



University of Toronto

RESPONSIBLE INVESTING COMMITTEE, c/o FINANCIAL SERVICES DEPARTMENT



ANNUAL REPORT

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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 reported directly to the Vice-President, Business Affairs until January 2012, at which point it began reporting directly to the Chief Financial Officer, who passes on the recommendations of the RIC to the Governing Council and its Boards or Committees.

Following the work of 2010-11, the RIC focused its main effort on researching the feasibility and desirability of the University becoming a signatory to the United Nations-backed 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 represents, in the opinion of the RIC, the most practical means of putting these six principles into action.

The UNPRI Subcommittee of the RIC continued work on its 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 forums where members can be active in developing best practices. The report also weighs the costs and internal commitment required for effective membership. In November 2011, the RIC unanimously passed a resolution recommending that the University become a signatory to the PRI. The UNPRI Subcommittee concluded the year with several consultations with representatives from UTAM and a mandate to design an implementation plan at the University of Toronto.

Find *Implement the PRI at the University of Toronto* available online at www.utoronto.ca/ric.

The other subcommittees of the RIC continued to be active throughout 2011-12. The General Policy on ESG Subcommittee undertook a number of significant projects during the

What is Responsible Investing?

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

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

year, researching operational risk and legal risk case studies, embarking on a shareholder coalition research project and submitting its legal risk study.

The Community Outreach Subcommittee actively pursued new member recruitment, including subcommittee recruitment, through student events throughout the year and a strong social media presence.

Finally, the Proxy Voting Subcommittee continued its work reviewing the voting record of external investment managers engaged by UTAM to manage the University's investments. The review focused on votes related to environmental, social and governance ("ESG") factors, including those resolutions proposed by shareholders rather than management. Of particular interest were votes in respect of those proxies related to executive compensation.

In December 2011, Ms. Cathy Riggall, former Vice-President, Business Affairs, retired and therefore, stepped down from the RIC. Ms. Sheila Brown, the Chief Financial Officer, now oversees the RIC. The RIC wishes to thank Ms. Riggall for her contribution and support over her years of service, without whom, the RIC would not be in existence. We wish her the best in her retirement.

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, corporate governance, 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 among 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 UTAM routinely participate in the committee's proceedings.

For a complete list of the eight RIC members in 2011-2012 and their contact information, please refer to the *Membership* section of this Report.

Subcommittees of the RIC

The RIC is aided in its efforts by subcommittees specializing in research, networking, and outreach. In 2010-2011, a UNPRI Subcommittee was added to the 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-backed Principles of Responsible Investing (UNPRI).

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

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

Community Outreach Subcommittee organizes events and 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 specific advantages and costs involved in the University becoming a signatory to the UNPRI.

Further discussion of the output of these subcommittees in the 2011-2012 year can be found in the subsequent sections of this Report.

ACTIVITIES OF THE RESPONSIBLE INVESTING COMMITTEE

Third Year Review

Pursuant to its terms of reference, the RIC was subject to a review of its operations following its third year of existence. To this end, a review committee consisting of three members drawn from the University's Business Board was struck. In August, the review committee submitted its report, *Report of the Working Group to Review the Responsible Investing Committee*, in which it stated that it was "impressed with the work of the Committee over its first three years of operation" and concluded with the recommendation that the RIC continue for another three year term, at which time, it will again be subject to a review.

United Nations-backed Principles of Responsible Investment (UNPRI)

In its third year, the RIC focused its work on continuing to examine the United Nations-backed Principles of Responsible Investment (UNPRI) and to consider how it would be practically implemented at the University of Toronto. Having passed a resolution in November 2011 to recommend that the University become a signatory to the UNPRI, the main efforts of the RIC during 2011-2012 were related to ongoing communication and collaboration with UTAM, in pursuit of becoming a signatory. Should the University become a signatory, there would be many changes involved. It would affect UTAM and its external investment managers in many aspects, including but not limited to, 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. A full implementation plan is necessary, in order to consider the benefits and costs and feasibility, before becoming a signatory as there is a high adherence standard to be maintained in the UNPRI. The RIC looks forward to collaborating closely with UTAM in the coming academic year to design a practical implementation plan for the University.

Engagement with Industry and Community

The RIC continued creating liaisons with investment industry and University stakeholders to foster the exchange of information and to promote future cooperation in research and awareness efforts. Communication with UNPRI representatives and signatories continued, as the RIC pursued becoming a signatory to the UNPRI. As well, other Canadian universities have expressed interest in the RIC and on responsible investment in the university context. One member served as an active liaison with the Coalition of Universities for Responsible Investing.

The RIC recognizes that strong connections to individuals and institutions in the investment industry serve the University favourably in bringing ESG factors into its investment analysis.

Independent Student-led, Peer-reviewed Research

Continuing its success since 2009, the General Policy on ESG Subcommittee engaged a diverse group of students into independent research in the area of ESG. In particular, legal, operational, regulatory and reputational risks were analyzed in the context of climate change. The RIC looks forward to submitting these research reports to its faculty reviewers with the end goal of using these reports to inform the University's position on ESG issues, should the University become a signatory to the UNPRI.

Proxy Voting Analysis

UTAM continues to support the RIC through full disclosure of its proxy voting records and analyses. Representatives at UTAM actively share proxy voting related materials and industry research with the RIC. The RIC continues to request investment managers' proxy voting policies in pursuit of formulating a guide to how proxies are being voted on behalf of the University and how an ESG proxy voting policy might be formed and implemented. This year, several have disclosed their policies, with the bulk using the policies of Institutional Shareholder Services (ISS) or Glass, Lewis & Co. Furthermore, investment managers have consented to disclosing their proxy voting policies to the University through the RIC, whereas previously, they were limited to UTAM's use only.

Renewed RIC Website and Facebook Page

The RIC continued to redesign its recruitment and social media presence. The website <http://www.utoronto.ca/ric> 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 RIC Facebook page continues to attract a number of students and is successful in promoting awareness of the RIC on campus.

ACTIVITIES OF THE UNPRI SUBCOMMITTEE

The UNPRI Subcommittee was set up in February 2011 to examine the UNPRI framework and conduct a cost-benefit analysis to the University's inclusion. Prior to its

establishment, this work 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. Following the success of submitting its formal “*Implementing the PRI at the University of Toronto*” in June 2011, the UNPRI Subcommittee has been actively updating the report and setting the groundwork for implementation through ongoing collaboration and consultation with UTAM. In November 2011, the RIC adopted a resolution recommending that the University become a signatory to the PRI.

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 1126 signatories – 262 asset owners, 681 investment managers, and 183 professional service partners. There are 45 Canadian signatories – 16 asset owners, 24 investment managers, and 5 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.

The “*Implementing the PRI at the University of Toronto*” report, revised November 24, 2011, attached as Appendix “A”, provides an overview of the UNPRI as an organization and delineates how its resources, networks, and expertise have helped investment managers and asset owners to invest responsibly and looks particularly at how the UNPRI fits into the University’s specific needs. It concludes from its analysis as follows:

“This report outlined how ESG factors are becoming increasingly relevant to investors. Their incorporation into investment decision-making processes is critical for the mitigation of long-term risk, the sourcing of long-term return opportunities, and for increased accountability in the governance of business practices. 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 offers 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 and support in implementing the Principles, and facilitates collaboration and resource-sharing with other signatories, thereby minimizing the costs of implementing the framework. The PRI also provides the University with the Engagement Clearinghouse, a means of lobbying governments and other policy makers, so that policy and corporate engagement can be leveraged via collaboration with other signatories in order 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, while continuing to satisfy its fiduciary responsibilities.”

ACTIVITIES OF THE GENERAL POLICY ON ESG SUBCOMMITTEE

Research into ESG Risks

The General Policy on ESG Subcommittee engaged in synthesizing secondary research on ESG factors and their incorporation into investment decision-making. In 2011-12, it continued its work inside the framework established in its “Roadmap for ESG Policy Research”, which was approved by the RIC in 2009-10.

The Subcommittee’s work consisted of case studies of the different categories of risk inherent in ESG issues and specifically on elucidating how these different categories of material risk (regulatory, legal, reputational and operational risk) arise in the context of a representative ESG issue, namely, climate change. The General Policy on ESG Subcommittee concluded the year by submitting its legal risk report and substantial progress with regards to its operational risk report.

The work of the Subcommittee is ongoing, especially in areas related to the UNPRI, as the RIC collectively focused its efforts on becoming a signatory to the UNPRI.

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 2010-2011 proxy season. The proxies were voted by the external investment managers retained by UTAM, each of whom submitted their proxy voting records in respect of securities held in portfolios managed on behalf of the University. The following results detail public company security holdings, including 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. The full summary of its findings can be found at Appendix “B” to this Annual Report, with relevant excerpts below:

“For management proposed items, the investment managers voted according to management’s recommendation 91.5% of the time. In 8.5% of cases, they voted against management’s recommendation or withheld their vote. For shareholder proposals, the investment managers voted for management’s recommendation 75.6% of the time. In 24.5% of instances, investment managers voted against management’s recommendation for shareholder proposals or withheld their vote.

Compare this with 2009-2010, where, at company meetings at which proxies were voted, external investment managers voted according to management’s recommendation 88.9% of the time and against management’s recommendation or withheld 11.1% of the time. “Shareholder proposals fared differently, with investment managers voting along with management’s recommendation only 59.4% of the time and against management’s recommendation 40.6% of the time.”

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.

The Proxy Voting Subcommittee commented that these results are not directly comparable as these figures alone do not convey what the proposals were and whether voting on such proposals differed from year to year. As the Proxy Voting Subcommittee is unable to meaningfully analyze the individual meeting data in aggregate, it instead looked to context.

“The market continues to see a high level of active investing in the overall market, with shareholder coalitions and proxy advisory firms becoming highly influential parties in this space. In the industry as a whole, shareholders are using multiple avenues, such as dissident proxy battles, joining shareholder coalitions and even one-on-one meetings with management, to influence corporate behaviour. Recognizing that proxies are powerful tools, especially when used through a coalition or in response to proxy advisory firm recommendations, proxies have recently gathered a lot of attention from both shareholders and management. External managers retained by UTAM supported a greater percentage of management proposals than in the previous year and supported a smaller percentage of shareholder proposals than in the previous year. But, in terms of the universe of management proposed resolutions, perhaps some of these resolutions were the result of pre-meeting consultations with shareholder coalitions which increased their chance of approval at the meeting. Early consultation with shareholder groups can avoid the cost and reputational effects of a rejected proposal. Additionally, management proposals in 2010-2011 also covered issues only recently required by securities regulation or considered standard best practice that previously, were only raised through shareholder proposals. Proposals once considered to only be in the purview of shareholders, such as those related to say-on-pay or majority voting, are now widely recognized as value-adding proposals. Given that these shareholder proposals are now included in the universe of management proposals, the remaining shareholder proposals, which may cover a range of issues, may not have such wide-acceptance. This could potentially be due to the nature of the proposal or because the issue has not yet garnered significant attention. In conclusion, the universe of management proposals and shareholder proposals change each year and therefore, it is difficult to compare one year’s results to another’s.”

In concluding its report, the Proxy Voting Subcommittee also noted that UTAM has for the second consecutive year, asked investment managers to report explicitly on proxy votes related to executive compensation. UTAM analyzes these votes closely and requests further information where warranted. Accountability appears to be the main theme running through institutional proxy voting policies and commercially-available policies for 2010-2011, analyzed by the Proxy Voting Subcommittee. Investment managers have agreed to disclose their proxy voting policies going forward, at the request of the RIC and UTAM. The bulk has disclosed that they use a commercially-available policy such as ISS or Glass, Lewis & Co.

ACTIVITIES OF THE COMMUNITY OUTREACH SUBCOMMITTEE

Fall Pub Nite

The Community Outreach Subcommittee hosted its fall pub nite in September 2011. The event attracted a number of students, who joined the RIC subcommittees and contributed significant research efforts to the UNPRI and ESG Policy Research Subcommittee throughout the year. The RIC is grateful to our Subcommittee members for their contributions.

RIC Website and Facebook Page

The website <http://www.utoronto.ca/ric> continues to be a central repository for 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 RIC Facebook page continues to attract attention and the Community Outreach Subcommittee is actively managing its enhanced social media presence.

FUTURE STEPS

UN Principles of Responsible Investment

It is expected that the RIC's work in 2012-13 will focus on developing an implementation and adoption plan for the University becoming a member of the UNPRI.

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 and move forward with the other recommendations approved by the RIC.

Community Outreach Initiatives

The Community Outreach Subcommittee is actively planning a Fall Symposium for the new school year.

General Policy on ESG Research

The General Policy on ESG Policy Subcommittee will continue to research operational risk in the context of climate change. It will also pilot a study on the costs and benefits of shareholder coalitions.

MEMBERSHIP 2011-2012

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Staff	<p>Mark Sedore (until April 2012) E-mail: mark.sedore@utoronto.ca</p>
Vice-President Appointee	<p>Rebecca Mudge (September 2011 to March 2012) Investment Analyst, Manager Selection and Portfolio Construction, UTAM</p> <p>Lisa Becker (since April 2012) Director, Operational Due Diligence & Chief Compliance Officer, UTAM E-mail: lisa.becker@utam.utoronto.ca</p>

Implementing the Principles for Responsible Investment at the University of Toronto

Proposal For: Responsible Investing Committee
Division of Business Affairs

Prepared By: University of Toronto Principles for
Responsible Investment (PRI) Subcommittee

Contributors: Andrew Clark, Heather Cohen, Thomas Felix,
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Abstract

This report offers a guide to the benefits and costs associated with implementing the Principles for Responsible Investment (PRI) at the University of Toronto. The report outlines the principles themselves, explores the current signatories to the PRI, and provides a case study of the Canada Pension Plan Investment Board (CPPIB), Canada's largest PRI signatory. The report also appraises the diverse services included with PRI membership, including professional development opportunities to support signatories in addressing knowledge barriers and improving information access, the facilitation of best practices in environmental, social, and governance (ESG) investment analysis, and the opportunities for collaboration through the PRI's public partnerships. Particular focus is placed on the Enhanced Research Portal, the Engagement Clearinghouse, the country networks, webinars and the PRI in Practice. A breakdown of the organization's reporting mechanism and material costs is also included.

The report concludes it is highly beneficial for the University of Toronto to expand its diligence and capacity for incorporating ESG issues into its investment decision-making by becoming a signatory to the PRI and adopting the Principles for Responsible Investment. By doing so, the University will continue to establish itself as a leading university, placing itself in a better position to mitigate long term financial risk, to take advantage of investment return opportunities, and to participate in collaborative engagement initiatives associated with ESG issues, where it deems appropriate.

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Introduction

The focus of this report is to act as an informational guide to the costs and benefits of the University of Toronto, (i.e. University) becoming a signatory of the Principles for Responsible Investment (PRI) initiative. This initiative encourages active investment: active in managing the risks of environmental, social, and governance (ESG) issues in the short and long term, active in voting and engaging with companies on ESG issues, and active in collaborating with other investors of various sizes on ESG initiatives. Over the long term, this report suggests that this approach will result in a more prudent risk mitigating investment process for the University.

Presently, the University is guided by *The Policy on Social and Political Issues with Respect to University Divestment* as amended on March 4, 2008 by the Office of the Governing Council of the University. The policy states:

The University's core academic values include freedom of inquiry and open debate. As a general matter, the University does not take a position on social or political issues apart from those directly pertinent to higher education and academic research. Instead, its role is to provide a forum within which those issues can be studied carefully and debated vigorously. Given these values, the University will not consider any proposals for restrictions on its investments that require the institution to take sides in matters that are properly the subject of ongoing academic inquiry and debate.¹

It is becoming increasingly clear, however, failure to incorporate environmental, social, and governance (ESG) issues into investment decision-making can contribute to a larger market risk over the long term. Ignored, ESG risks do more than harm the reputation of a university's reputation. They endanger the steady growth of their endowment and pension funds. Awareness of these risks has led more than 40 American universities to implement responsible investment (RI) policies and advisory groups. Poor corporate governance practices are widely believed to have contributed to the financial crisis of 2008. There are material regulatory, legal, and operational risks to neglecting future social and environmental developments. The global environmental costs resulting from human activity amounted to an estimated US\$ 6.6 trillion in 2008, equating to 11% of the value of the 2008 global economy, and are projected to continue

¹ Governing Council. "Policy on Social and Political Issues with Respect to University Divestment", University of Toronto.

to increase.²

Due to the risks and opportunities increasingly associated with ESG issues, they are becoming of increasing relevance to regulators. An example of this can be seen in the 2011 Ontario Budget released on March 29, 2011. Chapter III: Tax and Pension Systems for Ontario's Future states, "...the government proposes to require (pension) plans to file Statements of Investment Policies and Procedures (SIPPs) with the regulator and disclose whether or not their SIPPs address environmental, social or governance factors."³ If these recent changes to disclosure rules in Ontario are any indication of the future regulatory trends, Canadian universities will be facing increasing pressure to adopt responsible investing practices.

The United Nations Environment Programme Finance Initiative (UNEP) has indicated the need for greater awareness that large institutional investors are, in effect, 'Universal Owners', as they often hold highly-diversified and long-term portfolios that are representative of global capital markets. Their portfolios are inevitably exposed to growing and widespread volatility. As such, externalities have a direct financial effect on Universal Owners, given their overall exposure to the market. "They can positively influence the way that business is conducted in order to reduce externalities and minimise their overall exposure to these costs... Institutional investors can, and should, act collectively to reduce financial risk."⁴

The University indeed faces many challenges, both in the present and over the long-term, in meeting such investment expectations. The following report will outline how the methods, practices, and support offered by the PRI framework will enable the University to more prudently meet its long-term financial obligations, reduce long-term uncertainty, and continue to satisfy its underlying mission and fiduciary responsibilities.

What are the six principles of the PRI?

The Principles for Responsible Investment were initially developed in 2005 by an

² Universal Ownership, "Why environmental externalities matter to institutional investors", 2010, UNEP Finance Initiative

³ Turning the Corner to a Better Tomorrow, 2011 Ontario Budget, The Honourable Dwight Duncan, Minister of Finance, Budget Papers

⁴ Universal Ownership, "Why environmental externalities matter to institutional investors", 2010, UNEP Finance Initiative, p.2

international group of institutional investors and international organizations to reflect the increased relevance of ESG outcomes for investment analysis. The process was convened by former United Nations Secretary-General Kofi Annan and was launched personally in April 2007. The resulting Principles for Responsible Investment states:⁵

As institutional investors, we have a duty to act in the long-term best interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognize that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

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

Possible actions:

- Address ESG issues in investment policy statements
- Support development of ESG-related tools, metrics, and analyses
- Assess the capabilities of internal investment managers to incorporate ESG issues
- Assess the capabilities of external investment managers to incorporate ESG issues
- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis
- Encourage academic and other research on this theme
- Advocate ESG training for investment professionals

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

Possible actions:

- Develop and disclose an active ownership policy consistent with the Principles
- Exercise voting rights or monitor compliance with voting policy (if outsourced)
- Develop an engagement capability (either directly or through outsourcing)
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights)
- File shareholder resolutions consistent with long-term ESG considerations
- Engage with companies on ESG issues
- Participate in collaborative engagement initiatives
- Ask investment managers to undertake and report on ESG-related engagement

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

⁵ "The Principles for Responsible Investment" online: Principles for Responsible Investment <<http://www.unpri.org/principles>>

Possible actions:

- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative)
- Ask for ESG issues to be integrated within annual financial reports
- Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact)
- Support shareholder initiatives and resolutions promoting ESG disclosure

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

Possible actions:

- Include Principles-related requirements in requests for proposals (RFPs)
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate)
- Communicate ESG expectations to investment service providers
- Revisit relationships with service providers that fail to meet ESG expectations
- Support the development of tools for benchmarking ESG integration
- Support regulatory or policy developments that enable implementation of the Principles

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

Possible actions:

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning
- Collectively address relevant emerging issues
- Develop or support appropriate collaborative initiatives

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

Possible actions:

- Disclose how ESG issues are integrated within investment practices
- Disclose active ownership activities (voting, engagement, and/or policy dialogue)
- Disclose what is required from service providers in relation to the Principles
- Communicate with beneficiaries about ESG issues and the Principles
- Report on progress and/or achievements relating to the Principles using a 'Comply or Explain' approach
- Seek to determine the impact of the Principles
- Make use of reporting to raise awareness among a broader group of stakeholders

Who are current signatories to the PRI?

The PRI currently has 905 signatories worldwide, consisting of 235 asset owners, 506

investment managers, and 164 professional service partners. As of April 2011, signatories to the PRI collectively had US\$25 trillion of assets under management.⁶ Asset owners are those legal entities responsible for the maintenance of the confidentiality, availability and integrity of the investment fund, whether as foundations, endowments, or pension funds. Investment managers are those that serve an institutional or retail markets and administer assets as a third-party provider. Professional service partners offer products or services to asset owners or investment managers, such as risk analytics. Signatories can self-select the category they fall into, but the PRI Advisory Council reserves the right to modify the classification. The PRI asks the *highest* level of a company to join on behalf of the entire organization, including on behalf of its subsidiaries. However, to ensure that ESG integration is more than an "add-on", the PRI does not extend membership status to funds-of-funds, portfolios comprised solely of other portfolios. The PRI is concerned with internal or subsidiaries' governance of direct investments in shares, bonds, or other securities.⁷

Therefore, as the ultimate asset owner, the University of Toronto would be the recommended signatory to the PRI, and by extension convey membership status to UTAM. The funds-of-funds sections of our current asset mix, such as some hedge funds and LP private investments, may not be included in signing onto the PRI. This would not affect UTAM's responsibility for the investment strategy, risk management, and supervision of our external managers. It is in this governance capacity that UTAM has expressed its preference for "separate accounts over pooled funds" to ensure "greater transparency, direct control of the

⁶ United Nations Principles for Responsible Investment, "About Us", <<http://www.unpri.org/about>>

⁷ "Who can become a signatory?" online: Principles for Responsible Investment <http://www.unpri.org/sign/who_become_signatory.php>

assets, etc."⁸ It is this separation that enables UTAM to become a meaningful participant in the PRI even though most of its equity holdings are administered externally. The PRI both suggests and offers resources to assess the capabilities of external investment managers to incorporate ESG factors, to advocate for ESG training, and to demand more transparency on ESG-related engagement, such as the "PRI in Practice" database discussed subsequently.

How does the University of Toronto compare to other signatories?

Of the 905 signatories to the PRI, there are 35 in the Canadian network. Since the University of Toronto constitutes an asset owner, the figures below have been provided for a cross-category comparison that provides insight into how UTAM's gross assets and internal-external management divide compare with other institutions in the peer group.

Table 1 – Asset Owners⁹

Asset Owners	Assets	Percentage Handled Externally
British Columbia Municipal Pension Plan	\$24 billion as of 31 December 2009 ¹⁰	37% ¹¹
Caisse de dépôt et placement du Québec	\$151.7 billion as of 31 December 2010 ¹²	0% ¹³
Canada Pension Plan Investment Board	\$140.1 billion fund as of 31 December 2010 ¹⁴	Data not available
Comité syndical national de retraite Bâtirente	\$789.6 million as of 31 December 2009 ¹⁵	Data not available

⁸ "Investment Philosophy" online: University of Toronto Asset Management Corporation <http://www.utam.utoronto.ca/invest_htm/philosophy_htm.htm>

⁹ "Signatories to the Principles for Responsible Investment" online: Principles for Responsible Investment <<http://www.unpri.org/signatories>>

¹⁰ "Municipal Pension Plan 2009 Annual Report" online: Municipal Pension Plan <<http://www.pensionsbc.ca/portal/page/portal/pencorcontent/mpppage/publications/annualreports/mppar2009print.pdf>>

¹¹ "Investments" online: bcimc <<http://www.bcimc.com/investments/Default.asp>>

¹² "Returns" online: Caisse de dépôt et placement du Québec <<http://www.lacaisse.com/en/chiffres/chiffres/Pages/rendements.aspx>>

¹³ "Our Profession, Investor" online: Caisse de dépôt et placement du Québec <<http://www.lacaisse.com/en/lacaisse/Pages/metier.aspx>>

¹⁴ "Total Portfolio View" online: CPPIB <http://www.cppib.ca/Investments/Total_Portfolio_View/>

¹⁵ "Connected to Life: 2009 Annual Global Report" online: Bâtirente <https://investissement.ssq.ca/batirente/en/fondBatirente/documentation/docElectronique/2009_Annual_and_Global_Report.pdf>

OPSEU Pension Trust	\$17 billion as of 31 December 2009 ¹⁶	Data not available
Public Service Alliance of Canada Pension Fund	Data not available	Data not available
Régime de Retraite de l'Université de Montréal	\$2.4 billion as of 31 December 2009 ¹⁷	60.7% ¹⁸
Régime de retraite de l'Université du Québec	\$2.4 billion as of 31 December 2010 ¹⁹	Data not available
Société d'assurance-vie inc. (SSQ)	\$2.51 billion as of 31 December 2009 ²⁰	Data not available
Toronto Atmospheric Fund	\$21.5 million as of 31 December 2009 ²¹	Data not available

Table 2 – Investment Managers²²

Investment Managers
Alberta Investment Management Corporation
AlphaFixe Capital Inc.
Bentall LP
British Columbia Investment Management Corporation
Cordiant
Fiera Capital Inc
Fonds Desjardins
Gestion FÉRIQUE
Growthworks Capital
Meritas Financial Inc.
Natcan Investment Management
Northwest & Ethical Investments LP
Presima
Sarona Asset Management
TD Asset Management Inc.
Vancity Investment Management
XPV Capital Corporation

Table 3 – Professional Services Partners²³

¹⁶ "Working Together for a Secure Future: Annual Report 2009" online: OPTrust <http://www.optrust.com/AnnualReports/AR2009/OPTrust_AR_2009.pdf>

¹⁷ "Régime de Retraite de l'Université de Montréal: Rapport Annuel 2009" online: Régime de Retraite de l'Université de Montréal <http://www.rrum.umontreal.ca/documents/RAP.ANN.RRUM_2009.pdf>

¹⁸ "Régime de Retraite de l'Université de Montréal: Rapport Annuel 2009" online: Régime de Retraite de l'Université de Montréal <http://www.rrum.umontreal.ca/documents/RAP.ANN.RRUM_2009.pdf>

¹⁹ "Allocation des actifs" online: Régime de retraite de l'Université du Québec <http://www.rruq.ca/placements/allocation_des_actifs.aspx>

²⁰ "Annual Report 2009" online: SSQ Financial Group <<http://www.ssq.ca/en/annual-report2009.html>>

²¹ "Toronto Atmospheric Fund 2009" online: Toronto <<http://www.toronto.ca/taf/pdf/2009-annual-report.pdf>>

²² "Signatories to the Principles for Responsible Investment" online: Principles for Responsible Investment <<http://www.unpri.org/signatories/>>

Professional Service Partners

Ashley Hamilton Consulting
Caisse d'économie solidaire Desjardins
Corporate Knights Research Group
Groupe Investissement Responsable
Les Actuaire-Conseils Bergeron & Associés inc
RRSE – Environmental Health Research Network
SHARE – Shareholder Association for Research & Education
Strategic Sustainable Investments

From 2005-2010, the value of UTAM assets under management consistently ranged between approximately \$4.5 and \$5.5 billion (\$CDN).²⁴ Therefore, UTAM would, in terms of its portfolio size, be situated at roughly the median of Canadian asset owners who have signed onto the PRI.

How does the PRI facilitate best practices?

The PRI Secretariat and its Principles were developed over a series of meetings and consultations over a nine month time span, bringing together individuals representing 20 institutional investors from 20 different countries and notable IGO partners such as the UN Environment Programme Finance Initiative and the UN Global Compact.²⁵ These Principles represent their collective determination to create a flexible yet clear set of best practice guidelines for institutional investors. It also reflects a desire to share resources and formulate partnerships with other institutional investors. A 2009 survey indicated that approximately 75 percent of signatories had collaborated with others to some extent; this does not eliminate resource requirements, but it can drastically reduce them.²⁶ In addition to discounted services, PRI membership offers the University the opportunity to increase its influence, and enhance its image. In the sections below, we will outline how implementing the PRI can facilitate ESG

²³ Signatories to the Principles for Responsible Investment" online: Principles for Responsible Investment <<http://www.unpri.org/signatories/>>

²⁴ "Investment Performance," online: University of Toronto Asset Management Corporation <<http://www.utam.utoronto.ca/invested/performance.htm>>

²⁵ United Nations Principles for Responsible Investment <<http://www.unpri.org>>

²⁶ KPA Advisory Services Ltd., "Peter Drucker's 'Pension Fund Socialism': Still a Work-In-Progress," *The Ambachtsheer Letter* (December 2009) No. 287 at 2.

analysis and how ongoing support from the PRI Secretariat will ensure that investment practices at the University keep pace with developing methods of financial risk mitigation and the long-term profitability of investments.

Country Networks

In addition to serving as an information resource itself, a major role of the PRI Secretariat is to interconnect signatories, allowing members to draw on the knowledge and experience of other signatories of similar asset size and comparable investment goals.²⁷ This organized mentorship is voluntary and in no way prescriptive. Facilitating this collaboration are region-oriented "country networks", which are active in a number of countries, expanding into Canada. These networks offer local support for signatories to address region-specific challenges in implementing ESG analysis, addressing region-specific challenges, often with established working groups which examine local issues in engagement, integration, outreach, or the responsibilities of asset owners.²⁸

Country networks range in size, from a high of 119 members in Australia to a low of 18 in Japan.²⁹ An interesting illustration of their activities is PRI South Africa, launched in 2009, now with a membership of 30 signatories. This network provides a forum in which signatories can "discuss ideas, share experiences, and collaborate on a range of ESG issues that are material for investment decision-making in South Africa."³⁰ It has challenged South Africa's 'acting on concert' regulations proposed to the South African Regulation Panel and "successfully presented the case for collaborative shareholder engagement on ESG issues" that is a

²⁷ United Nations, Annual Report of the PRI Initiative 2010, (New York: UN, 2010) at 6. [Annual Report] Online: http://www.unpri.org/files/annual_report2010.pdf

²⁸ United Nations Principles for Responsible Investment, "PRI Local Networks", <<http://www.unpri.org/networks/index.php>>

²⁹ United Nations Principles for Responsible Investment, "PRI Local Networks", <<http://www.unpri.org/networks/index.php>>

³⁰ United Nations, Annual Report of the PRI Initiative 2010, (New York: UN, 2010) at 18. [Annual Report] Online: http://www.unpri.org/files/annual_report2010.pdf PRI, *Annual Report of the PRI Initiative 2010*

foundation of the PRI.³¹

Private Equity Work Stream

With a balanced and even distribution of general and limited partners on its steering committee, and with the inclusion of some fund-of-funds, the Private Equity work stream includes signatories representing over \$US 350 billion in assets under management.³² Established in 2009, this work stream has already released two invaluable documents: a general guideline for Limited Partners, and a booklet of over 13 different case studies, ranging from the New Zealand Superannuation Fund to Blackstone and Hilton Hotels.³³ The Private Equity work stream also co-hosts an annual conference with Private Equity International (PEI) that tackles current themes in the investment industry. Finally, such work streams make staying up-to-date easier for its membership by identifying and disseminating existing research on ESG issues relevant to Limited Partners and, where deemed relevant and valuable, by soliciting research from the PRI Academic Network.³⁴

Engagement Clearinghouse

Corporate engagement on any given ESG issue can be "too big and complex for any one investor" and often requires a pooling of shareholders' knowledge, resources, and influence.³⁵ Therefore, the Engagement Clearinghouse, perhaps the most important collaborative tool offered by the PRI, was created to provide signatories with a forum to

³¹ United Nations, Annual Report of the PRI Initiative 2010, (New York: UN, 2010) at 18. [Annual Report] Online: http://www.unpri.org/files/annual_report2010.pdf

³² United Nations, Annual Report of the PRI Initiative 2010, (New York: UN, 2010) at 16. [Annual Report] Online: http://www.unpri.org/files/annual_report2010.pdf

³³ United Nations, Responsible Investment in Private Equity: Case Studies, (New York: UN, 2009) at 16. Online: <http://www.unpri.org/files/PrivateEquityCS151209H.pdf>

³⁴ United Nations Principles for Responsible Investment, "Private Equity Work Stream", <http://www.unpri.org/privateequity/>

³⁵ United Nations, Annual Report of the PRI Initiative 2010, (New York: UN, 2010) at 8. [Annual Report] Online: http://www.unpri.org/files/annual_report2010.pdf

exchange information on current or desired engagement activities. The PRI is conscious that many smaller funds do "not have dedicated resources" and it is through cooperation with peer signatories that active ownership becomes "affordable and more effective."³⁶ The Secretariat thus offers support to develop simple, effective engagement strategies, which are minimally demanding on signatories, and acts as administrative support for several of the more "time-consuming and resource-intensive activities involved in an engagement."³⁷

In 2010, the Clearinghouse is credited with the facilitation of 85 distinct investor engagement campaigns involving 223 PRI signatories.³⁸ Of the 2,235 firms contacted on at least one systemic ESG issue, 330 companies came to the table to engage in an "in-depth investor dialogue" with its Clearinghouse participants. There are generally over 20 active collaborative efforts at any one time, ranging from direct management dialogue, mutual letter campaigns, proxy voting collaboration, and joint public endorsements.³⁹

PRI in Practice

For new signatories to the PRI, perhaps the most useful of resources is the "PRI in Practice", a unique extranet database with close to 100 articles, interviews, and briefings providing details on implementing the Principles.⁴⁰ The PRI in Practice targets the most difficult areas of implementation and offers materials to signatories outlining how previous members have addressed these obstacles. It also contains an invaluable special section, the Small Funds Initiative (SFI), which aims to help resource-constrained funds. The SFI has developed a set of best practice case studies demonstrating how the costs of engagement, ESG research,

³⁶ United Nations, Annual Report of the PRI Initiative 2010, (New York: UN, 2010) at 8. [Annual Report] Online: http://www.unpri.org/files/annual_report2010.pdf

³⁷ United Nations Principles for Responsible Investment, "Services and Networks", <http://www.unpri.org/sign/service_and_networks.php#Home>

³⁸ United Nations, Annual Report of the PRI Initiative 2010, (New York: UN, 2010) at 8. [Annual Report] Online: http://www.unpri.org/files/annual_report2010.pdf

³⁹ United Nations Principles for Responsible Investment, "Services and Networks", <http://www.unpri.org/sign/service_and_networks.php#Home>

⁴⁰ United Nations, Annual Report of the PRI Initiative 2010, (New York: UN, 2010) at 15. [Annual Report] Online: http://www.unpri.org/files/annual_report2010.pdf

completing the PRI assessment, and other aspects of implementation can be achieved despite limited resources.⁴¹ One of the featured success stories of the SFI initiative is Canadian asset owner Bâtirente, a US\$ 800 million fund that was able to collaborate with RRSE to engage with Talisman Energy on adopting a Free, Prior, and Informed Consent (FPIC) approach to their indigenous people's relations.⁴²

What professional development opportunities does the PRI offer?

The PRI Secretariat and the organization's current membership work with new signatories to educate their internal staff and subsidiaries about the tools and resources that can assist them in becoming responsible investors. The PRI provides investors with numerous opportunities for networking, mentoring, interview opportunities, and events and conferences.⁴³ Some specific educational benefits that the PRI offers are diverse webinars, research databases, seminars, and conference partnerships.

Conferences/Events

The organization has relationships with a number of conference organizers, and so is able to offer its membership discounts on events all across the world. Significantly, a sizeable number of these activities are conveniently located in North America, with conferences held in Ottawa, Montreal, San Francisco, and New York in the 2009-2010 year.⁴⁴ The PRI also connects members with a database of external-run online conference and events that are exclusive to signatories and accessible through a password protected extranet website.⁴⁵

Webinars

The PRI provides its members with about three webinars a month, exclusively for

⁴¹ United Nations, Annual Report of the PRI Initiative 2010, (New York: UN, 2010) at 17. [Annual Report] Online: http://www.unpri.org/files/annual_report2010.pdf

⁴² United Nations, Annual Report of the PRI Initiative 2010, (New York: UN, 2010) at 17. [Annual Report] Online: http://www.unpri.org/files/annual_report2010.pdf

⁴³ "Become a signatory" online: Principles for Responsible Investment <<http://www.unpri.org/sign/>>

⁴⁴ "Press and events" online: Principles for Responsible Investment <<http://www.unpri.org/news/>>

⁴⁵ "Services and networks: Conferences and events" online: Principles for Responsible Investment <http://www.unpri.org/sign/service_and_networks.php#conferences>

signatories.⁴⁶ These are conference calls that include an online presentation, usually featuring expert speakers.⁴⁷ The topics are a mixture of emerging ESG and investment issues, and often lead to new ideas for internal and collaborative investor strategies.⁴⁸ Recent webinars have covered vital topics of interest to ESG integration at the University of Toronto, such as “Proxy Voting in a resource constrained organisation: Guidance for smaller funds on how to be an active owner on limited resources” or webinars on real assets such as “The green lease” which discussed how property investments can take ESG factors into account when engaging with tenants on retrofitting buildings.⁴⁹ Other webinars have covered pressing developments in finance such as “COP15” and the implications of potential outcomes of climate change negotiations (e.g. Copenhagen) and “Big banks and political lobbying: A discussion on corporate influence on economic policy, with a specific focus on banks and the US.”⁵⁰ Past speakers have included Bob Monks, a shareholder activist; Pavan Sukhdev, head of the Green Economy Initiative, UNEP; Dana Krechowicz, an associate from the World Resources Institute; and Pascal Saint-Amans, head of the International Cooperation and Tax Competition Division of the OECD.⁵¹

PRI Academic Network

The PRI’s ability to produce such extensive and thorough research is in part the result of its Academic Network consisting of over 300 academics, investment practitioners, and policy makers representing a diverse array of research interests from all over the world. This network aims to provide implementation support to PRI signatories by promoting and funding research and events that generate relevant, pragmatic responsible investment research, which the various PRI work streams disseminate to interested members. It hosts an annual conference

⁴⁶ United Nations, Annual Report of the PRI Initiative 2011, (New York: UN, 2011) at 8. [Annual Report] Online: http://www.unpri.org/files/annual_report2010.pdf

⁴⁷ United Nations, Annual Report of the PRI Initiative 2010, (New York: UN, 2010) at 14. [Annual Report] Online: http://www.unpri.org/files/annual_report2010.pdf

⁴⁸ United Nations, Annual Report of the PRI Initiative 2010, (New York: UN, 2010) at 14. [Annual Report] Online: http://www.unpri.org/files/annual_report2010.pdf

⁴⁹ United Nations, Annual Report of the PRI Initiative 2010, (New York: UN, 2010) at 14. [Annual Report] Online: http://www.unpri.org/files/annual_report2010.pdf

⁵⁰ United Nations, Annual Report of the PRI Initiative 2010, (New York: UN, 2010) at 14. [Annual Report] Online: http://www.unpri.org/files/annual_report2010.pdf

⁵¹ United Nations, Annual Report of the PRI Initiative 2010, (New York: UN, 2010) at 14. [Annual Report] Online: http://www.unpri.org/files/annual_report2010.pdf

and co-manages the Young Scholars Finance Academy in partnership with the Swiss-based Oikos Foundation. The Academic Network also produces the monthly *RI Digest*, an e-bulletin that reviews the latest academic research on responsible investment.⁵²

The PRI Academic Network operates under "themes", areas identified as crucial research gaps by the Network, PRI signatories, and its partner organizations. There are presently 5 research themes, each with 1-5 projects underway. We list below some of the sample research questions on each topical area:⁵³

A. Cross-national studies of law and policy on responsible investment:

- What are the links in the capital market supply chain? How are they regulated? Are there conflicting incentives among different segments of the supply chain?
- What options are there for compensation to be regulated in the capital market supply chain?

B. Evaluating corporate engagement as a mechanism for investors to change ESG investment practices:

- How do companies react to investor engagement activities?

C. Identifying ESG criteria which impact long term company financial performance:

- Do 'responsible' businesses have different governance structures than 'irresponsible' businesses?
- What roles do board level social responsibility committees play in developing a sustainable business?
- What types of labour issues can be defined as material? How can they be measured? How are they different across businesses and industries?

D. Comparing responsible investment practices across organizations and asset classes:

- Does "short-termism" in financial markets undermine economic stability? How?
- What role do credit rating agencies play in stabilising/destabilising financial markets?

F. Identifying how and when environmental externalities negatively affect fund performance:

- What are the key externalities being imposed on the global or regional economies by the actions of corporations?
- How do these externalities affect the returns of specific or large hypothetical diversified portfolios?
- What might be the financial benefits to the investment community of the reduction in externalities associated with poor corporate practices?
- How do large scale environmental disasters such as oil spills impact a pension fund over

⁵² 'Academic Network' online: Principles for Responsible Investment
<<http://www.unpri.org/sign/academic.unpri.org>>

⁵³ PRI Academic Network, "Research Overview",
<http://academic.unpri.org/index.php?option=com_content&view=article&id=211&Itemid=100047>

time?

Contributors include academics such as the Oxford School of Geography, Hauser Centre for Non-Profit Organizations at Harvard University, as well as the Carleton Centre for Community Innovation. It also includes highly respected third-party partners such as Trucost and the Sustainable Investment Research Platform.⁵⁴

Enhanced Research Portal

In the 'Enhanced Research Portal, asset owners and investment managers have exclusive access to "a definitive catalogue of quality ESG research" that is available to signatories at a reduced cost.⁵⁵ This database of research is produced based on collective expectations so that the ESG analysis is relevant and attuned to investors needs.⁵⁶ It has strict criteria for research eligibility, and the catalogue is organized based on the diverse research interests as expressed by asset owners/managers, such as materiality and time horizon studies.⁵⁷

How do the PRI's public partnerships support the business interests of UTAM?

Given the size of most asset owners, it can be extremely difficult to individually engage with governments and regulatory bodies on specific ESG issues. The support services of the PRI provide a forum for institutional investors and investment managers to collectively enter dialogue with policy officials and participate in public partnerships. Signatories to the PRI represent assets of approximately US\$25 trillion, over 10 percent of the global capital market.⁵⁸ This level of capital ownership allows for greater influence in steering the policies of governments and regulatory bodies, and allows signatories to better seek agency over long-

⁵⁴ PRI Academic Network, "Current Research Projects", <http://academic.unpri.org/index.php?option=com_content&view=category&layout=blog&id=48&Itemid=100048>

⁵⁵ "Services and networks: Enhanced research" online: Principles for Responsible Investment <http://www.unpri.org/sign/service_and_networks.php#research>

⁵⁶ United Nations Principles for Responsible Investment, "PRI Enhanced Research Portal," <<http://www.unpri.org/research/index.php>>

⁵⁷ United Nations Principles for Responsible Investment, "PRI Enhanced Research Portal," <<http://www.unpri.org/research/index.php>>

⁵⁸ United Nations Principles for Responsible Investment, "About Us", <<http://www.unpri.org/about>>

term ESG concerns. The PRI Secretariat takes an active role in promoting the adoption of PRI-friendly regimes within governments and regulatory bodies through its newly launched Public Policy Network, as well as through ongoing collaborations with PRI signatories, NGOs, and other global institutions.

Public Policy Network

Social reporting is often divided into three categories: human resources (including employment indicators, remuneration, equity, and diversity); community (including the impact on and engagement with local populations and stakeholders); and labour standards (including respect for and the promotion of International Labour Organization (ILO) conventions).⁵⁹ Environmental reporting covers issues such as air, water, and ground emissions, as well as the consumption of energy, water, and raw materials.⁶⁰ The global financial markets recognize the need for transparency in social reporting in their regulatory mandates. In 2006, the United Kingdom passed *The British Companies Act*, mandating that companies listed on the London Stock Exchange disclose environmental, workplace, social, and community data in their annual Business Review.⁶¹ Similarly, the Johannesburg Stock Exchange (JSE) mandates that social and environmental data from all listed companies be included in their traditional annual financial reports.⁶² Matt Christensen, the Executive Director of the European Sustainable Investment Forum, has expressed that the EU is close to making ESG disclosures mandatory for companies.⁶³ If successful, this would represent the largest regulatory change to date for the PRI.

The PRI Public Policy network was established in 2010 to bring together policy representatives and PRI signatories for the purpose of discussing responsible investment

⁵⁹ William Baue, "New French Law Mandates Corporate Social and Environmental Reporting" Sustainability Investment News (14 March 2002) online: <<http://www.socialfunds.com/news/article.cgi?sfArticleId=798>>

⁶⁰ William Baue, "New French Law Mandates Corporate Social and Environmental Reporting", Sustainability Investment News (14 March 2002) online: <<http://www.socialfunds.com/news/article.cgi?sfArticleId=798>>

⁶¹ Domini Social Investments, *Innovations in Social and Environmental Disclosure Outside the United States*, (New York: Domini Social Investments, November 2008) at 4. [Domini] Online: <http://www.domini.com/common/pdf/Innovations_in_Disclosure.pdf>

⁶² Domini Social Investments, *Innovations in Social and Environmental Disclosure Outside the United States*, (New York: Domini Social Investments, November 2008) at 5. [Domini] Online: <http://www.domini.com/common/pdf/Innovations_in_Disclosure.pdf>

⁶³ Daniel Brooksbank, "EU "close" to making corporate ESG disclosure mandatory - Eurosif", Responsible Investor (2 February 2011) online: <http://www.responsibleinvestor.com/home/article/eu_close_to_making_corporate>

practices.⁶⁴ Responsible investors recognize that appropriate regulatory frameworks and governmental support are essential to the ongoing development of responsible investing.⁶⁵ The PRI therefore encourages signatories to share their views on the best strategies to leverage regulations and public resources in order to develop more sustainable capital markets.⁶⁶ So far, the results have been largely positive. There are non-financial (ESG) disclosure regimes in Denmark, France, Sweden, Malaysia, and the UK.⁶⁷ France's adoption of mandatory non-financial disclosures actually predates the creation of the PRI but now requires that all companies listed on the Euronext Paris Primary Market include information on social and environmental issues in their annual reports.⁶⁸

Collaborative Achievements

Much of the lobbying that takes place within the PRI framework results from collaborations between PRI signatories and outside groups, including NGOs, corporations, and policy officials. The success of the PRI initiative lies in the strength and reputation of its sizeable collective voice. It is important to note that these investor collaborations are entirely optional for all signatories. As such, the University of Toronto can become active in these collaborations as it best sees fit.⁶⁹ These collaborations take many forms, from writing a joint letter to a specific company, to holding detailed discussions about the challenges facing the global financial system.⁷⁰ The PRI Clearinghouse is specifically designed to facilitate these joint initiatives, and supports more than fifty collaborative engagements each year.⁷¹ The PRI Secretariat provides administrative support to ensure that shareholder engagements are simple to participate in, and

⁶⁴ Daniel Brooksbank, "UNPRI to start lobbying on ESG regulation", *Responsible Investor* (19 March 2010) online: <http://www.responsible-investor.com/home/article/unpri_to_start_lobbying_on_esg_regulation>

⁶⁵ United Nations Principles for Responsible Investment <<http://www.unpri.org>>

⁶⁶ United Nations Principles for Responsible Investment <<http://www.unpri.org>>

⁶⁷ Domini Social Investments, *Innovations in Social and Environmental Disclosure Outside the United States*, (New York: Domini Social Investments, November 2008) at 3. [Domini] Online: <http://www.domini.com/common/pdf/Innovations_in_Disclosure.pdf>

⁶⁸ Daniel Brooksbank, "EU "close" to making corporate ESG disclosure mandatory - Eurosif", *Responsible Investor* (2 February 2011) online: <http://www.responsible-investor.com/home/article/eu_close_to_making_corporate>

⁶⁹ United Nations, *Annual Report of the PRI Initiative 2010*, (New York: UN, 2010) at 12. [Annual Report] Online: http://www.unpri.org/files/annual_report2010.pdf

⁷⁰ United Nations Principles for Responsible Investment <<http://www.unpri.org>>

⁷¹ United Nations Principles for Responsible Investment <<http://www.unpri.org>>

as effective as possible.⁷² Below are a few examples of ongoing collaborations, among some PRI signatories:

Sustainable Stock Exchanges – The PRI, with the UN Conference on Trade and Development, the UN Global Compact Office, and the International Organization for Securities Commissions organized a conference to develop the relationship between all major exchanges and the regulatory frameworks in which they operate, in order to better streamline ESG issues. They brought together 1500 leaders from various stakeholder groups across the world, including governments, businesses, international organizations, civil society, investment promotion agencies, and investment experts and practitioners.⁷³ In March 2011, PRI signatories contacted 30 global stock exchange CEOs about findings on the structure, independence, and quality of board of directors on long-term sustainability and prompting discussion on whether shareholders should have a non-binding vote on a firm's sustainability reports or sustainability strategy.⁷⁴

The Emerging Market Disclosure Project – This project is an international initiative led by several U.S. signatories to assess and improve corporate ESG reporting in emerging markets.⁷⁵ Global providers of ESG data largely offer limited non-financial (ESG) information about companies listed in emerging stock markets, and local research organizations generally lack the capacity to offer these types of products to investors.⁷⁶ Yet investors are demanding more and more responsible investment products and services for emerging market equities. The prospect of growth for these products will likely improve corporate transparency and ESG performance in these economies.⁷⁷ However, without the necessary research and tools, these developments

⁷² United Nations, Annual Report of the PRI Initiative 2010, (New York: UN, 2010) at 8. [Annual Report] Online: <http://www.unpri.org/files/annual_report2010.pdf>

⁷³ United Nations Principles for Responsible Investment <<http://www.unpri.org>>

⁷⁴ United Nations Principles for Responsible Investment, "Collaborative Engagements by PRI signatories", <<http://www.unpri.org/collaborations>>

⁷⁵ United Nations Principles for Responsible Investment <<http://www.unpri.org>>

⁷⁶ United Nations Principles for Responsible Investment <<http://www.unpri.org>>

⁷⁷ United Nations Principles for Responsible Investment <<http://www.unpri.org>>

will be slow to occur.⁷⁸ This project has benefited from the technical advisory support of the PRI Secretariat to conduct several vital baseline studies, to engage companies, and to score vital concessions on ESG reporting.⁷⁹ For instance, Brazil, China, India, Indonesia, Russia, and South Korea all have some form of ESG reporting and analysis due in large part to contributions of PRI members to this project.⁸⁰

As outlined, the PRI initiative provides a framework within which signatories can work together, alongside the Secretariat, to lobby regulatory bodies. The weight of a PRI-backed proposal is gaining favour globally, and this influence continues to grow through the successes of signatory-driven initiatives. Signing onto any initiative is purely voluntary, enabling the University to be flexible and play an active or passive role in policy development. The regulatory achievements of the Public Policy Network provides more ESG transparency and accountability, in both traditional and developing industries and geographical regions alike, allowing for more informed decision-making, leading to superior risk mitigation, and opportunities for investor influence.

Image and Reputation

The PRI has strong partnerships with various organs of the United Nations, specifically the UNEP and the United Nations Global Compact. In joining the PRI, signatories reap the reputational benefits associated with being affiliated with these organizations.⁸¹ Furthermore, the PRI itself serves as a credible signal to both potential donors and students of the University's commitment to promoting increased governance, accountability and sustainability in its investments. The PRI has become a standard within the industry and the predominant way to demonstrate a pledge to integrate ESG factors into investment decision-making.

As an increasing number of pension funds engage in responsible investing best

⁷⁸ United Nations Principles for Responsible Investment <<http://www.unpri.org>>

⁷⁹ United Nations Principles for Responsible Investment <<http://www.unpri.org>>

⁸⁰ See United Nations Principles for Responsible Investment <<http://www.unpri.org>>

See also Michael Hasset, "Emerging Market Disclosure Project Renews Calls For Sustainability Reporting", JustMeans (8 March 2010) online: <http://www.justmeans.com/Emerging-Markets-Disclosure-Project-Renews-Call-for-Sustainability-Reporting/10227.html>

⁸¹ PRI, *Annual Report of the PRI Initiative 2010* at 6.

practices, PRI membership is emerging as the most popular means of complying with these demands. The PRI has become “a global standard of best practice within the investment industry” of mainstream investors.⁸² The Executive Director of the PRI, James Gilford, describes becoming a signatory to the PRI as “the primary way in which investors demonstrate...that they are taking ESG issues seriously and doing so within a mainstream, fiduciary context.”⁸³

The Reporting and Assessment Framework (RAP)

Requirements of the RAP

The sixth Principle of the PRI states that a signatory “will report on our activities and progress towards implementing the Principles.”⁸⁴ In practice, this translates into the sole mandatory active requirement of all signatories: complying with the RAP. The RAP is an annual survey via online questionnaire. Members have an optional grace period of one year, after which they will receive an annual invitation to participate in the survey, usually in January or February.⁸⁵ Once this invitation has been sent out, members are given two months in which to complete the RAP survey. To assist in streamlining this task for asset managers, the PRI Secretariat has created the “Offline Survey” illustrating which questions are optional based on the organization's characteristics (e.g. non-corporate pensions/endowments) and offers useful definitions and suggestions for completing each survey question.⁸⁶ Signatories have the option of publishing their findings; in 2010, only 40% elected to publish their results.⁸⁷ Consultations are underway to create a mandatory public reporting initiative which would require signatories to disclose a subset of their progress, scheduled to be rolled out in 2012.⁸⁸

While complying with the reporting requirements will take a certain amount of time and resources, transparency is essential for the legitimacy of the initiative and has benefits to

⁸² PRI, *Annual Report of the PRI Initiative 2010* at 6.

⁸³ James Gilford, PRI Executive Director, quoted in PRI, *Annual Report of the PRI Initiative 2010* at 6.

⁸⁴ PRI, “The Principles for Responsible Investment,” online: <http://www.unpri.org/principles/>.

⁸⁵ PRI, “Reporting and Assessment Survey – Overview,” online: <http://www.unpri.org/reporting/>.

⁸⁶ United Nations Principles for Responsible Investment, *Offline Survey (Questions, Answer Options, and Notes)* at 2, online: http://www.unpri.org/reporting/20110309_offline_survey_2011.pdf.

⁸⁷ PRI, *Annual Report of the PRI Initiative 2010* at 4.

⁸⁸ PRI, *Annual Report of the PRI Initiative 2010* at 7.

signatories in the long run. Such transparency generates a “positive feedback” and helps the public to “understand what can and cannot be done by an investor.”⁸⁹ It creates a pre-packaged source of answers to inquiries from beneficiaries and the public about the institution's investment activity. It expands the "PRI in Practice" database and identifies innovations and areas of concern for the PRI Secretariat to focus on in its webinars, conferences and other professional development services. Finally, each of the PRI signatories receives a personalized feedback report which highlights, for each of the Principles, their relative score against other signatories in different sets of peer groups. This enables signatories to contrast their own progress in implementing the PRI, whether in regional/international terms or over a short-term/long-term horizon.⁹⁰

Access to Confidential Information

Information collected through the Reporting and Assessment Survey is available to the PRI Secretariat and third-party independent partners who help conduct verification calls clarifying responses in the Survey. Information provided by respondents is treated confidentially, with aggregate data being published in a manner that prevents individual organizations from being identified. With explicit permission, the PRI may showcase signatories who have achieved scores in the top quartile of a Principle, or signatories who have made significant efforts or have interesting examples to share.

As mentioned, the PRI may use data for internal purposes to help develop their implementation support activities. Data is eventually made available for re-analysis by select researchers under strict confidentiality protocols whereby no individual signatory's submission shall be disclosed publicly in any way except with explicit authorization from the PRI Secretariat and signatory concerned. Publication of any subsequent research is permitted only if the PRI Secretariat is satisfied that the confidentiality of signatories' responses has been maintained with the highest degree of academic integrity.

⁸⁹ Else Bos, Chief Institutional Business, PGGM, quoted in PRI, Annual Report 2010 at 7.

⁹⁰ PRI, “Reporting and Assessment Survey – Overview,” online: <http://www.unpri.org/reporting/>.

Costs of Membership

In 2011, the PRI introduced an annual subscription fee for membership in the organization. This fee is on a sliding scale relative to the size of the investment fund as measured by assets under management. For funds that are worth US\$ 1-4.99 billion the annual cost is £2,300. For funds worth US\$ 5-9.99 billion, the annual fee is £5,000.⁹¹ However, the PRI does not rely on membership fee as its sole funding and still supplements its services with institutional grants from governments and international organizations.⁹²

Given that the University of Toronto is uniquely situated on the edge of this spectrum, it is feasible that we could negotiate a membership fee at the lower rate. Regardless, the opinion of the PRI Subcommittee is that the savings in research, networking, policy influence, and human capital development outweigh this fee.

Case Study: The CPPIB Experience as a PRI Signatory

In order to better understand how Canadian asset owners have implemented the PRI, we provide a brief case study of the largest asset owner to sign onto the PRI, the Canadian Pension Plan Investment Board (CPPIB). In early 2005, the CPPIB, along with a group of the world's largest institutional investors, helped develop the PRI. Since then, the CPPIB has had great success in implementing the PRI's principles into its investment practice. To help effect changes in the disclosure of environmental, social, and governance (ESG) issues, the CPPIB concentrates its engagement efforts, and is currently targeting climate change, executive compensation, and the extractive industries.

Climate Change

The CPPIB has three goals for its climate change initiatives: (1) improving the disclosure of greenhouse gas (GHG) emissions; (2) reporting on strategies to manage climate change risk and opportunities; and (3) improving research and analysis of the impact of tightening regulation

⁹¹ United Nations Principles for Responsible Investment, "FAQ", <http://www.unpri.org/faqs/>

⁹² United Nations Principles for Responsible Investment, "About Us", <http://www.unpri.org/about/>

of GHG emissions on long-term shareholder value.⁹³ It has already begun to see concrete results, with several companies improving the quality of their reporting on climate change and sustainability issues. Most large companies and significant GHG emitters in Canada now respond to the Carbon Disclosure Project's requests for disclosure, with corporate respondents representative of over 75 percent of the market capitalization of Canada's largest 200 companies in 2009.⁹⁴

Executive Compensation

The CPPIB encourages companies to establish a clear link between pay and performance, and offer clear complete disclosure regarding executive compensation in its corporate reporting. To this end, it has taken an active role in the development of model policies for boards of directors. Additionally, the CPPIB has met with Canadian companies to discuss executive compensation, and supported shareholder proposals (or rejected management proposals) in cases of poor disclosure of executive compensation or in cases where compensation has not matched company performance.⁹⁵ Its efforts have had a significant effect. Measurement of performance relative to peers, executive share ownership requirements, and clawback policies are now far more prevalent in Canada. Several financial institutions have substantially improved the quality of their compensation disclosure, and six out of eight Canadian banks have improved their corporate governance scores on the *Rotman Board Shareholder Confidence Index*.⁹⁶

Extractive Industries

The CPPIB regularly meets with mining companies to discuss environmental and social risks, and it directly engages companies operating in high-risk countries (such as Burma, the Congo,

⁹³ "2009 Report on Responsible Investing" online: CPP Investment Board
<http://www.cppib.ca/files/PDF/CPPIB_RI_Report_2010.PDF>

⁹⁴ "2009 Report on Responsible Investing" online: CPP Investment Board
<http://www.cppib.ca/files/PDF/CPPIB_RI_Report_2010.PDF>

⁹⁵ "2009 Report on Responsible Investing" online: CPP Investment Board
<http://www.cppib.ca/files/PDF/CPPIB_RI_Report_2010.PDF>

⁹⁶ "2009 Report on Responsible Investing" online: CPP Investment Board
<http://www.cppib.ca/files/PDF/CPPIB_RI_Report_2010.PDF>

and Guatemala) encouraging more transparency and risk management strategies.⁹⁷ Since the CPPIB began its engagement efforts, two mining companies have committed to actively participating in the Extractive Industries Transparency Initiative, and several mining companies have implemented the *United Nations Voluntary Principles on Security and Human Rights*. Furthermore, a number of oil and gas companies have also enhanced reporting and management strategies for ESG factors.⁹⁸

It is important to note that the CPPIB has extensive resources, allowing it to develop the most comprehensive responsible investment framework in Canada. There are a substantial number of Canadian PRI Signatories with similar resources as the University of Toronto, such as Régime de Retraite de l'Université de Montréal, who are able to leverage the resource sharing, research, collaboration strategies and professional development of the PRI to adopt effective RI strategies. The CPPIB case study has been examined in this report, solely as it is the most comprehensive available in Canada.

Conclusion

This report outlined how ESG factors are becoming increasingly relevant to investors. Their incorporation into investment decision-making processes is critical for the mitigation of long-term risk, the sourcing of long-term return opportunities, and for increased accountability in the governance of business practices. 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 offers 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 and support in implementing the Principles, and facilitates collaboration and resource-sharing with other signatories, thereby minimizing the costs of implementing the framework. The PRI also provides the University with the Engagement Clearinghouse, a means of lobbying governments and other policy makers, so that policy and

⁹⁷ "2009 Report on Responsible Investing" online: CPP Investment Board
<http://www.cppib.ca/files/PDF/CPPIB_RI_Report_2010.PDF>

⁹⁸ "2009 Report on Responsible Investing" online: CPP Investment Board
<http://www.cppib.ca/files/PDF/CPPIB_RI_Report_2010.PDF>

corporate engagement can be leveraged via collaboration with other signatories in order 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, while continuing to satisfy its fiduciary responsibilities.

In conclusion, the PRI Subcommittee believes it is highly beneficial for the University of Toronto to expand its capacity to incorporate ESG issues into its investment decision-making by becoming a signatory to the PRI and adopting the Principles for Responsible Investment. By doing so, the University will continue to establish itself as a leading university, placing itself in a better position to mitigate long-term financial risk, to take advantage of investment return opportunities, and to participate in collaborative engagement initiatives associated with ESG issues, where it deems appropriate.

Appendix B

Proxy Voting Summary for July 2010 to June 2011

External investment managers engaged by University of Toronto Asset Management Corporation (“UTAM”) provided detailed proxy voting records for the following three funds¹ (collectively, “University of Toronto mandates”):

- 1) Pension Master Trust
- 2) Governing Council (LTCAP and EFIP²)
- 3) UTAM Pooled Funds³,

Only proxy voting records of external investment managers engaged for segregated account mandates are included here; comparative results for 2009-10 have been adjusted to the same basis.

On behalf of University of Toronto (“U of T”) mandates, 1,825 company meetings provided opportunities for proxy voting and a total of 17,870 management proposed items and 430 shareholder proposed items were voted on.⁴ At 17.3% (2009-10 – 11.2%) of all company meetings, proxies were not voted, mostly due to shareblocking⁵. Therefore, at over 82.7% of all company meetings, eligible proxy votes were exercised.

¹ As Pension Master Trust and LTCAP engage in the same mandates, proxy voting opportunities are effectively duplicated – values quoted represent combined proxy voting activity, however this basis is consistent with that previously reported.

² Due to the nature of its investment mandate, EFIP is typically invested only in fixed income type securities rather than public equities.

³ During 2010-11, UTAM established pooled funds which largely consolidated the mandates of Pension Master Trust and LTCAP into a single investment vehicle; units of these pooled funds (“UTAM Pooled Funds”) were subscribed to by Pension Master Trust and LTCAP.

⁴

	2010-2011	2009-2010
Company meetings voted	1,510	3,771
Company meetings not voted	315	478
Total company meetings	1,825	4,249
Management proposed items	17,870	37,712
For management recommendation	16,348	33,522
Against management recommendation	1,264	3,894
Withheld	258	296
Shareholder proposed items	430	720
For management recommendation	325	428
Against management recommendation	103	286
Withheld	2	6

⁵ Shareblocking is a practice, typically found in European markets, which prevents trading in shares for a specified period of time prior to a meeting of shareholders when proxy votes are exercised; it is intended to

For management proposed items at company meetings at which proxies were voted, external investment managers voted according to management's recommendation 91.5% of the time. In 8.5% of instances, they voted against management's recommendation or withheld their vote.

For shareholder proposed items at company meetings at which proxies were voted, external investment managers voted according to management's recommendation 75.6% of the time. In 24.5% of instances, investment managers voted against management's recommendation or withheld their vote.

Compare this with 2009-2010, where, at company meetings at which proxies were voted, external investment managers voted according to management's recommendation for management proposals 88.9% of the time and against management's recommendation or withheld 11.1% of the time. Shareholder proposals fared differently, with investment managers voting along with management's recommendation only 59.4% of the time and against management's recommendation 40.6% of the time.

It is difficult to draw conclusions on these comparative voting results. The 2009-10 reporting reflects a greater proportion of the equity portfolio managed in segregated accounts by a larger population of external investment managers. In 2010-2011, UTAM changed the mandate mix such that there were reductions in the number of segregated mandates and an increase in pooled mandates; pooled mandate proxy voting is not reflected in this report. It should also be noted that, as a result of the mandate mix, in 2010-11, a larger proportion of external investment managers are executing segregated mandates for international equity strategies in which shareblocking is most likely to be relevant and therefore proxy voting not exercised. Therefore, for this and other reasons, the results are not entirely comparable.

Furthermore, these figures alone do not tell us what issues the resolutions were about. Such details have not been aggregated so as to be in a readily-available form. Instead, we must view these resolutions in the context of the market as a whole. Recall that in 2008-2009, the capital markets experienced their greatest market decline since the Great Depression of the 1930's. In the market as a whole, this weak performance likely lead to greater scrutiny on issuers and management, while the increase in securities class actions seen during that period provided a strong incentive to comply and/or listen to shareholders. Around this time, we also began to see initiatives such as say-on-pay and director majority voting gaining traction. In 2010-2011, markets recovered. While one might think that this would lead to less scrutiny of issuers and their management, we have not seen shareholder activity abate. The market continues to see a high level of active investing in the overall market, with shareholder coalitions and proxy advisory firms becoming highly influential parties in this space. In the industry as a whole, shareholders are using multiple avenues, such as dissident proxy battles, joining shareholder coalitions and even one-on-one meetings with management, to influence corporate behaviour.

facilitate the voting process. Investment Managers may decide not to vote where such restrictions impact their ability to transact shares

Recognizing that proxies are powerful tools, especially when used through a coalition or in response to proxy advisory firm recommendations, proxies have recently gathered a lot of attention from both shareholders and management. External managers retained by UTAM supported a greater percentage of management proposals than in the previous year and supported a smaller percentage of shareholder proposals than in the previous year. But, in terms of the universe of management proposed resolutions, perhaps some of these resolutions were the result of pre-meeting consultations with shareholder coalitions which increased their chance of approval at the meeting. Early consultation with shareholder groups can avoid the cost and reputational effects of a rejected proposal. Additionally, management proposals in 2010-2011 also covered issues only recently required by securities regulation or considered standard best practice that previously, were only raised through shareholder proposals. Proposals once considered to only be in the purview of shareholders, such as those related to say-on-pay or majority voting, are now widely recognized as value-adding proposals. Given that these shareholder proposals are now included in the universe of management proposals, the remaining shareholder proposals, which may cover a range of issues, may not have such wide-acceptance. This could potentially be due to the nature of the proposal or because the issue has not yet garnered significant attention. In conclusion, the universe of management proposals and shareholder proposals change each year and therefore, it is difficult to compare one year's results to another's. Whatever the cause(s) and context in the market as a whole, overall, external investment managers engaged by UTAM voted in accordance with management's recommendations more often in 2010-2011 than as compared to 2009-2010.

Again this season, UTAM requested detailed proxy voting records on shareholder proposals related to executive compensation from each investment manager. Approximately 26.3%, as compared to 27.5% in the 2009 to 2010 season, of total shareholder proposals related to compensation were voted against the management recommended vote. In 69.7% of instances, investment managers voted with management's recommendation on shareholder proposals related to compensation.

Whilst all investment managers state that they vote on issues related to executive compensation on a case by case basis, some appear to routinely side with management. Another group provides reasons for each vote related to executive compensation. We applaud these investment managers for providing greater details. Furthermore, it is important to note that UTAM is highly engaged in corporate governance issues, given that it has highlighted this issue for its external managers. External managers engaged by UTAM are aware that UTAM will be analyzing proxies related to executive compensation and requesting further information where warranted. This level of attention greatly increases accountability.

While the efforts of the RIC were largely focused on the UNPRI this year, the Proxy Voting Subcommittee ("PVS") has not forgotten its mandate and quest for the proxy voting policies being applied on U of T's behalf. This is the first step to identifying and implementing a proxy voting policy for the University as a whole. Previously, a number of investment managers asserted that their policies are proprietary. A significant number

have disclosed that they use the policies of Institutional Shareholder Services (a MSCI Brand) used by major banks of Canada and Glass, Lewis & Co, also used by the Canada Pension Plan Investment Board, and Ontario Teachers' Pension Plan. The larger issue is that without a unified approach to proxy voting, U of T may be taking different positions on proposals, without even knowing it, e.g. an investment manager of one portion of the endowment fund votes against an issue that another investment manager of another portion of the endowment fund votes for.

Although the holdings may be different between portfolios assigned to different managers, the issues are similar across many companies, e.g. advisory vote on executive compensation structure and the investment objective of the fund (be it the Pension Trust, LTCAP and EFIP) is the same within the specific fund. Therefore, proxies should be voted consistently across issues and public issuers to have greatest impact and to fully utilize U of T's voting power. Instead, there may be a patchwork of proxy votes entered on behalf of U of T based on the potentially divergent proxy voting policies of investment managers. This suggests that there is a need to have a consistent proxy voting policy for the University to the extent possible. The PVS views the disclosure of investment managers' proxy voting policies as the first step towards building a consistent policy across U of T's holdings.⁶

As part of its work for the year, the PVS has analyzed the 2012 proxy voting policies of the Canadian Pension Plan Investment Board, Ontario Teachers' Pension Plan, Royal Bank of Canada Global Asset Management, a widely-used industry policy provider and the Ceres Guidance *Proxy Voting for Sustainability* report.⁷ The central theme that runs through these policies is accountability. There is heavy emphasis on board structure, executive compensation, risk management and shareholder rights. Shareholder proposals and ESG proposals are considered on a case-by-case basis. This is likely attributable to the fact that there is wide acceptance for electing a highly powered functioning board, controlling executive compensation within reasonable limits, requiring management and the board to consider risk in its operations and to preserve shareholder voting rights. On the other hand, shareholder proposals raised in the coming year may be on a variety of subjects, may or may not be in the best interests of all shareholders or may not be appropriate. Therefore, the case-by-case basis is the only effective way to deal with such proposals. What we witness is that accountability of management and the board is not going away anytime soon, but becoming increasingly subject to scrutiny. Shareholder coalitions are also meeting with management more frequently than ever before,⁸ working collaboratively with management to strengthen corporate governance. We look forward to a time when we can demonstrate that proxies voted on behalf of U of T are consistently furthering the goal of strong corporate governance and other issues so recognized by the RIC.

⁶ Where possible e.g. segregated funds.

⁷ Spalding, Kirsten Snow and Jackie Cook, *Ceres Guidance Proxy Voting for Sustainability*, Summer 2011.

⁸ E.g. Canadian Coalition for Good Governance plans to meet with the board of directors of approximately 50 issuers in 2011-2012. Canadian Coalition for Good Governance, "CCGG 2012 Board Engagement Strategy", January 2012. Web. 18 Nov 12.

As a future note, investment managers have agreed to disclose their proxy voting policies to the RIC beginning with the 2012-2013 proxy voting season. The PVS looks forward to analyzing the policies in the coming year for consistencies and differences and how any differences may be reconciled.

BCQA Analysis:

Should the University of Toronto expand its capabilities to incorporate environmental, social and governance (ESG) issues into investment decision making by adopting the Principles for Responsible Investment and becoming a signatory to the PRI Initiative?

November 2011

Proposal for: University of Toronto Responsible Investing Committee Division of Business Affairs

Prepared by: University of Toronto Principles for Responsible Investment Subcommittee

Contributors: Elah Feder, Thomas Felix, Jane Ge, Aziz Kabbaj, John Maiorano, Gary Yip

Background

Currently, the University's decisions regarding responsible investing are guided by "*The Policy on Social and Political Issues with Respect to University Divestment*". The Policy emphasizes the maximization of financial return while avoiding "negative social impact as defined by the Yale University concept of social injury. The policy depends on, and reacts to, campus-led initiatives addressing social and political issues within the universities investments. Though pioneering when introduced in 1978, this policy has not been adapted to match the increasingly recognized need for asset owners to proactively incorporate environmental, social, and governance (ESG) issues into investment decisions. When ignored, ESG risks do more than harm a university's reputation. They affect the long-term stability, and potential growth, of their endowments and pension funds. Growing awareness of the materiality of ESG issues regarding investment risk has led more than 40 American universities to implement responsible investment (RI) policies and create advisory groups as part of credible risk-mitigation strategies.

Fiduciary Obligations

Reports by the UNEP Finance Initiative commissioned to Freshfields Bruckhaus Deringer, a leading international law firm covering nine jurisdictions including Canada, have outlined important findings on the relationship between the incorporation of ESG issues into investment management, and fiduciary duty¹. Freshfields (2009) states: "It may be a breach of fiduciary duties to fail to take account of ESG considerations that are relevant and to give them appropriate weight, bearing in mind that some important economic analysts and leading financial institutions are satisfied that a strong link between good ESG performance and good financial performance exists." The report enforced that "Fiduciary duties evolve over time according to changes in social norms and the values of society and, to a degree, technological and market changes."

Risk and regulatory landscape

Understanding the impacts ESG issues can have on both financial return and risk, particularly over the long term, The CFA Institute's, 'Centre for Financial Market Integrity', released research which breaks down ESG risks into the following four categories²:

- *Regulatory Risk*: The possibility of adverse consequences on firms' operations, liquidity, and long-term competitive advantage of lackluster contingency plans for existing and anticipated future ESG-associated regulations;
- *Legal Risk*: Litigation action or other adverse legal outcomes impacting profitability, such as via settlements or diverted economic resources;
- *Reputational Risk*: Stakeholder perceptions of a corporation's performance and impact on the strength of brand loyalty, cost of capital, talent attraction, and market share;
- *Operational Risk*: Non-regulatory long-term risks to traditional business

¹ Specifically the *Freshfields Report (2005) and Fiduciary II (2009)*, commissioned to Freshfields Bruckhaus Deringer, a leading international law firm covering nine jurisdictions, including Canada.

² Centre for Financial Market Integrity, "Environmental, Social and Governance Factors at Listed Companies - A Manual for Investors", *CFA Institute*, 2008.

operations due to unchecked ESG factors that will lead to far less cost effective solutions;

These risks have recently had impacts relating to corporate governance, disclosure surrounding environmental issues and executive compensation, and issues related to climate change. The 'say on pay' movement for more shareholder control over compensation structure has precedent in the 2008 Emergency Economic Stabilization Act (EESA), which the country networks of the Principles for Responsible Investment (PRI) have assisted its members in navigating and shaping.

Due to the growing risks and opportunities associated with ESG issues, they are becoming of increasing relevance to regulators also. As such, asset owners are facing increasing pressure to adopt comprehensive responsible investing practices. An example of this can be seen in the 2011 Ontario Budget. Chapter III: Tax and Pension Systems for Ontario's Future states that "...the government proposes to require (pension) plans to file Statements of Investment Policies and Procedures (SIPPs) with the regulator and disclose whether or not their SIPPs address environmental, social or governance (ESG) factors."³

Challenge/Change

Given the increased understanding of the risks associated with ESG issues, particularly over the long term, The Responsible Investing Committee deems it essential that the University increase its diligence and expand its capabilities to analyze and incorporate ESG issues into its investment decision-making.

The Principles for Responsible Investment (PRI) provide the most proven framework, resources and support in this area. The PRI is a network of international investors working together to pool resources, leverage their collective shareholder influence, and share best practices. It is a potentially effective and efficient channel for UTAM to be informed about ESG issues and be able to integrate them as appropriate. The PRI emphasizes active ownership, and does not make recommendations on the contents of portfolios. At the core of the PRI is the adoption of six key principles:

- 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.*

PRI resources and services

³ Released on March 29, 2011. Excerpt from Chapter III: Tax and Pension Systems for Ontario's Future

No legal or regulatory sanctions are associated with the Principles. The principles are not prescriptive; rather they are designed to be voluntary and aspirational. The PRI initiative offers support by pooling resources to minimize knowledge barriers, increase the effectiveness and lower the cost of research, and to leverage and legitimize influence through collaborative engagement. The Initiative also supports investors in addressing systemic corporate governance issues and company risk management practices, in order to create more stable and accountable market conditions overall. Regarding ESG Research, the PRI Academic Network is a leader in responsible investing with over 300 academics, investment practitioners, and policymakers channeling research into PRI work streams ranging from real estate to private equity.

Current PRI signatories

There are currently over 900 investment institutions and service providers that are signatories to the PRI, collectively representing assets of approximately US\$25 trillion. Notable Canadian signatories include the Canada Pension Plan Investment Board (CPPIB), Teachers Pension Plan, Caisse de dépôt et placement du Québec, BC Municipal Pension Plan, OPSEU Pension Trust, University of Montreal, University of Quebec and others.

Upon becoming a signatory in September of 2011, the Ontario Teachers' Pension Plan President and CEO Jim Leech stated, "We are pleased to endorse PRI and look forward to sharing best practices and collaborating with like-minded investors from around the world as we analyze the financial implications of ESG risks and opportunities". "Our investing practices were already aligned with most of the principles and PRI reflects the increasing importance of responsible investing to our members and potential partners. As a natural extension to our long record of leadership on matters of corporate governance, PRI is consistent with our core values of championing accountability and risk consciousness."⁴

Transitioning to Active Ownership

Transitioning to active ownership is not without its fair share of challenges, including both time and resource constraints. The PRI Network offers capabilities to assist the university in overcoming several hurdles to better incorporate ESG issues into its investment decision-making:

A. *Threat of a Fiduciary Breach* –The PRI initiative has the largest network of asset owners incorporating ESG issues. Signatories can seek support from other relevant asset owners, along with PRI staff in addressing concerns relating to Fiduciary Duty

B. *Knowledge Barriers*– Engaging in ESG analysis relies on reducing knowledge barriers to ESG issues and metrics, and staying apprised of the ESG landscape. The PRI Research Portal offers opportunities for support, resource sharing, professional development, and other opportunities. One-on-one mentoring programs align new incoming members with willing mentors of experience or similar composition.

C. *Reliance on External Managers*–The investment style of UTAM to rely on external

⁴ Sept 15, 2011, Excerpt from *Teachers's sign on to UN-backed Principles for Responsible Investment*, <http://www.otpp.com/wps/wcm/connect/otpp_en/home/newsroom/news+releases/2011/teachers_unpri>

managers is not unique to PRI signatories. The PRI network addresses methods to incorporate ESG issues, such as incorporating ESG capabilities into RFPs, proxy voting, and other.

D. Size / Organizational Resources - The staffing of UTAM is small compared to larger internal-managed funds. The PRI Clearinghouse addresses many logistical constraints of an engagement strategy, offers greater legitimacy and leverage on policy and engagement issues, and opportunities for resource pooling.

Question

Should the University of Toronto expand its capabilities for incorporating ESG issues into investment decision-making by becoming a signatory to the PRI, adopting the Principles for Responsible Investment?

Answer

Yes. To ensure the financial stability and long term growth of the endowment and pension fund, and to increase accountability in the governance of its investment, the Responsible Investing Committee (RIC) deems it essential that the University of Toronto expand its diligence and capacity for incorporating ESG issues into its investment decision-making by becoming a signatory to the PRI, adopting the Principles for Responsible Investment. Representing assets of over ten percent of the global capital market, the PRI provides the most reliable and proven framework to do so, effectively managing costs, leveraging mutual support, pooling resources and continually seeking best practices in assessing ESG risks and opportunities.

Obligations of signatories

The PRI recommends that 'where consistent with fiduciary responsibilities' signatories should commit to integrating ESG issues into investment analysis; to being active, responsible owners by promoting good corporate practice in these areas; and to report on actions that have been taken. No legal or regulatory sanctions are associated with the Principles. They are designed to be voluntary and aspirational. In 2011, the PRI introduced an annual subscription fee for membership. The fee is on a sliding scale measured by assets under management. For funds worth US\$ 1-5 billion the annual cost is £2,300. The PRI does not rely on membership fees as its sole funding and supplements its services with institutional grants from governments and international organizations.

The PRI - A Low-Risk Flexible Framework

Joining the PRI will provide a framework to best direct the University in improving its ability to incorporate ESG issues into its investment activities. Specifically, signatories are granted access to the PRI Research Portal, the PRI Clearinghouse, and have opportunities for support, resource sharing, leverage on policy influence and engagement issues, professional development, and other opportunities. The resources that are granted by the PRI can be adapted to each of the University's institutional challenges. In the PRI, easily accessible information and workshops (e.g. webinars) can minimize knowledge barriers to ESG. The Universities capacity to conduct ESG valuations can be enhanced by toolkits and best practices that cater directly to external

and/or small-sized funds (e.g. Small Funds Initiative). Moreover, with mentors and administrative support from the PRI Secretariat, UTAM can decide upon the prudent extent of that participation. There is little risk to participation but potential to gain through increased capabilities of managing ESG risks and seeking opportunities.

In short, membership will allow the University to leverage the tremendous collective power and knowledge possessed by the PRI staff and the network of participating asset owners. Joining will also communicate to the University of Toronto's beneficiaries, constituents, potential donors and students the University's fidelity in fostering increased accountability and governance in its investments, as well as to long-term financial stability and risk management.