



UNIVERSITY OF
TORONTO

OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS

Responsible Investing Committee



Annual Report September 2010 – June 2011

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EXECUTIVE SUMMARY

The Responsible Investing Committee (RIC) at the University of Toronto is a committee organized to do research and provide recommendations to the University on matters of responsible investing. The RIC reports directly to the Vice-President, Business Affairs who passes on the recommendations of the RIC to Governing Council.

In 2010-11, the RIC focused its work on researching the feasibility and desirability of the University's joining the United Nations Principles of Responsible Investing (UNPRI). 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 clearinghouses which facilitate investors' coming together and putting the six principles into action.

The UNPRI Subcommittee of the RIC produced a report, "Implement the PRI at the University of Toronto", examining the resources and opportunities made available through membership in the UNPRI, including resources particularly tailored to smaller funds and asset owners, such as the University, and members' forums which are active in developing best practices. The report also indicates the costs and internal resources required for membership.

"Implement the PRI at the University of Toronto" is available at www.utoronto.ca/ric.

The other subcommittees of the RIC continued to be active through 2010-11. The General Policy on ESG Subcommittee moved forward with its research into how the mismanagement of ESG factors can create different categories risks and how responsible investing activities can help to mitigate these different categories of risk.

On November 16, 2010, the Community Outreach Subcommittee hosted a Town Hall meeting which brought in a number of investment professionals who are active in responsible investing. Students in attendance were given a rare to interact and discuss responsible investing principles with those who put them into practice.

Finally, the Proxy Voting Subcommittee continued its work auditing the voting record of the University's external investment at annual meetings of shareholders. The audit focuses on votes related to ESG factor including those shareholders resolutions proposed by shareholder rather than management. The RIC also approved four recommendations of the Subcommittee regarding its future work in developing a proxy voting policy for the University.

What is responsible investing?

Responsible investing describes a broad-based movement of shareholders of public corporations to take greater responsibility as shareholders. Responsible investing involves being active as an owner, in particular, acting in concert with other shareholders to convince the management of corporations to act in the best long-term interest of shareholders. Many responsible investors believe that environment, social and governance factors (ESG factors) are not fully incorporated into corporate decision-making by management and that this presents an unperceived risk to shareholders.

Responsible investing has been especially important to institutional investors, such as pension funds, banks, and mutual funds, who manage other people's investment and who have a duty to ensure that their investment decisions are sound and to avoid unnecessary risk to their beneficiaries.

ABOUT THE RESPONSIBLE INVESTING COMMITTEE

Mandate of the RIC

The Responsible Investing Committee (RIC) was created in April 2009 to serve as an independent advisory body to inform and make policy recommendations to the Division of Business Affairs on how environmental, social, and corporate governance (ESG) factors could supplement investment analysis. It is based on consensus that for a company to be financially successful in the long-term, its management must engage in sustainable and sound business practices. The areas that the RIC are charged with investigating include, but are not limited to, environmental issues, labour practices, health and safety standards, the rule of law, and individual and property rights.

The RIC is primarily a forum for interested parties to discuss and develop ideas for ESG integration in the University of Toronto context. However, its secondary purpose is to extend the discourse and debate on ESG integration and responsible investment beyond the RIC itself. It seeks to encourage cooperation and discussion between the various elements of the University, research networks, industry professionals, shareholder groups, and other relevant participants.

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 Division of Business Affairs and investment managers, namely the University of Toronto Asset Management Corporation, routinely participate in the proceedings.

For a complete list of the eight RIC members in 2010-2011 and their contact information, please refer to the *Membership* section of this Report.

Subcommittees of the RIC

The RIC is aided in effort by subcommittees which engage in research and outreach efforts. In 2010-2011, a UNPRI Subcommittee was added to original three subcommittees (each open to all members of the University) to examine the opportunity for the University to become a member of the United Nations Principles of Responsible Investing (UNPRI):

General Policy on ESG Subcommittee engages in research into ESG factors and their incorporation into investment decision-making.

Proxy Voting Committee analyzes the University's proxy voting record and develops recommendations on proxy voting policy with the General Policy on ESG Subcommittee.

Community Outreach Subcommittee organizes events and provides forums, both real and virtual, to educate and canvass the opinions of the University community on responsible investing issues.

UNPRI Subcommittee examines the UNPRI framework to understand the particular advantages and costs to the University of membership.

Further discussion of the output of these subcommittees in the 20010-2011 year can be found in subsequent sections of this Report.

ACTIVITIES OF THE RESPONSIBLE INVESTING COMMITTEE

United Nations Principles of Responsible Investment (UNPRI)

In its second year, the RIC focused its work on examining the United Nations Principles of Responsible Investment (UNPRI) and to consider membership in the UNPRI. The RIC had a number of shareholder engagement initiatives under consideration: a statement of investment beliefs, a proxy voting policy, and the inclusion of ESG factors in the investment manager hiring and review process, among others. Although the RIC had adopted a forward agenda for the year in September 2010, the work of the RIC shifted to focus on the UNPRI as the RIC considered that the UNPRI could provide a common framework to unite its various initiatives. A new UNPRI Subcommittee was set up to consider membership in the UNPRI.

Engagement with Industry and Community

The RIC continued creating liaisons with industry and University stakeholders to foster the exchange of information and to promote future cooperation in research and awareness efforts. In 2010-11 much outside conversation was directed at our research into the UNPRI: Brigid Barnett (Responsible Investing Manager, Canada Pension Plan Investment Board) was invited to attend the September 22, 2010 meeting of the RIC to discuss the CPPIB's experience in becoming and being a signatory to the UNPRI, and Jerome Taggard (COO of the UNPRI) was able to answer many questions of the RIC on joining the UNPRI in a conference call on November 17, 2010. The UNPRI Subcommittee met and talked with several other professional in order to expand its knowledge and understanding of the UNPRI.

On November 16, 2010, the Outreach Subcommittee hosted a Town Hall, which brought together members of the RIC and students of the University with professionals actively involved in implementing responsible investment initiative. After an introductory seminar, students were able to work in four small groups on several key issues in RI with industry leaders including Jane Ambachtsheer (Mercer), Laurence Loubieres (Jantzi-Sustainalytics), Ian McPherson (Criterion Asset Management), Andrika Boshyk (Social Investment Organization) and Tim Nash (Strategic Sustainable Investments).

The RIC recognizes strong connections to individuals and institutions in the investment industry will serve the University well in bringing ESG factors into its investment processes.

Proxy Voting Subcommittee Recommendations

On June 6, 2011, the RIC approved four recommendations made by the Proxy Voting Subcommittee. These recommendations flow from the analysis of Proxy Voting Subcommittee:

- 1) Continue to review the proxy-voting records of the public holdings of the University each year

- 2) Include the summary review of the proxy-voting records in its annual report
- 3) Ask UTAM's investment managers about their proxy voting policy for the 2011 proxy season
- 4) Formulate a model proxy-voting policy according to ESG

Renewed RIC Website and Facebook Page

The RIC adopted a new platform for its website on the University server: <http://www.utoronto.ca/ric>. The website hosts vital information and updates on the RIC's activities, including its terms of reference, annual report and 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.

The Community Outreach Subcommittee also launched a Facebook page in 2010-11 to aid in its promotional efforts and to enhance its online social media presence at <http://www.facebook.com/#!/groups/RICutoronto>.

ACTIVITIES OF THE UNPRI SUBCOMMITTEE

The UNPRI Subcommittee was set up in February 2011 to examine the UNPRI framework to understand the particular advantages and costs to the University of membership. Prior to its establishment, this examination was being conducted by the General Policy on ESG Subcommittee. The UNPRI Subcommittee collaborated extensively with and was aided tremendously by the Responsible Investment Working Group at the Faculty of Law. The UNPRI Subcommittee interviewed or arranged for the RIC to speak with individuals from the UNPRI as well as other investors and asset owners who have become UNPRI members, and it produced a report setting forth its findings: "Implementing the PRI at the University of Toronto" was submitted to the RIC in June 2011 and is appended to this Annual Report as Appendix "A".

What are 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 811 signatories – 210 asset owners, 440 investment managers, and 161 professional service partners. There are 33 Canadian signatories – 10 asset owners, 15 investment managers, and 8 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.

Two outside professionals were invited to speak with the full RIC on the UNPRI. Brigid Barnett (Responsible Investing Manager, Canada Pension Plan Investment Board) was invited to attend the September 22, 2010 meeting of the RIC to discuss the CPPIB's experience in becoming and being a signatory to the UNPRI. Jerome Taggard (COO of the UNPRI) was able to answer many questions of the RIC on joining the UNPRI in a conference call on November 17, 2010. The UNPRI Subcommittee also met and talked with several other professional in order to expand its knowledge and understanding of the UNPRI.

"Implementing the PRI at the University of Toronto" provides an overview of the UNPRI as an organization which helps investment managers and asset owners to invest responsibly and looks particularly at how the UNPRI could aid the University. It concludes as follows:

"This report outlined how managing ESG factors is becoming increasingly relevant to investors, in order to manage long-term risk, and to take advantage of investment return opportunities. The PRI offers a comprehensive, practical, and effective means of incorporating a responsible investment framework into the asset managing policies of the University. The PRI will offer the University assistance in incorporating best practices via its country networks, webinars, the PRI in practice and its Research Portal. The PRI also offers signatories' administrative assistance in adopting the Principles, and promotes collaboration with other signatories, in order to share resources and minimize costs of implementing the framework. The PRI also provides the University with the Engagement Clearinghouse, a means of lobbying governments and other policy makers, in order that via collaboration with other asset owner signatories policy and corporate engagement can be leveraged to support the business interests of the University. Overall, the PRI offers the University many opportunities for resource-sharing, lobbying, access to information, and professional development, which will enable the University to more prudently meet its long-term financial obligations and assess long-term uncertainty, continuing to satisfy its underlying mission and its fiduciary responsibilities."

ACTIVITIES OF THE GENERAL POLICY ON ESG SUBCOMMITTEE

Four categories of risk

Regulatory Risk: Changes to laws affecting operations can have an adverse effect on profitability.

Legal Risk: Litigation may negatively impact profitability via settlements or diverted economic resources.

Reputational Risk: The public perception of a corporation can affect brand loyalty and market share.

Operational Risk: Traditional business operations may be unsustainable without adaption to ESG concerns.

Research into ESG Risks

The General Policy on ESG Subcommittee engages in research into ESG factors and their incorporation into investment decision-making. In 2010-11, it continue working inside the framework established in its "Roadmap for ESG Policy Research", which was approved by the RIC in 2009-10.

The Subcommittee's work this year focused on examining the different categories of risk inherent in ESG issues and specifically on elucidating how these different categories of risk (regulatory, legal, reputational and operational risk) arise in a the context of a representative ESG issue, namely, climate change. The Subcommittee also undertook a more detailed analysis of the category of legal risk, producing an excerpt of what will become its "Risk Report". The General Policy on ESG Subcommittee provided a status update on its research activities in April 2011. As well as summarizing its ESG research into climate change, the status update includes work done on the UNPRI initiative prior to the establishment of the UNPRI

Subcommittee, and it can be found at Appendix “B” to this Annual Report.

ACTIVITIES OF THE PROXY VOTING SUBCOMMITTEE

Audit of Proxy Voting Records for UTAM's Public Holdings

With assistance from University of Toronto Asset Management (UTAM), the Proxy Voting Subcommittee was able to continue in its mandate to review the proxy-voting records of the holdings of the University each year and to include the summary review of the proxy-voting records in its annual report. In 2010-11, it obtained a comprehensive list of 2010 proxy votes for all of UTAM's public holdings on a global basis, which the RIC views as a positive and critical step towards transparency. The full summary of its findings can be found at Appendix “C” to this Annual Report, with relevant excerpts below:

“Data available for 2010 was more comprehensive than that for 2009 and suggests that portfolio managers are becoming increasingly aware of ESG factors especially in the area of corporate governance. The 2009-10 proxy season was dominated by questions on executive compensation and risk management....”

“The portfolio managers engaged by UTAM tended to vote with management on most management proposed items. Many of these items were routine items. Of those rejected, the items tended to deal with stock option plans, executive compensation etc. (e.g. where management could change a plan without shareholder approval, or where options were vested over 10 years). Management items rejected also included those with proposed director slates as the portfolio managers felt that directors should be voted on individually. Withheld votes were for slates involving directors that were non-independent, had conflicts of interest and/or poor attendance records.”

“With regards to shareholder proposed items, over 60% were voted for. Shareholder proposals ranged from executive compensation and related disclosure, environmental disclosure and human rights disclosure. Portfolio managers seemed to support most shareholder items regarding executive compensation. They did not support those calling for additional disclosure on executive compensation where it was felt that additional disclosure would not add value.”

In concluding its report, the Proxy Voting Subcommittee also noted the complexity of the University's investment structure and its investment managers' detailed proxy voting guidelines that are not available publicly, both of which make it difficult for the University to direct how its shareholders' rights should be exercised to the extent that might be possible:

The conclusions from 2009 continue to hold in that the data suggests that the external portfolio managers are indeed engaging with ESG factors, although to what extent is not discernable.... Given that the detailed proxy voting guidelines of the investment managers under contract with UTAM are not all publicly available, it is difficult to analyze the distinct data points presented by the voting results and it would be difficult to compare the results against an ESG-policy benchmark, either designed by an external provider or by the Responsible Investment Committee. The Responsible Investment Committee finds this problematic in that the RIC is not able to discern a methodology or methodologies by which the proxies are being voted, and therefore, it becomes difficult to measure whether or not they are being voted systematically in favour of ESG issues, or to what extent. This lack of benchmark comparison makes it difficult to implement and monitor a responsible investment policy going forward.... Furthermore, should the Responsible Investment Committee take a stance on a specific issue, there is no

guarantee that the same or similar issue will arise during the next proxy season. Instead, there needs to be some way to predict and direct proxy votes being cast on behalf of the University of Toronto Pension Fund and Endowment Fund in a pro-active manner.

In order to address these issues, the Proxy Voting Subcommittee made four recommendations to the RIC regarding its future work. These were accepted by the RIC on June 6, 2011:

- 1) Continue to review the proxy-voting records of the public holdings of the University each year
- 2) Include the summary review of the proxy-voting records in its annual report
- 3) Seek detailed proxy voting guidelines from all of the investment managers under contract with UTAM for the 2011 proxy voting season
- 4) Formulate a model proxy-voting policy according to ESG

ACTIVITIES OF THE COMMUNITY OUTREACH SUBCOMMITTEE

2nd Annual Town Hall

The Community Outreach Subcommittee organized a town hall on November 16, 2010. This year's meeting brought students together with a number of professionals in the responsible investment community. The town hall began with a presentation by John Maiorano outlining the history and progress of responsible investing in North America, snapshots of progress made in adopting responsible investing policies in North American universities, and the associated barriers in doing so.

Jane Ambachtsheer, adjunct professor at the University of Toronto of the course ENV1707 : Environmental Finance & Sustainable Investment, and partner at Mercer Consulting presented next to the university community. She began her discussion by further expanding on the concept of responsible investing, outlining the growth in institutional ownership of securities, and explained why institutional and corporate investors are getting involved in RI. She followed this with a brief discussion on the concept of fiduciary duty and on initiatives such as the Principles for Responsible Investment (PRI), which she was a participant in the creation and the leading international framework for implementing responsible investing.

The university community was fortunate to also have the support of four additional industry professionals, including Laurence Loubieres, Jantzi-Sustainanalytics, Ian McPherson, Criterion Asset Management, Andrika Boshyk, Social Investment Organization and Tim Nash of Strategic Sustainable Investments, who attended in order to act as leaders to facilitate group discussions. The following four questions were posed, and town hall participants were asked to join one of the groups targeted to discuss the issues surrounding the problem it posed. The questions posed were:

- *What approach would you take, in order to influence the university to adopt a more responsible investment approach? Would this include students? Social Networking? Meet with Trustees?*
- *Why do you suppose some infrastructure/energy on campus is not sourced from more sustainable methods? What are the obstacles to adopting better approaches? How can the university community influence the prevalence of more renewable energy policies?*

- Do you think the university should engage with companies they invest in, in order to engender better business practices in regards to ESG factors? Is this the role of the investor? If so, why? If not, why not? Further, how could the university engage with companies on ESG issues? Is there a role for students?

- What International Conventions do you think the University could adopt in order to provide a framework for their investment practices? Would this be a good approach? Do you think this could cause tension with certain stakeholders?

This format, coupled with the guidance of the industry professionals, led to powerful discussions on several topics, including: the issues surrounding responsible investment, barriers to the adoption of sustainability measures, institutional governance and policies, and international developments on responsible investing. As the discussions ended, group members presented to the town hall the progress made in the groups, matters deliberated and key takeaways, extending further analyses with all participants.

Successful events such as the town hall allow the Responsible Investing Committee to further develop and shape its agenda going forward, while providing attendees a platform to gain a deeper understanding on the matters in question. Practitioners were able to understand the unique needs of our university community, while lending their expertise so the university communities could incorporate new ideas and perspectives into their thinking about how to approach investment decision-making processes.

Renewed RIC Website and Facebook Page

The RIC adopted a new platform for its website on the University server: <http://www.utoronto.ca/ric>. The website hosts vital information and updates on the RIC's activities, including its terms of reference, annual report and 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.

The Community Outreach Subcommittee also launched a Facebook page in 2010-11 to aid in its promotional efforts and to enhance its online social media presence at <http://www.facebook.com/#!/groups/RICutoronto>.

FUTURE STEPS

UN Principles of Responsible Investment

It is expected that the RIC's work in 2011-12 will focus on developing a recommendation on whether the University should join the UNPRI.

Audit of Proxy Voting Records for UTAM's Public Holdings

The Proxy Voting Subcommittee will continue its analysis of the University's proxy voting record and move forward with the other recommendations approved by the RIC.

Community Outreach Initiatives

The Community Outreach Subcommittee will aim to expand the scope of its website and Facebook page as well as to improve the visibility of the RIC and the awareness of responsible investing issues on campus through the sponsorship of one or two student-focused events.

MEMBERSHIP 2010-11

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