressing deep concern over the escalating crisis of deforestation and forest fires in the Amazon rainforest in Brazil and Bolivia. In total, 230 investors – representing approximately US$16.2 trillion in assets under management – have become signatories. The statement is part of the **Investor Initiative for Sustainable Forests** (**IISF**). The IISF, a working group of Ceres' Investor Network and a joint collaboration with the PRI, aims to raise awareness of deforestation's potential financial risks and its environmental and social impacts. The IISF also fosters investor engagement with companies to eliminate deforestation from company supply chains.

- In September 2019, we lent our support to **Time to Act: Facing the Risks of a Changing Climate**, a public statement released by the Canadian Institute of Actuaries (CIA). The statement calls on governments, business leaders and investors to take immediate action towards meeting the Paris Agreement target of limiting increases in global average temperature to well below two degrees Celsius above pre-industrial levels.

  To help manage the financial impacts associated with climate risks, Canada's actuaries call on:

  - The federal government to oversee the development of national data collection and disclosure related to the financial impacts of climate-related events such as floods, windstorms and wildfires.
  - All levels of government to require all entities to implement financial disclosure of climate-related risks and opportunities under the Task Force on Climate-related Financial Disclosures (TCFD) by 2021 and for corporate entities to adopt the TCFD framework voluntarily as soon as possible.
  - Investors and business leaders to include environmental, social and governance (ESG) factors in their decision-making.

  Actuaries are risk management experts who use data modelling and statistical methods to measure and manage the financial impacts of uncertain events and scenarios. UTAM's President and Chief Investment Officer, Daren Smith, is an actuary.

  "Quantifying and disclosing the financial impacts of climate change are important ways to help limit the increase in global temperatures in line with the Paris Agreement and to help Canadians adapt to a changing climate," says the CIA. "Now more than ever, we see the urgency for increased action on data collection, climate-related financial reporting, and best practices for climate-sensitive investing."

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 President and Chief Investment Officer, Daren Smith, joined the board of the Canadian Coalition for Good Governance (CCGG) in 2019. He has since been appointed Vice-Chair of the CCGG's Environmental & Social Committee. Daren also serves on the Public Policy Committee, and he was previously on the Member Engagement Committee. As a board member, Daren participates 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 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). As of June 2020, Lu Yao, a senior member of our investment team, has taken 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 operating activities ↘ continue to be carbon neutral

UTAM as a corporation is substantially carbon neutral. In 2019, we continued our program of purchasing carbon offsets to mitigate the carbon footprint of our business travel, our electricity and gas consumption, and our paper usage. 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 2019, we purchased carbon offsets representing 268 tonnes of CO_2 equivalent.

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/initiatives/investor-group
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 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 UTAM engages 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

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.

We are an active member of the IEN and have participated in a number of 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 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

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 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 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

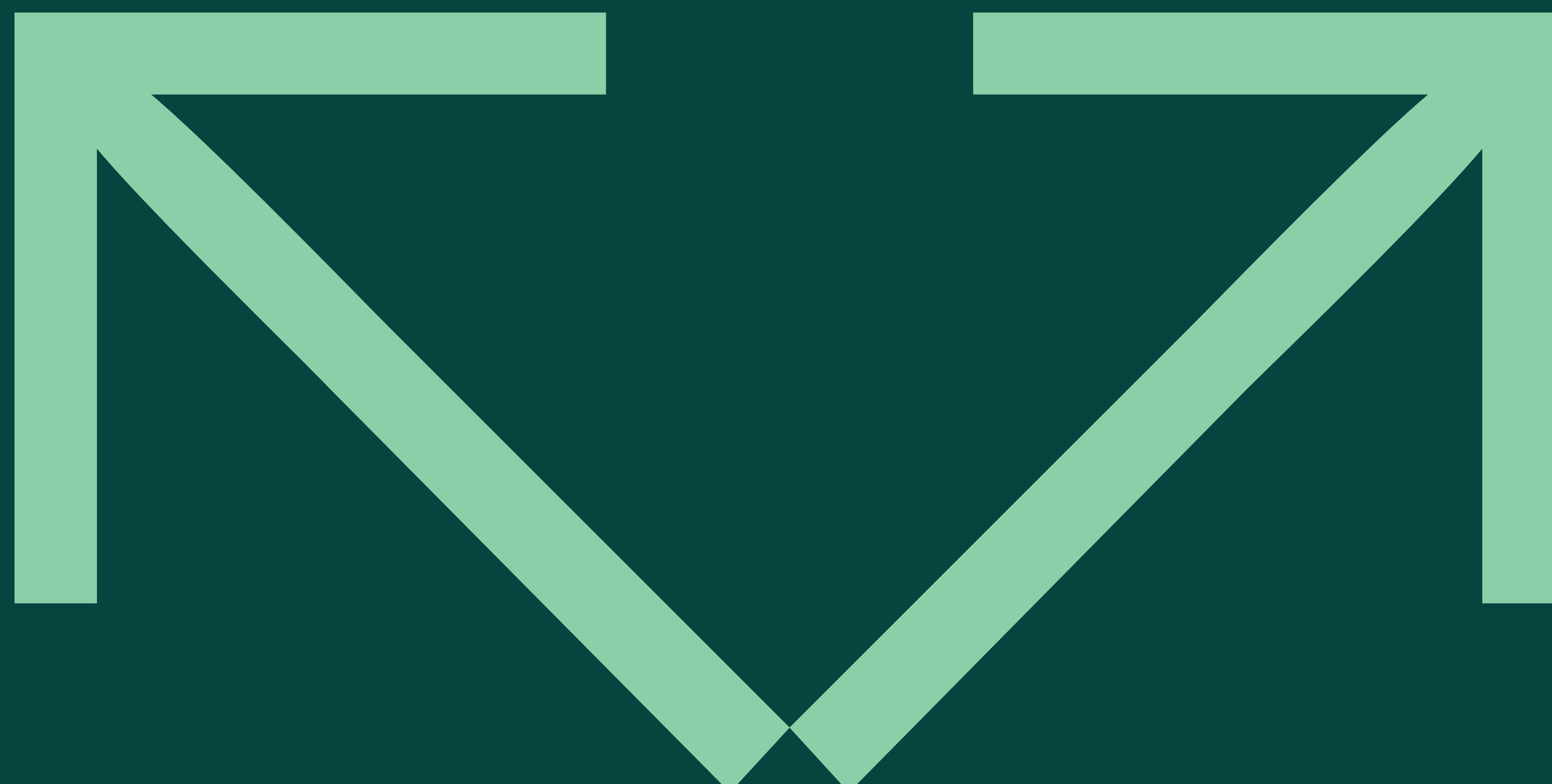
Standards Board for Alternative Investments

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

sbai.org
Member since 2018

Guiding Principles



How we measure and manage climate-related risks

AS THE GLOBAL EFFORT TO ADDRESS CLIMATE CHANGE RAPIDLY EVOLVES, institutional investors like UTAM have an important role to play. Over the past several years, we've worked to better understand and manage our investment exposure to climate-related risks and opportunities. In early 2020, we further expanded our approach to measuring and managing climate-related risks by announcing a 40% carbon footprint reduction target and our support, on behalf of the University of Toronto, for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

U of T was the first Canadian university to adopt the TCFD's guidance with respect to reporting on its Pension and Endowment portfolios. As of September 2020, more than 1,440 public and private sector organizations worldwide – representing a market capitalization of over US$12.6 trillion – have supported the initiative. This section of the report contains our inaugural disclosures following the TCFD recommendations.

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 has oversight of climate-related risks and opportunities. It approves our Responsible Investing (RI) Policy and oversees our 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, including this one. 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), all of 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. UTAM has 29 employees (as of June 30, 2020), and more than 50% of staff are involved in RI activities.

Our CIO and other senior executives 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 addition to 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 UTAM's 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. 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 our portfolio, 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 will emerge but are likely to be more relevant 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 have devoted 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 groundbreaking 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 UTAM 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 Responsible Investing Policy. Consideration of ESG factors is built into 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 28), 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.

Recommended climate-related financial disclosures

cont'd

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 developed exposure-based reporting and climate scenario analysis tools, which we have integrated into our investment risk management framework. Exposure-based reporting by sector and country 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. In addition to scenarios based on academic literature, we also utilize the following 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 initial model focused on transition risk scenarios and portfolio impacts expressed as Value at Risk. This allows us to determine the potential performance impact on the portfolios of various climate scenarios and whether the impacts are expected to be temporary or permanent. In the past two years, we expanded this analysis by integrating physical risk scenarios, developing scenario attribution by country and sector, and measuring portfolio resilience under a two-degree scenario. One such external tool is the Paris Agreement Capital Transition Assessment (PACTA), which allows us to assess the overall alignment of the portfolio 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, company and time horizon. 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 detailed discussions and 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-rated 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 formal and informal 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

We have committed to reducing the carbon footprint (tonnes of CO_2 equivalent per million dollars invested) of the Pension and Endowment portfolios by 40% compared to 2017 levels by the end of 2030.

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 the energy and utilities sectors. By identifying the climate-related risks associated with actual and prospective investments (as part of our broader responsible investing framework), and through our stewardship 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 will deploy 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. Moreover, as part of our ESG-based framework for responsible investing, we will continue to engage with companies on climate change 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.

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 Corporate for Good Governance (CCGG). In 2020, we also endorsed the stewardship principles of the International Corporate Governance Network.

CCGG's Seven Stewardship Principles
Institutional investors are encouraged to apply the following stewardship principles:

Principle 1 – Develop an approach to stewardship
Principle 2 – Monitor companies
Principle 3 – Report on voting activities
Principle 4 – Engage with companies
Principle 5 – Collaborate with other institutional investors
Principle 6 – Work with policy-makers
Principle 7 – Focus on long-term sustainable value

Detailed guidance is available at ccgg.ca

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 on 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 typically undertake engagement activities as part of formal and informal collaborative groups. We believe that the combined 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 ("Hermes") for its global corporate engagement service. Hermes prides itself on having a consultative process with clients when determining its engagement priorities, and UTAM is an active participant in this process. Climate change has emerged as the top

Recommended climate-related financial disclosures

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engagement priority, and 2019 saw over 190 environment-related engagements, most of which were climate-related. See page 25 for examples of climate-related engagements conducted by Hermes on our behalf.

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 have also written letters to the Government of Canada asking that it update and strengthen our national commitments to the emissions reduction goal of the Paris Agreement, and that it take immediate and effective measures to eliminate child labour by 2025, as well as forced labour, human trafficking and all forms of modern slavery. 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.

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. We believe that 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 any areas of concern (such as high allocations to poorly scoring countries). We also evaluate these scores against the benchmark scores to identify any 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.).

HSBC Climate Vulnerability Scores: This analysis scores countries on their vulnerability to climate change. The scores are determined by taking into account the following factors: 1) physical impacts; 2) sensitivity to extreme weather events; 3) energy transition risks; and 4) a country's potential to respond to climate change.

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, 2019. 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. If the two portfolios diverge in the future, we will calculate a separate footprint 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[1]) 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, 2019.

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 carbon emissions in the Pension portfolio since we started to measure total portfolio carbon emissions and the cumulative reduction since 2017. As the table indicates, total emissions have decreased by 12.9% 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%

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 86.8% of total emissions, with the top five accounting for 67.6%. The country with the largest share of emissions is the United States (28.2%), followed by China (12.3%) and Canada (11.6%).

Country	Share of emissions	Share of market exposure
United States	28.2%	42.9%
China	12.3%	9.2%
Canada	11.6%	11.7%
Switzerland	9.3%	2.5%
India	6.2%	1.3%
Spain	5.3%	0.8%
Japan	4.7%	5.0%
Russia	3.1%	0.5%
United Kingdom	3.1%	4.6%
Germany	2.9%	2.3%
Total for top 10	**86.8%**	**80.9%**

[1] 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.

Recommended climate-related financial disclosures
cont'd

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, industrials, utilities and energy.

Sector	Share of emissions	Share of market exposure
Materials	30.0%	4.1%
Industrials	24.6%	11.6%
Utilities	20.6%	2.1%
Energy	14.0%	4.4%
Consumer discretionary	4.1%	14.3%
Information technology	2.1%	16.4%
Consumer staples	2.0%	5.4%
Financials	1.0%	15.5%
Communication services	0.6%	7.4%
Health care	0.6%	9.3%
Real estate and other	0.5%	9.6%
Grand total	**100.0%**	**100.0%**

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

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

The Pension portfolio's carbon footprint as of December 31, 2019, is 109.3 tCO_2e per million dollars invested.

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

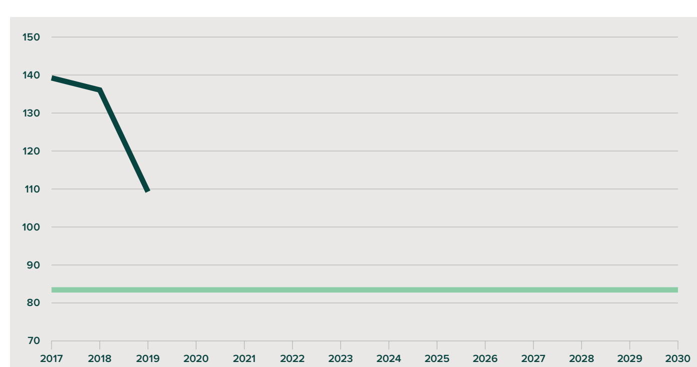
As previously mentioned, we have set a target to reduce the carbon footprint of the Pension and Endowment portfolios by 40% compared to 2017 levels.

The Pension portfolio's carbon footprint as of December 31, 2019, is 109.3 tCO_2e per million dollars invested, a reduction of 21.5% from 2017. More than half of the reduction (60%) came from a decrease in carbon emissions, which, as shown above, have declined 12.9% since 2017. We are approximately halfway to our carbon footprint reduction target of 40% compared to 2017 levels by 2030.

Portfolio carbon footprint

Starting point 2017	Results 2019	Target 2030
139.2 tCO_2e/$M invested	**-21.5%** or 109.3 tCO_2e/$M invested	**-40%** or 83.5 tCO_2e/$M invested

Carbon footprint* over time compared to 2030 target



Carbon footprint ■ Target

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

UTAM team

As of June 30, 2020

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 more than 25 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.

Daren M. Smith CFA, CAIA, FRM, FCIA, FSA, MA, MSc
President and Chief Investment Officer

Investments

Public Markets

Chuck O'Reilly CFA, CAIA
Head of Public Equities

Kelvin Hu CFA, FRM
Associate Portfolio Manager

Lu Yao CFA, CAIA, FRM
Associate Portfolio Manager

Private Markets

Jean Potter
Head of Private Markets

Victor Zheng CFA, CPA, MBA
Senior Associate

Lakshman Namburi MSc
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Fixed Income

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Risk and Research

Doug Chau CFA, PRM, MSc, PhD
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Ivan Siew CFA, FRM, MFin
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Senior Analyst

Robin Warner CFA
Senior Analyst

Payton Liu MA
Analyst

Ye Long MMF, PRM
Analyst

Angie Wu
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Operations

Lisa Becker FCA (ICAEW)
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Chief Compliance Officer

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Director, Operations

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Diane Jimenez
Office Manager

Stephanie Zed
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Continuing the conversation

THIS ANNUAL REPORT IS PART OF A BROADER SUITE OF PRINT AND WEB-based materials that reflect our commitment to clear, timely and transparent communications. Maintaining an open dialogue with the University of Toronto and the wider community of UTAM stakeholders is vital to our collective success. We encourage you to visit our website at utam.utoronto.ca to learn more about our responsible investing approach.

2019–2020 Responsible Investing Report
Guiding Principles

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