



FOR INFORMATION

PUBLIC

OPEN SESSION

TO: Business Board

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DATE: January 8, 2015 for January 26, 2015

AGENDA ITEM: 13

ITEM IDENTIFICATION:

Responsible Investing Committee 2013-14 Annual Report.

JURISDICTIONAL INFORMATION:

The Business Board is responsible for financial matters including financial policy and investment oversight. The Responsible Investing Committee is not a governance committee but is advisory to the Chief Financial Officer. In accordance with the Committee's terms of reference, its annual report is provided to the Business Board for information.

GOVERNANCE PATH:

1. Business Board [For Information] (January 26, 2015)

PREVIOUS ACTION TAKEN:

The annual report for the 2012-13 year was provided to the Business Board at its meeting on January 27, 2014.

HIGHLIGHTS:

The Responsible Investing Committee (RIC) provides a forum for interested parties at the University to discuss and express opinions on principles related to responsible investing. From time to time, the RIC may make recommendations to the University about principles of responsible investing to be considered by the Administration and UTAM. At the same time, ultimate fiduciary responsibility rests with the Governing Council of the University.

The RIC was established in 2009. A review at the end of its first three years was conducted by a working group of three members of Business Board. The working group was impressed with the work of the RIC over its first three years of operations and concluded that it should continue and be reviewed again in 2015.

The attached annual report describes the work of the RIC for 2013-14. The key effort during the past two years has been assessing the feasibility and desirability of becoming a signatory to the United Nations-backed Principles of Responsible Investment (UNPRI) and conducting an evaluation of the services provided by the Carbon Disclosure Project (CDP). This evaluative work continues into the 2014-15 year.

FINANCIAL IMPLICATIONS:

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RECOMMENDATION:

For information

DOCUMENTATION PROVIDED:

Responsible Investing Committee 2013-14 Annual Report.

Additional materials providing more detail on the evaluative work of the committee with respect to UNPRI and CDP are included in the Resources section of Boardbooks.

University of Toronto
RESPONSIBLE INVESTING COMMITTEE
c/o FINANCIAL SERVICES DEPARTMENT

2013-2014 Academic Year

ANNUAL REPORT



Prepared for: Business Board,
Governing Council

Prepared by: Responsible Investing
Committee

Draft – for approval – June 4, 2014

Updated for approval – Oct 20, 2014

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APPENDIX A – UNPRI and Carbon Disclosure Project (CDP) Feasibility Reports

EXECUTIVE SUMMARY

The Responsible Investing Committee ("RIC") is an independent committee organized to research and provide recommendations to the University of Toronto (the "University") on matters of responsible investing. The RIC is composed of a diverse group of University representatives, including faculty, staff, alumni, students and participation from senior management of the University of Toronto Asset Management Corporation ("UTAM"). The RIC reports directly to the Chief Financial Officer of the University, who passes on the recommendations of the RIC to the Governing Council and its Boards or Committees.

The RIC focused the majority of its efforts in the year on continuing to research the feasibility of becoming a signatory to the United Nations-backed Principles of Responsible Investing ("UNPRI") pursuant to the ongoing direction of the RIC. The RIC explored the Carbon Disclosure Project ("CDP") as a major research project. It also remained active in the University and responsible investing communities and continued its work in proxy voting analysis.

The UNPRI provides a framework of six basic principles, which represent a broad consensus view of what should guide responsible investing activities. More importantly, the UNPRI provides forums and a clearinghouse which facilitate investors coming together and which represents, in the opinion of the RIC, a practical and efficient means of putting these six principles into action for the University.

The UNPRI Subcommittee of the RIC was tasked with designing and completing a feasibility study to explore in greater detail the expected costs and benefits to becoming a signatory as well as potential risks and rewards. Throughout this study, the UNPRI Subcommittee worked actively with UTAM to detail an implementation plan that could practically incorporate the UNPRI into UTAM's operations.

In the winter of 2014, the General Policy on ESG Subcommittee (defined below) was also tasked with a feasibility study, surrounding the factors in becoming a signatory to the CDP.

What is Responsible Investing?

"Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors, and the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems. It is driven by a growing recognition in the financial community that effective research, analysis and evaluation of ESG issues is a fundamental part of assessing the value and performance of an investment over the medium and longer term, and that this analysis should inform asset allocation, stock selection, portfolio construction, shareholder engagement and voting. Responsible investment requires investors and companies to take a wider view, acknowledging the full spectrum of risks and opportunities facing them, in order to allocate capital in a manner that is aligned with the short and long-term interests of their clients and beneficiaries." (UNPRI, 2014)

Not just a passing fad: Currently, assets under management represented by UNPRI signatories is \$34 trillion (or 15% of the world's investable assets), a significant increase from \$4 trillion when the UNPRI was launched in 2006. (Source: UNPRI, 2014)

Why Responsible Investing at U of T?

The University is a fiduciary to its pension and endowment fund beneficiaries. This means not only seeking to maximize investment returns but also the growing recognition that:

"...pension trustees will increasingly be obligated, as fiduciaries, to (a) demonstrate respect for social norms, (b) give beneficiaries a voice in decisions that affect their interests, and (c) think and act strategically and collectively. This effectively positions pension fund fiduciaries with public responsibilities to address long-term social concerns and imposes on them a duty to collaborate with each other in so doing."

(Edward Waitzer and Douglas Sarro, *The Public Fiduciary: Emerging Themes in Canadian Fiduciary Law for Pension Trustees*, 91 *The Canadian Bar Review* 165 (2013))

The Proxy Voting Subcommittee also continued its work reviewing the voting record of external investment managers engaged by UTAM to manage the University's investments. The proxy voting review focused on the exercising of voting rights in general and votes related to ESG factors in particular, especially votes in respect of those proxies related to executive compensation. This year's review also included analyzing the proxy voting policies of the external investment managers for consistent approaches across policies.

ABOUT THE RESPONSIBLE INVESTING COMMITTEE

Mandate of the RIC

The RIC was created in April 2009 and serves as an autonomous policy advisor to the University, and its affiliates, on how to comprehensively integrate ESG factors into its investment strategy. The RIC accepts and conducts research into any synergies between the long-run time horizon of the University's investment portfolio, the investment portfolio's acceptable risk tolerance and active promotion of improved business standards in the areas of environmental sustainability, human rights and

employment, and corporate governance to ultimately drive superior performance returns. Its mandate is to provide a forum for the vigorous academic debate of ESG risks and opportunities and to potentially recommend ways through which ESG can be incorporated into the University's investment portfolio management.

Composition of the RIC

The RIC attempts to facilitate a diverse perspective on ESG factors with at least one of the eight positions drawn from all four of the primary University communities: students, faculty, administrative staff, and alumni. Members are encouraged to bring their own expertise and their experiences so as to enrich the RIC forum. In order to facilitate collaboration and the exchange of information, representatives from the Financial Services Department and UTAM actively participate in the committee's proceedings.

Refer to the *Membership* section of this Report for a complete list of the ten RIC members in 2013-2014 and their contact information.

Subcommittees of the RIC

The research projects and awareness efforts directed by the RIC are broken down into four subcommittees, each seeking to cultivate a better understanding of ESG integration and implementation within the University amongst academics, industry, and the larger community:

The United Nation's Principles for Responsible Investment Subcommittee ("UNPRI Subcommittee"):

This group focuses on the common and specific institutional benefits and challenges to sign on to and implement this UN-sponsored initiative, which collectively represents approximately \$34 trillion (USD) in assets as of June 2014. Utilizing primary research and consultations with PRI signatories and non-PRI signatories as well as the Secretariat, the UNPRI Subcommittee's emphasis in 2013-2014 has been on identifying and quantifying what successful implementation of the Principles involves, including resource needs versus capacity. The UNPRI Subcommittee has also identified potential costs and reputational impacts involved with becoming a signatory.

The General Policy on ESG Subcommittee (“ESG Subcommittee”): This group coordinates research into the different quantitative and qualitative methods of valuating the materiality of ESG factors (e.g. regulatory, legal, reputational and operational) and how it can inform future ESG integration into the investment policy. It focuses on ESG factors within businesses that pose risks and opportunities, assesses the long-term financial impact of shareholder collaboration and the purported effectiveness on any intended social outcomes. This group leads the feasibility study into becoming a signatory of the CDP and, in collaboration with UTAM, is designing a multi-year implementation plan.

The Proxy Voting Subcommittee: This group reviews the University's proxy voting record over the previous year, analyzes the results, and collaborates with the ESG Subcommittee to make recommendations on ways in which to engage external investment managers in the discussion on ESG integration and their capacity and/or competency to conduct proper due diligence in evaluating ESG issues.

The Community Outreach and Issues Identification Subcommittee: In addition to creating awareness on-campus about the RIC, this group canvasses the University community to ascertain a better understanding of ESG issues considered most important by the University's stakeholders.

These subcommittees are constituted of student and alumni volunteers organized into different Responsible Investment Working Groups (“RIWGs”) operating as research groups that focus on topical issues identified by the RIC. In its 2013-14 term, at the behest of the RIC and in close consultation with Sheila Brown (Chief Financial Officer, University of Toronto) and William Moriarty (Chief Executive Officer, UTAM), the RIC focussed its work efforts on feasibility studies related to the UNPRI and the CDP.

Further discussion of the output of these subcommittees in the 2013-2014 year and future goals can be found in the subsequent sections of this Report.

Our Partner

During the year, the RIC collaborated extensively with UTAM. Not only did UTAM provide ongoing research but also demonstrated a significant commitment to furthering the objective of the RIC. Both Bill Moriarty and Lisa Becker attended the meetings of the RIC, continued a rich dialogue throughout the year, arranged meetings with external investment managers to explore responsible investing issues, consistently brought forth suggestions to guide the work of the subcommittees and proposed a set of responsible investing principles by which UTAM itself would be governed if approved or endorsed by the University.

ACTIVITIES OF THE RESPONSIBLE INVESTING COMMITTEE

The RIC was active throughout its fifth year and embarked on two major feasibility studies for the University. In addition to working closely with UTAM and the CFO, the RIC benefitted greatly from a core group of volunteers who dedicated countless hours in furtherance of the RIC's objectives. We thank our student and alumni volunteers who have been critical in the formulation of our studies surrounding the UNPRI and the CDP.

United Nations-backed Principles of Responsible Investment (UNPRI)

Having passed a resolution in November 2011 that recommended that the University become a signatory to the UNPRI, the RIC was again active during the 2013-2014 academic year to assess the implications of becoming a signatory and the work effort that would be involved to implement and sustain signatory status. Given that the resolution was passed in November 2011 it was incumbent upon the RIC to continue the necessary due diligence to formulate a comprehensive implementation plan before the proposal is put before the University.

During the 2013-2014 year, the RIC continued to work in close consultation with UTAM towards the practical implementation plan that will be necessary should the University become a signatory to the UNPRI. Included in this work were consultations with several UNPRI-signatory and non-signatory investment managers during the year, constituting an acceptable peer-group to the University's fund based on factors such as size, structure, and objectives.

In June 2014, the RIC agreed after aggregating the results of these consultations that to prepare for a comprehensive review of the implications of signing onto the PRI that the following steps should be taken:

- (1) In acknowledgement of concerns of the organizational readiness of UTAM to undertake a review of PRI signatory status, and its implications, at this stage of early RI integration within UTAM that a new date of 2015-16 be set for a comprehensive RIC/UTAM review.
- (2) The RIC should continue to work closely with its UTAM partner to determine synergisms in other shareholder coalitions on their individual value and how their involvement might assist in PRI compliance or future value, notably the Carbon Disclosure Project (CDP).
- (3) To recommend that a future comprehensive review of PRI signatory status in 2015-16 is to include a mock run, to be conducted by UTAM, of the Reporting & Assessment survey so as to allow for the proper evaluation of the actual onus.
- (4) The PRI as a leading international framework on environmental, social, and governance (ESG) integration is an appropriate foundation for a General Policy on ESG policy, set to begin development in 2014-15, for future submission to the Governing Council.

These principles were passed as four RIC resolutions to guide future RIC activities towards a solution to logistical barriers and the desire of its stakeholders to become a signatory of the PRI if able to do so in an active and meaningful manner.

UTAM Principles for Responsible Investing

In June 2014, representatives of UTAM engaged in consultation with the RIC regarding its independently developed *Principles for Responsible Investing* ("the Principles"). The RIC assisted in suggesting a number of amendments that were mutually incorporated into the *Principles*. The RIC expresses its appreciation at the continued support of UTAM of the RIC's activities and its commitment to investigate the possible benefits of responsible investing within its objectives and mandate. However, these Principles require the approval of the University before they can be adopted and remain a continuing project in 2014-2015.

Carbon Disclosure Project (CDP)

The RIC also began exploring the possibility of becoming a signatory to the CDP. This initiative began with a presentation by the CDP on its value to asset owners, the extensive network of disclosure and the robust data available to asset owners to incorporate into their investment analysis. At the request of the RIC, the UNPRI Subcommittee and General Policy on ESG Subcommittee conducted research into the resources available under the CDP to asset owners and is working with UTAM to develop a multi-year implementation plan, which shall form the bulk of the 2014-2015 feasibility report.

In June 2014, the CDP Roadmap was approved to outline the primary research inquiries of the feasibility study with the RIC passing a resolution that the top three research initiatives to be investigated in 2014-2015:

- (1) **Historical Trends:** Identifying disclosure and performance trends of CDP respondents in relation to their non-CDP peers and the most common areas of improved scores.
- (2) **Industry Surveys:** Analyze the significance of industry modules as volunteer surveys to how disclosure and performance benchmarks should be assessed.

- (3) **Investor Key Performance Indicators (KPIs):** Evaluate how investor signatories are able to use and assess CDP data in decisions and what KPIs and internal benchmarks, if any, have been developed by them.

Industry and Community Engagement

The RIC continued a tradition of building networks in the investment community, ranging from shareholder groups to diverse institutional investors (private and public) that graciously participated in the PRI signatory and non-signatory interviews conducted by the RIC. The RIC remains committed to act as an open forum for the expression of ideas and information and to promote cooperation in research and awareness amongst the greater University community.

The Community Outreach Subcommittee continues to be active in developing a strong presence in the University as the means by which members of the University community may express, and bring forward, the ESG factors they consider most important. Substantial changes were made to increase the digital presence of the RIC, such as a revised simpler website and contact system, and digital awareness remains a priority item for 2014-15.

Independent Student-led, Peer-reviewed Research

The Responsible Investing Working Groups (RIWGs) of the UNPRI Subcommittee and the General Policy on ESG Subcommittee engaged a diverse group of students in research with the assistance of alumni mentors from the RIC. Students interested in pursuing future careers in this field had the opportunity to meet with business leaders through various career and network events, often held by partnership organizations at universities across the Greater Toronto Area.

Proxy Voting Analysis

The good faith efforts of UTAM to support the RIC maintains the highest professionalism including the full disclosure of proxy voting records and analyses made readily available. Representatives of UTAM actively share proxy voting related materials and industry research with the RIC that is believed might assist in its analysis and have remained easily accessible for further guidance.

ACTIVITIES OF THE UNPRI SUBCOMMITTEE

The primary focus of the RIWGs for the 2013-2014 year was an assessment of the implications of the University becoming a signatory to the UNPRI and effectively implementing it. This assessment reviewed, from the perspective of the University and within the context of UTAM, the resources available to signatories, the internal resources needed to fully-engage with the UNPRI and the reputational effects of becoming a signatory. Following its extensive work in 2012-2013, the Subcommittee completed its assessment with the following items:

What is the UNPRI?

The UN Principles for Responsible Investment were established in 2006, through an effort coordinated by the United Nations Environment Programme Financial Initiatives (UNEP FI) and the UN Global Compact.

The UNPRI currently has 1262 signatories – 274 asset owners, 802 investment managers, and 186 professional service partners. There are 51 Canadian signatories – 18 asset owners, 26 investment managers, and 7 professional service partners.

Becoming a signatory to the UNPRI means committing to the UNPRI's six principles of responsible investing, but it also grants signatories access to tremendous resources to aid implementation of the principles, including multiple forums where signatories come together to discuss and coordinate responsible investing activities.

The UNPRI's six principles of responsible investing:

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

- **Signatory Peer-group Survey:** Following a rigorous selection process determined with assistance of UTAM and the CFO, this group conducted a peer-group asset owner signatory and non-signatory survey to assess the peer-group's stance on responsible investing and the incorporation of ESG factors into their investment decision-making framework, the UNPRI services and features that are regarded as most valuable and the extent to which they engage with the UNPRI. Overall, the survey was designed to assess the value proposition of the UNPRI according to the peer-group.
- **Non-Signatory Peer-group Survey:** In conjunction with UTAM and the CFO a sample of academic investors with similar characteristics to the University's asset funds were approached. The participants had either not considered or opted not to sign on to the PRI. The survey aimed to evaluate a correlation, if any, between its reasons, ESG values, and subsequent actions (either direct or collaborative) on ESG issues. Results showed evidence of disconnect in institutions' positions and actual actions, up to and including the hiring of ESG-related analysts.
- **PRI Reporting and Assessment:** This team focused on the annual RAF reporting and worked with UTAM Chief Compliance Officer and designated RIC representative Lisa Becker, to breakdown the RAF's modules into an actionable 'mock' trial run for UTAM to conduct. The RAF changed format over the course of the year, as well as the basis for scoring. In addition, select elements of signatories' RAFs will now be publicly available.

In the winter semester, the Subcommittee was tasked along the General Policy on ESG Subcommittee with designing and completing a feasibility study on becoming a signatory or member of the CDP. For more information on this initiative, refer to this report's section on the "Activities of the General Policy on ESG Subcommittee".

In June 2014, the UNPRI Subcommittee and General Policy on ESG Subcommittee submitted their joint *PRI & CDP Feasibility Report: Our Next Steps on Engaging Shareholder Coalitions*. After a thoughtful review of the research findings of these subcommittees, the RIC concluded it was reasonable to allow time for UTAM's efforts to enhance its organizational readiness to mature under the *Principles for Responsible Investing*, if adopted, and other initiatives so that a future review could be more accurate and effective. For this reason, and due to ongoing revision to the PRI about the RAF that could substantively differentiate compliance from past years, the RIC deferred a full and comprehensive review of PRI signatory implications until 2015-16.

As the RIC decided not to seek immediate continuation of its PRI review, it decided to amalgamate the UN PRI Subcommittee into the larger General Policy on ESG Subcommittee. All outstanding obligations of the PRI Subcommittee were transferred, including the final feasibility reports for both the UNPRI and CDP.

ACTIVITIES OF THE GENERAL POLICY ON ESG SUBCOMMITTEE

Research into the PRI Feasibility Study

In the 2013-2014 year, the ESG Subcommittee supported the UNPRI Subcommittee in its research efforts in the two feasibility reports. In its supporting role of the PRI report, the ESG Subcommittee assisted in secondary research such as assisting the UNPRI in finding and expanding on relevant factors for the peer groups in the PRI signatory survey.

Research into the CDP Feasibility Study

After a discovery meeting with representatives of the Carbon Disclosure Project which it had been invited to by UTAM, the RIC directed the RIWGs to create a feasibility study of becoming a signatory of the CDP. The work of the Subcommittee entailed a comprehensive review of the services provided by the CDP, the disclosure standards of the CDP and the rigorous review and auditing process that is conducted on issuer disclosure. The Subcommittee was also directed to work with UTAM to design a multi-year implementation plan that details how

CDP disclosure would and could be incorporated operationally into UTAM's investment analysis, through its external investment managers. As of June 2014, a target deadline was set for late 2015 for the Subcommittee to release an initial report on its findings.

Four Categories of ESG Risk

- *Regulatory Risk:* Comparative advantage in the adaptability to future changes to regulation affecting business operations;
- *Legal Risk:* Litigation costs of ESG issues in settlements or diverted economic resources.
- *Reputational Risk:* Public perception of a business affecting brand loyalty, consumer tastes, or market share.
- *Operational Risk:* 'Normal' business operations that may be uncompetitive, unsustainable or carry future hidden costs if not adapted to ESG concerns.

ACTIVITIES OF THE PROXY VOTING SUBCOMMITTEE

Review of Proxy Voting Records for UTAM's Public Holdings

The Proxy Voting Subcommittee analyzed the results of the proxies voted on behalf of the University throughout the 2012-2013 proxy season. The proxies were voted by the external investment managers retained by UTAM each of whom, in the case of segregated account mandates, submitted their proxy voting records

in respect of securities held in portfolios managed on behalf of the University. The proxy voting records of pooled fund managers were provided where required by regulation. The following results detail public company security holdings, including certain pooled funds. With assistance from UTAM, the Proxy Voting Subcommittee was able to continue in its mandate to review the proxy-voting records of these holdings each year and to include the summary review of the proxy-voting records in its annual report.

Overall, the Subcommittee found that investment managers were able to disclose their proxy voting policies and have strong controls to track and report proxy votes cast on behalf of the University.

Generally, the record shows that investment managers were very active during the year, voting at all but three meetings out of approximately 2500 meetings. While there was strong support for management proposals,

there was also strong support for shareholder proposals, with approximately two-thirds of all shareholder proposals being voted in favour of.

In the area of executive compensation, approximately two-thirds of shareholder proposals were voted for. In the corporate governance area of splitting the chair of the board and chief executive officer roles, 100% of the shareholder proposals for such were supported in the segregated funds and 70% of the shareholder proposals for such were supported across all of the University's public fund mandates, where voting records were reported. When polled, five of the investment managers retained by UTAM reported that they specifically incorporate ESG factors into their proxy voting decisions while the remaining 8 (one remaining silent) reported that they do not incorporate ESG factors into their proxy voting decisions.

Overall, the Subcommittee believes the disclosure surrounding the University's proxy voting record and the policies behind these continues to improve year over year. UTAM has been proactive in requesting specific analysis on the issues of executive compensation and chair and CEO split as well as surveying their investment managers on the extent to which they incorporate ESG factors into their proxy voting, requesting the source of their proxy voting policies as well as the policies themselves.

ACTIVITIES OF THE COMMUNITY OUTREACH SUBCOMMITTEE

Networking and Events

The Community Outreach Subcommittee canvassed for and reported on events that took place in the Greater Toronto Area surrounding responsible investment. This Subcommittee was active in recommending conferences and seminars for RIC and RIWG members to attend during the year, particularly those related to academic or career advancement for students. In addition, this Subcommittee established very strong relationships with surrounding universities, and is paving the way for potential future academic partnerships.

RIC Website and Facebook Page

The website <http://www.utoronto.ca/ric> continues to be the RIC's central repository for information on its activities and includes the terms of reference, annual reports, minutes, the mandates of its subcommittees, members' contact information, upcoming events, and links to UTAM information and relevant developments in the field of responsible investment. This site is set to be reformed in the summer/fall 2014 to be more accessible and visible to the University in line with the RIC's commitments to transparency and accountability.

The RIC Facebook page continues to attract attention and new student researchers. The Community Outreach Subcommittee has given the RIC a strong voice on campus and strives to empower the stakeholders of the University to feel it is a receptive, albeit limited, forum for expression of ESG issues and concerns.

FUTURE STEPS

Carbon Disclosure Project

The ESG Subcommittee will continue to examine the CDP's value, accuracy, and impact that it started in *The Green Data Wave* in accordance with the research framework established and approved in the *CDP Research Roadmap: Setting an Evaluative Framework for Joining the CDP* (Appendix B). Some of the research that the Subcommittee will consider will include:

1. What principles of responsible investment or ESG risks are addressed within the questions of a company's response(s)?
2. Are there analogies between the targeted firms, industries, jurisdictions that the CDP has annual responses from and the University's funds?
3. How do the disclosure and performance benchmarks of the CDP differ? What does each offer in terms of value to the investor?
4. Can the impact of CDP membership on the disclosure or performance standards of respondents be approximated? If so, what do those historical trends suggest?
5. How does the CDP validate its data? How does it assess strengths and weaknesses in a company's response?
6. What is the significance of its industry modules? What is the impact of volunteerism?
7. How do other investor signatories utilize and assess CDP data? Has this led to any changes in standards or benchmarks whether formal or informal?
8. How user friendly and accessible is CDP data?
9. What are the benefits and hard costs of becoming a signatory versus a member in the near future?

Principles of Responsible Investment (PRI)

The RIC will continue to prepare for a 2015-2016 comprehensive review of PRI signatory status and connect how shareholder coalitions, including but not limited to the CDP, may offer a new set of information or implementation tools to aid in:

- (a) The maximization of the value of PRI services and its related benefits.
- (b) The minimization of barriers to PRI compliance and/or reporting structures.
- (c) The augmentation of the opportunity for meaningful involvement with other members

Responsible Investment Principles for the University

While applauding the *Principles* that have been proposed by UTAM, the RIC will develop a set of responsible investment principles for the University itself that may offer added guidance vis-à-vis UTAM's mandate and will submit them for formal approval by the University.

Review of Proxy Voting Records for UTAM's Public Holdings

The Proxy Voting Subcommittee will continue its analysis of the University's proxy voting record, make recommendations to UTAM on new areas of focus for its investment managers' proxy voting record and move forward with other recommendations as approved by the RIC.

Community Outreach Initiatives

The Community Outreach Subcommittee will increase the visibility of the RIC on campus and amongst Canadian universities and investor groups. Digital awareness is to be a priority of the 2014-2015 year, with an emphasis on more active student recruitment and with an increased capacity to reach out to students, faculty, and alumni about upcoming RI events.

MEMBERSHIP 2013-2014

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UNIVERSITY OF
TORONTO

Responsible Investing Committee

APPENDIX A



PRI & CDP FEASIBILITY REPORTS

Our Next Steps on Engaging Shareholder Coalitions

JUNE 4, 2014



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EXECUTIVE SUMMARY

BACKGROUND

I. Origins of the Feasibility Report

In November 2011, in its advisory mandate to the Vice-President of Business Affairs (thereafter to the Chief Financial Officer), the Responsible Investing Committee (RIC) passed a recommendation for the University to become a signatory to the UN-sponsored Principles for Responsible Investment (PRI). The RIC had commissioned several research reports, from *The Economics of ESG* to its *Roadmap for ESG Policy Research*, but had created a special taskforce to conduct an in-depth cost-benefit analysis of the PRI. This taskforce submitted its results in its *Implementing the Principles for Responsible Investment at the University of Toronto* report and endorsed signing onto the PRI based on its findings that:

- The PRI was reflective of mainstream acceptance of ESG relevance in investment decisions;
- The PRI was a comprehensive, practical, and effective framework for ESG integration;
- The PRI was a mechanism of best practice knowledge transfer to assist in ESG integration;
- The PRI was an administrative and peer support network to reduce the cost of engagement;
- The PRI was a means of increasing access to ESG information useful in investment decisions;

In response, the Responsible Investing Committee supported the following motion to take appropriate steps to assess an actionable implementation plan for submission to the Business Board:

Be it Resolved that the University of Toronto expand its capabilities to incorporate environment, social, and governance (ESG) issues into investment decision-making by adopting the Principles for Responsible Investment and becoming a signatory to the PRI Initiative, thereby fostering increased accountability in its governance of its investments and the long-term value and stability of its portfolio.

II. Objectives of the Feasibility Report

As of 2011, the UN PRI Subcommittee has been tasked to assess the practicability of this motion in close collaboration with the Chief Financial Officer and senior UTAM management. Factors that have had to be accounted for include financial and human resource constraints, infrastructure readiness, external manager engagements, reporting requirements, and expected measurable impacts.

As of 2013, the UN PRI Subcommittee has also been tasked with a comparative look at the PRI in relation to other shareholder coalitions in terms of the appropriateness of the 'fit' to current conditions at UTAM. The principal coalition that has been contrast with the PRI has been the CDP, formerly known as the Carbon Disclosure Project, and the advantages or disadvantages of its less formalized framework

PRI SIGNATORY ASSESSMENT - FINAL FINDINGS

I. Research Activities of the RIWGs

At any time, from 2-5 research taskforces were deployed to contribute to the Feasibility Report called the Responsible Investing Working Groups (RIWGs). These volunteer research teams were drawn to ensure an interdisciplinary perspective ranging from finance, economics, and law to environmental studies, public health and safety, and international studies. All research was directly supervised by at least one member of the RIC Executive in routine contact to ensure smooth timelines and maintain the highest quality, accuracy, and relevance standards held by the RIC.

The PRI Signatory Assessment had an interview element and a resource capacity test, especially on the PRI's annual Reporting & Assessment survey. Capacity research focused on preparing a template mock reporting engagement, mapping out the workflows of the survey modules, and assessing impacts of upcoming revisions to reporting requirements. It attempted to assess actual/lapse time-to-complete, knowledge or readiness barriers, and how to use the Reporting & Assessment to internally benchmark ESG progress in close collaboration with UTAM.

The interview RIWGs were sent to interview 6 post-secondary funds that had sign on to the PRI and 4 post-secondary funds that had not sign on to the PRI.¹ These institutions were limited to Canada, the United States, and the United Kingdom. Peer group relevance was at the forefront of their selection based on their fund size, risk tolerance, return targets, internal staff size, % of AUM under external management, and asset class mix. For both PRI signatories and non-PRI signatories, all participants were vetted and signed-off by senior management of the Department of Financial Services and UTAM.

II. Value Strengths of the PRI - Integration & Implementation

All of the signatories listed implementation support as one of their top three PRI services and it was the most frequently cited in the survey's questions on actual usage of the PRI services. Some of the newer entrants to the PRI were keen on the peer-to-peer mentorship program that is facilitated by the Secretariat to assist in such matters as designing KPIs and adjusting or augmenting data collection. Older mature signatories cited the regional networks and its strong assistance in the localization of solutions, bringing the educational webinars offered by the PRI and engagement opportunities to the local level.

Common traits regardless of time as a signatory was a positive impression of these educational webinars and network events as knowledge transfers that helped raise ESG awareness in their own small internal staffs; increased awareness was often correlated with a new ESG risk or opportunity that was identified that the investment fund could hedge against or exploit the advantages. Little discussion was given to the PRI's vast database on best practices, including resource-constrained organizations, as it was felt these were given 'life' best through the peer-to-peer interactions within the PRI though it was not discounted especially for those in the early stages of building an ESG strategy and metrics.

The Engagement Clearinghouse was seen as the primary tool offered by the UN PRI to actively engage externally on ESG issues, rather than internally build organizational knowledge and capacity, and it was seen as very low effort to return-on-investment per engagement. Actual usage was routinely seen as lower than merit by the value within the Engagement Clearinghouse. However, it should be noted this must be contextualized as useful to small staff sizes or public investors; private investors who were also interviewed in the course of the PRI Signatory Assessment were more likely to find such a pooling of shareholder influence to be less valuable than direct engagement afforded by their resources.

However, little to no respondents cited information benefits from the Secretariat outside of the webinars and peer networks and principally in relation to practical ESG application. An exception was the PRI Academic Network's webinars, but these were scarcely mentioned and never were rated as one of the "top" services of a PRI signatory. Signatories were more likely to refer to how the PRI *connected* them to a shareholder coalition (such as the CDP) that offered robust ESG data analytics and toolsets.

¹ Institutional names have been excluded from this report based on pre-agreed conditions of anonymity; for more information feel free to contact the RIC Executive at ric@utoronto.ca.

III. Value Barriers of the PRI - Reporting & Organizational Readiness

The RIWG's capacity research cumulated in the RAF Effort Scorecard (see Appendix C) which was set to approximate a mock engagement by breaking down the survey into relevant considerations such as optional selection, open/closed content, data type, external engagement level needed, and what was the metric 'ask': internal policy/process, evidence of action/effort, or a defined output. For instance, the RIWGs approximated that in the 2012 that only 94 questions or 39% of the survey was mandatory. The progress on the RAF Effort Scorecard was halted by new revisions in the 2013-14 surveys and a decision made with UTAM administration that a full mock run was a preferable option to a mere approximation.

This mock run has yet to take place but has been subsumed by other organizational readiness concerns laid out from UTAM, such as interaction complexities with external managers and our current sources of ESG data collection and collation. These organizational readiness considerations are expected to be alleviated significantly as UTAM adapts its processes and trains staff members in compliance with the *UTAM Statement on Responsible Investing*. The RIWG believes that this Statement is more reflective of the current organizational readiness of UTAM to engage in such reporting requirement as mandated by the PRI. However, as the Reporting and Assessment survey took an average of 70-80 hours total it is still the opinion of the PRI Signatory Assessment team that a mock run be included in any future review of the PRI and that UTAM conduct this directly to evaluate at minimum actual effort and lapse time.

IV. Value vs. Readiness - Distortive Effects on PRI Signatories and Non-PRI Signatories

The PRI Signatory Assessment team observed a major disconnect with *both* PRI Signatories and non-PRI signatories in relation to their ESG activities and their perceptions of those activities' value. This was most evident with PRI Signatories in relation to the outward-focused tools of the PRI Secretariat, such as the Engagement Clearinghouse, with over 50% of signatories rating it as a "top" service but with its actual usage in the 1-2 engagements per year. It was self-identified by most signatories as the most undervalued option in the PRI, and the most common reason for not a time obstacle per engagement but an inertia obstacle to determine a resource or strategy to exploit it.

In contrast, non-PRI signatories that had rejected the PRI also tended to start their interviews with a firm distaste and low valuation of ESG activities in investments. However, once clarified that (a) divestment was excluded and (b) the focus was on ESG in business value and materiality, all respondents reversed their statement that ESG had no role or was a luxury in investment decisions. Activities were highlighted currently done already by their investment teams like *ad hoc* letter campaigns on securities regulations or on conflict diamonds, screens to mitigate the risks of coal-based investments, even ESG contractors or direct hires like a carbon investment manager.

The primary distinction between the PRI signatory and non-PRI signatory was their responses to how to reconcile these differences. The non-PRI signatory was more comfortable that their own *ad hoc* network could react to any ESG issues that arose and had no strategy to collaborative ESG solutions. The PRI signatory was more pro-active to seek ESG value areas and relied on collaborative ESG solutions, but a subset of early entrants were reactive in terms of expanding their engagement with PRI services. Thus, the PRI Signatory Assessment team hypothesizes that being a PRI signatory or not is less relevant than the organization's readiness to act on ESG metrics and an ESG strategy.

V. Recommendations of the RIWGs

After almost 3 years of research, the RIWGs has collated a large dataset from multiple views on the nature and value of Principles for Responsible Investment, both as a framework and organization. It is in agreement with senior management of UTAM that ESG is still a new factor in investment decisions and organizational readiness may lag behind the commitments of the University were it to become a PRI signatory. As such, the RIWG suggests the following resolutions to lay the foundations for joining the PRI at a future date:

- (1) **Be it resolved** that as a leading international framework on ESG integration that the Principles for Responsible Investment be adapted in 2014-15 to be a General Policy on ESG for submission to the Governing Council of the University of Toronto.
- (2) **Be it resolved** that the RIC continue its work with UTAM to conduct a CDP Feasibility Study and determine synergisms with PRI offerings, especially as it concerns implementation services.
- (3) **Be it resolved** that the RIC acknowledges UTAM's stance that organizational readiness needs to be augmented to engage with the PRI and recommends UTAM continues its internal efforts so it is prepared for a review of PRI signatory status in 2015-16.
- (4) **Be it resolved** that any future review of PRI signatory status also should include a mock run, to be conducted by UTAM, of the actual onus of the Reporting and Assessment survey.

emissions where Scope 3 expands out to supply chain emissions. Four sectors (five in 2014) are also asked to fill out a more specific industry modules, from oil & gas to automotive.

The results are combined into (a) a disclosure score and (b) a performance score, each to serve as an indicator of a different competency level of the firm. The disclosure score is a metric indicative of how a company's response was on the comprehensiveness spectrum, with higher scores illustrative of a report that thoughtfully accounts for geographical, source, scope, risk, opportunity, and other factors. In contrast, the performance score assesses actual activities for mitigation, adaptation, and transparency.

It has a heavy focus on Strategy (15%), Targets & Initiatives (19%), and Verification (12%). These scores are interrelated; to ensure only companies with a robust enough response are analyzed for performance scores there is a minimum disclosure score threshold. The leaders in each sector are listed in Leadership Indexes for both disclosure (CDLI) and performance (CPLI); eligibility to the CDLI or CPLI is set to increase in difficulty in 2014-15 with >70% verification of Scope 1 *and* Scope 2 emissions to qualify for full scores.

III. Accuracy of Information

The CDP has a high threshold for what constitutes an accurate and comprehensive response, as it generally adopts an "all-or-nothing" threshold to verification; it insists that companies' responses have an independent third-party assurance and has strict rules on what assurance standards can be used. The CDP accepts such assurance standards as ISAE 3410, ISAE 3000, or CICA Handbook, Assurance s. 5025.² It does *not* accept regulatory regimes that mandate its own third-party assessment, reporting platforms, mere management process rather than results standards, or any 2nd-party check (e.g. EPA).

Document structure is another key factor in verification, but CDP tries to assist firm throughout the verification stages with an easy-to-use verification template for their Professional Service vendors. It is inflexible on its minimum requirements, notably there must be a final verification opinion or finding. Data must be contextualized. However, again as the CDP tries to balance accuracy and ease, it offers up services like Response Check to connect firms to service providers who can give quick and cost-effective assessments of whether their response meets the necessarily high standards held by the CDP.

III. Presentation & Usage of Information

The CDP does seem on a preliminary review to strike a balance of accuracy and thoroughness with ease-of-usage and high relevance. In the CAN 200, the average sector response rate was 62.6%. The average market cap represented in the survey was 79%-83% (whether the utilities outlier is included). It is also relevant specifically to UTAM investment funds; an initial analysis found 189 of the 243 Canadian businesses surveyed by CDP to be in the LTCAP and of those 55% responded to the CDP's requests. Thus, the RIWGs see the CDP's dataset as a potentially useful consideration in future ESG decision-making.

Furthermore, there are also specific tools that the CDP offers that can assist in tracking firms for key metrics that are significant to their ESG competency. For instance, the Investor Engagement Tool is a simple customizable monitor of companies that have refused to comply with the CDP's climate change, water, or forestry programs respectively. Such tools offer a means to identify engagement opportunities and to determine best-in-class leaders or allegedly lagging sectors or companies in ESG management.

² Please note that the AASB and the ISO have the CICA Handbook, Assurance Section 5025 and ISAE 3000 under review to be better reflect their growing significance in reporting regimes, such as those that involve environmental accounts.