



FOR INFORMATION

PUBLIC

OPEN SESSION

TO: Business Board

SPONSOR: Sheila Brown, Chief Financial Officer
CONTACT INFO: 416-978-2065, sheila.brown@utoronto.ca

PRESENTER: Sheila Brown, Chief Financial Officer
CONTACT INFO: 416-978-2065, sheila.brown@utoronto.ca

DATE: January 13, 2014 for January 27, 2014

AGENDA ITEM: 6

ITEM IDENTIFICATION:

Responsible Investing Committee Annual Report for the Year Ended June 30, 2013.

JURISDICTIONAL INFORMATION:

The Business Board is responsible for financial matters including financial policy and investment oversight.

The Responsible Investing Committee is *not* a governance committee but is advisory to the Chief Financial Officer. In accordance with the Committee's terms of reference, its annual report is provided to the Business Board for information.

GOVERNANCE PATH:

- 1. Business Board [For Information] (January 27, 2014)**

PREVIOUS ACTION TAKEN:

The annual reports for the years ended June 30, 2011 and June 30, 2012 were provided for to the Business Board at its meeting on December 17, 2012.

HIGHLIGHTS:

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

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

The attached annual report describes the work of the RIC for 2012-13. The key effort during that period, and continuing into the 2013-14 year, has been the mapping out of the United Nations-backed Principles of Responsible Investment (UNPRI) in order to assess the feasibility and desirability of becoming a signatory to UNPRI.

FINANCIAL IMPLICATIONS:

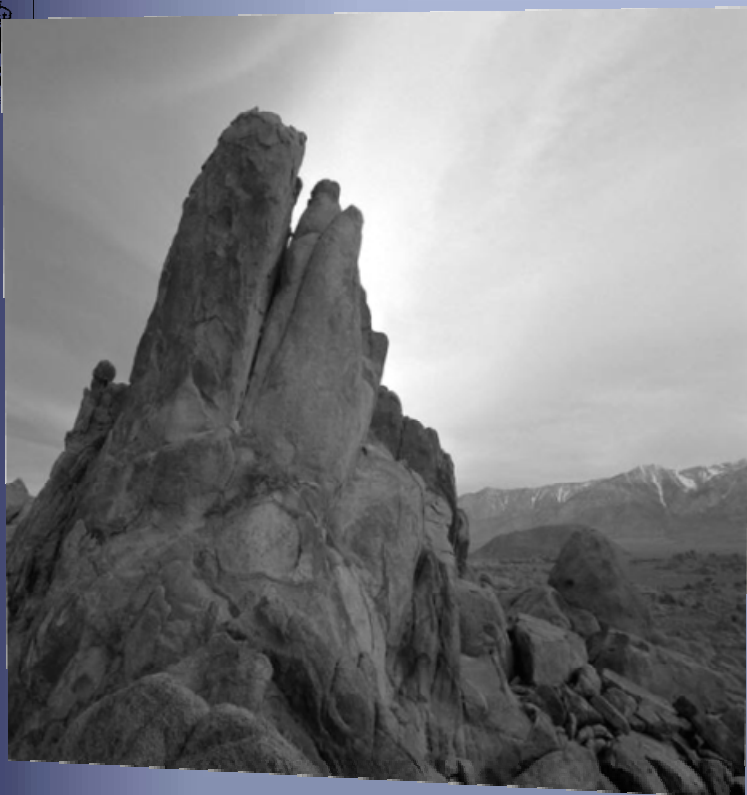
-

RECOMMENDATION:

For information

DOCUMENTATION PROVIDED:

Responsible Investing Committee Report For the Year Ended June 30, 2013.



University of Toronto

RESPONSIBLE INVESTING COMMITTEE, c/o FINANCIAL SERVICES DEPARTMENT

ANNUAL REPORT SEPTEMBER 2012 - JUNE 2013

Prepared for: Business Board, Governing Council

Prepared by: Responsible Investing Committee

Approved by the Responsible Investing Committee on October 29, 2013

TABLE OF CONTENTS

TABLE OF CONTENTS	1
EXECUTIVE SUMMARY	2
ABOUT THE RESPONSIBLE INVESTING COMMITTEE	3
ACTIVITIES OF THE RESPONSIBLE INVESTING COMMITTEE	4
ACTIVITIES OF THE UNPRI SUBCOMMITTEE.....	6
ACTIVITIES OF THE GENERAL POLICY ON ESG SUBCOMMITTEE.....	9
ACTIVITIES OF THE PROXY VOTING SUBCOMMITTEE	10
ACTIVITIES OF THE COMMUNITY OUTREACH SUBCOMMITTEE	11
FUTURE STEPS.....	12
MEMBERSHIP 2012-2013.....	13

APPENDIX A - Proxy Voting Subcommittee Annual Report

EXECUTIVE SUMMARY

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

Following the work of 2011-12, the RIC continued to focus its main effort on mapping out the United Nations-backed Principles of Responsible Investing (“UNPRI”) framework as it would apply at the University, in order to assess the feasibility and desirability of becoming a signatory to the UNPRI. The RIC has passed a unanimous resolution recommending that the University become a signatory to the 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 on-going implementation support, forums and a clearinghouse which facilitate investors coming together and represents, in the opinion of the RIC, the most practical and efficient means of putting these six principles into action for the University.

The UNPRI Subcommittee of the RIC was tasked with a comprehensive work project designed to examine and analyze what becoming a signatory to the UNPRI would entail for the University. This work plan and the resolution will then be formally submitted to the University for consideration.

The other subcommittees of the RIC continued to be active throughout 2012-13. The Community Outreach and Issues Identification Subcommittee actively pursued new member recruitment, including subcommittee recruitment, through student events throughout the year and a strong social media presence. Through this

What is Responsible Investing?

“Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors, and the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems. It is driven by a growing recognition in the financial community that effective research, analysis and evaluation of ESG issues is a fundamental part of assessing the value and performance of an investment over the medium and longer term, and that this analysis should inform asset allocation, stock selection, portfolio construction, shareholder engagement and voting. Responsible investment requires investors and companies to take a wider view, acknowledging the full spectrum of risks and opportunities facing them, in order to allocate capital in a manner that is aligned with the short and long term interests of their clients and beneficiaries.” (UNPRI, 2013)

Not just a passing fad: As of April 2013, assets under management represented by UNPRI signatories is \$32 trillion (or 15% of the world’s investable assets), a significant increase from \$4 trillion when the UNPRI was launched in 2006. (Source: UNPRI, 2013)

subcommittee, the RIC was able to connect with a group of engaged and dedicated students who worked tirelessly on the UNPRI feasibility project.

The General Policy on ESG Subcommittee combined its efforts with the UNPRI Subcommittee (defined below) in furtherance of the RIC's resolution to recommend the UNPRI at the University.

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 proxy voting review focused on the exercise of voting rights in general and votes related to certain ESG factors in particular, especially votes in respect of those proxies related to executive compensation. This year's review also included analyzing the proxy voting policies of the external investment managers to understand and evaluate their approach and in comparison to their peers.

ABOUT THE RESPONSIBLE INVESTING COMMITTEE

Mandate of the RIC

The RIC was created in April 2009 and serves as an autonomous policy advisor to the University and its affiliates, on potential ways in which to comprehensively integrate ESG factors into its investment strategy. The RIC accepts and conducts research into synergy between the long-run time horizon of the University's investment portfolio, the investment portfolio's acceptable risk tolerance and active promotion of improved business standards in the areas of environmental sustainability, human rights and employment, and corporate governance to ultimately drive superior performance returns. Its mandate is to provide a forum for the vigorous academic debate of ESG risks and opportunities and to potentially recommend ways through which ESG can be incorporated into the University's investment portfolio management.

Composition of the RIC

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

Refer to the *Membership* section of this Report for a complete list of the nine RIC members in 2012-2013 and their contact information.

Subcommittees of the RIC

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

The United Nation's Principles for Responsible Investment Subcommittee ("UNPRI Subcommittee"): This group focuses on the common and specific institutional challenges to

sign on to and implement this UN-sponsored initiative, which collectively represents approximately \$32 trillion (USD) in assets as of April 2013. Utilizing primary research and consultations with PRI signatories and non-PRI signatories as well as the Secretariat, the UNPRI Subcommittee's emphasis in 2012-13 has been on identifying and quantifying what successful implementation of the Principles involves, including resource needs. The UNPRI Subcommittee has also identified potential costs and reputational impacts involved with becoming a signatory.

The General Policy on ESG Subcommittee: This group coordinates research into the different quantitative and qualitative methods of evaluating the materiality of ESG factors (e.g. regulatory, legal, reputational and operational) and how it can inform future ESG integration into the University's investment policy. It focuses on ESG factors within businesses that pose risks and opportunities, assesses the long-term financial impact of shareholder proposals and the purported effectiveness on any intended social outcomes.

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

The Community Outreach and Issues Identification Subcommittee: In addition to creating awareness on-campus about the RIC, this group canvasses the University community to ascertain a better understanding of ESG issues considered most important by the University's stakeholders. This research is necessary in order for the RIC to develop a shareholder engagement strategy that is reflective of the community's concerns and priorities.

These subcommittees are constituted of student and alumni volunteers organized into different Responsible Investment Working Groups ("RIWGs"), research groups that focus on topical issues identified by the RIC. In its 2012-13 term, at the behest of the RIC and in close consultation with Sheila Brown (Chief Financial Officer, University of Toronto) and Bill Moriarty (Chief Executive Officer, UTAM), the RIC began to focus its efforts principally on a study of the feasibility of effectively signing on to and engaging with the UNPRI.

Further discussion of the output of these subcommittees in the 2012-2013 year can be found in the subsequent sections of this Report.

ACTIVITIES OF THE RESPONSIBLE INVESTING COMMITTEE

Following the success of last year's three-year review by the University's Business Board and recommendation to continue its work, the RIC focused its efforts on assessing the benefits and feasibility of the University becoming a signatory to the UNPRI.

United Nations-backed Principles of Responsible Investment (UNPRI)

Having passed a resolution in November 2011 to recommend that the University become a signatory to the UNPRI, the RIC was active during the 2011-2012 academic year to assess the implications of becoming a signatory and the work effort that would be involved. The

RIC is cognizant that the resolution was passed in November 2011 but is undertaking significant due diligence in developing a comprehensive feasibility study before presenting it to the University.

During the 2012-2013 year, the RIC worked in close consultation with UTAM towards the practical feasibility and implementation plan that will be necessary should the University become a signatory to the UNPRI. Included in this work were consultations with several UNPRI-signatory investment managers, including two of the external managers retained by UTAM. A survey of signatories was conducted and a survey of non-signatories is scheduled to be conducted in 2014. Survey participants in both groups were selected based on characteristics similar to UTAM. These discussions highlighted the amount of work involved and the potential pitfalls and rewards of managing investment assets according to the UNPRI.

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 cooperation in research and awareness efforts. The Community Outreach and Issues Identification Subcommittee is active in creating a strong presence in the University as the means by which members of the University community may express and bring forward, the ESG factors they consider most important. The RIC may also interact with student groups related to responsible investment. As well, other universities, including Oxford University in England, have expressed interest in the activities of the RIC and on responsible investment in the university context, in how they might bring a similar forum to their university. One ex-officio member continued to serve as an active liaison with the Coalition of Universities for Responsible Investing, connecting the University with other Canadian universities.

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 policy. The Community Outreach and Issues Identification Subcommittee has also maintained these strong relationships by hosting an annual symposium to further the academic debate surrounding responsible investment and increase awareness and interest in this subject.

The RIC acknowledges and supports UTAM's active membership in the Canadian Coalition for Good Governance ("CCGG"). UTAM has been a member of the CCGG since 2008. The CCGG represents the interests of institutional investors by promoting good governance practices in Canadian public companies and the improvement of the regulatory environment to best align the interests of boards and management with those of their shareholders, and to promote the efficiency and effectiveness of the Canadian capital markets. Bill Moriarty is a member of the CCGG's Public Policy Committee which considers matters that have a significant impact on the alignment of shareholders and management's interests and the Canadian regulatory environment. This Committee plays a key role in the development of CCGG's policies and submissions to regulators and other lawmakers. UTAM's proxy voting policy recognizes the importance of proxy voting in the governance process. Further information on the CCGG is available at <<http://www.ccg.ca/>>.

Independent Student-led, Peer-reviewed Research

The General Policy on ESG Subcommittee and UNPRI Subcommittee jointly engaged a diverse group of students into independent research on becoming a signatory to the UNPRI. The RIC looks forward to formally submitting its UNPRI feasibility report to the University in due

course.

Proxy Voting Analysis

UTAM continues to support the RIC through full disclosure of its proxy voting record and analyses. Representatives of UTAM actively share proxy voting related materials and industry research with the RIC. Furthermore, this was the first year in which UTAM was able to disclose the proxy voting policies of its investment managers to the RIC. The RIC's review of these proxy voting policies concluded that they were all sufficiently general in scope and directed towards the fiduciary duty to the client that they did not preclude the voting of proxies according to responsible investment guidelines.

ACTIVITIES OF THE UNPRI SUBCOMMITTEE

The primary focus of the RIWGs for the 2012-2013 term was an assessment of the implications to the University of becoming a signatory to the UNPRI and of effective implementation. This assessment reviewed, from the perspective of the University and within the context of UTAM, the potential benefits of becoming a signatory, the resources available to signatories, the internal resources needed to fully-engage with the UNPRI and the reputational effects of becoming a signatory. This analysis necessitated that the UNPRI Subcommittee scope out what it considered the principal forms of labour-intensive activities required under the UNPRI: staying up-to-date on UNPRI services, engaging the UNPRI services, and the annual Reporting and Assessment framework ("RAF"). It was decided that the richest information would come from the following three sources: existing UNPRI signatories, the UNPRI Secretariat, and a 'mock' run of the publicly-available RAF by UTAM to contrast with existing audit and reporting policies and practices.

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 1196 signatories – 269 asset owners, 741 investment managers, and 186 professional service partners. There are 49 Canadian signatories – 17 asset owners, 25 investment managers, and 7 professional service partners.

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

The UNPRI's six principles of responsible investing:

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

The UNPRI Subcommittee divided its members into three teams, each to focus on the following areas:

- **PRI Signatories:** This team was responsible for surveying current asset owner signatories to the UNPRI that fit into an identified 'peer group' correlated with the assets under management size and operational structure of UTAM. Once its peer group was finalized, this team conducted in-depth interviews with these signatories to collect diverse perspectives and best practices on the value and resource demands of being a UNPRI member. This team will conduct a similar process for non-signatories in 2014.
- **PRI Secretariat:** This team focused on mapping out the UNPRI administration, and worked with the UNPRI in London, and any Country Network contacts, to determine process flow charts that offer step-by-step information on how to engage with the more complex UNPRI services, such as the clearinghouse. It also determined with the help of the UNPRI Secretariat, what implementation logistics can be provided by the UNPRI itself and the level of advice and support from the UNPRI administration that is available to reduce additional work required of a signatory.
- **PRI Reporting and Assessment:** This team focused on the annual RAF reporting and worked with UTAM's Chief Compliance Officer and designated RIC representative, Lisa Becker, to breakdown the RAF's modules into an actionable 'mock' trial run for UTAM to conduct. It is also in charge of summarizing and forecasting the changes that will be happening to the RAF over the next year and which represent a significant change from the current RAF, and offering an impact analysis.

These three teams constituted the workload for the bulk of the volunteers in the RIC for 2012-13, and their efforts were successful in laying the foundation for the June 2013 consultation with the University's CFO and with UTAM. At this meeting, a formal revision of the criteria and sample selection of each group was assessed so that the full report matches both the University's objectives and addresses any significant issues or concerns about joining other Canadian institutions as a UNPRI signatory. The work of these teams is further expanded upon below.

[UNPRI Signatory Interviews – Surveying for the Survey](#)

This team was charged with surveying existing UNPRI signatories on their views of the UNPRI and to aggregate best practices as well as strategies to streamline resource demands and improve effectiveness when engaging with the UNPRI services. The team divided this task into three different pieces: to analyze UTAM and to determine what the key characteristics should be for an interview candidate (and thus constitute a 'peer group'), what criteria should be used to assess effort vs. impact perceptions, and the specific copy/tools to be used to structure the survey to facilitate the above assessment.

The proposed peer group, survey and evaluation rubric were determined with the assistance of the CFO and UTAM.

UNPRI Secretariat – Mapping Services & Support

As the principal intermediary of the subcommittee with the UNPRI Secretariat based in London, England, these members worked to establish and extend our relationship at the highest level, such as with Rob Lake (Director of Responsible Investment, UNPRI), and expand our UNPRI contacts to the 6 relevant departments that direct all of the PRI's potential value-added services to signatories, from Implementation Support to the Academic Network.

This team has been charged with creating process flow charts for a step-by-step breakdown of how to utilize the services identified as high value by UTAM. Furthermore, the team has been tasked with identifying and validating at what stages the UNPRI offers logistical support, such as the clearinghouse, and options for resource-constrained funds that streamline the labour costs of utilizing these services.

To date, this group has focused primarily on literature reviews and networking initiatives and looks forward to working with UTAM to identify what services it would consider of greatest value.

UNPRI Reporting and Assessment – Sketching Samples & Scenarios

This team was tasked with mapping the modular workflow of the current UNPRI annual RAF and evaluating the expected changes to the RAF document (International Integration Reporting Framework or “IIRF”) to be released in the fall of 2013.

The initial scope of the project was to work in conjunction with our UTAM liaison, Lisa Becker, and create a scorecard that would offer not only a time estimate but address issues that had been raised about *how* data would be collected and information entered. As such, the rubric that was created took into account not only effort time *and* lapse time, but also whether the question had defined content, whether it was qualitative/quantitative, if it requested a specific measure, and an assortment of field on if existing reported information could suffice or if external managers would need to be consulted to provide additional reporting to meet the minimum disclosure requirements.

Furthermore, this team also tried to consider how well the University would score, especially against its peers, in the RAF and IIRF, in order to preliminarily assess the potential reputational effects of this public disclosure.

Next Steps

Each of the teams have contributed to laying the proposed framework and milestones to properly assess the resource impact and value propositions of becoming a UNPRI signatory. The UNPRI Subcommittee has benefited from 8 volunteer researchers, the majority of whom have been at work on the initiative since fall 2012 and continued with their accumulated knowledge into the research efforts over the summer of 2013.

A summary of the report will be released in the following academic year. It will summarize the comprehensive analysis that was undertaken on becoming a fully-engaged signatory to the UNPRI through a peer-group and non-signatory peer-group review analysis, peer-group and non-signatory peer-group interview and survey results, a review of the resources and support that are part of the UNPRI, and a cost-benefit analysis of the UNPRI reporting framework.

ACTIVITIES OF THE GENERAL POLICY ON ESG SUBCOMMITTEE

Research into UNPRI

In the 2012-2013 term, based on feedback from the RIC meeting of February 2012, the members of the General Policy on ESG Subcommittee and its Steering Committee refined its research proposal to focus on implementation recommendations. Principally, this shift involved greater emphasis on assessing existing best practices and guidelines for evaluating external manager's capacity to take in account ESG risks and strategies to engage these managers in the manager selection, due diligence and ongoing monitoring stages. However, the RIC selected to allocate most of the volunteer researchers in 2012-13 to the UNPRI study and, as such, progress has been limited to the Steering Committee's efforts to formalize the research proposal with milestone dates, a database of investor criteria guidelines to investigate, and extending the network of prospective faculty members to engage as supervisors in 2013-15.

Readying the New "Roadmap"

In its principal project of 2011-12, the General Policy of ESG Subcommittee took the initial plan, the *Roadmap for ESG Policy Research*, and translated its actionable research objectives into a proposal for a study on the materiality of climate change on the "operational risk" category of ESG valuation. This was followed by an extensive literature review of reports from industry leaders, such as Hermes and Goldman Sachs, inter-governmental organizations ("IGOs") such as the UNPRI and UN Environment Programme, regulatory agencies like the Securities and Exchange Commission (US), and service providers such as Jantzi-Sustainalytics. The result was an extensive but non-exhaustive list of potential value-added (or neutral) influencers that emerged for consideration that included, but was not limited to:

- Optimizing the trade-off between a mitigation vs. an adaption strategy.
- First-mover advantages in shaping regional/international ESG standards.
- ESG impacts of legacy and orphan assets on a balance sheet in the long-run.
- Supply-chain shocks and consumer displacement due to climate change.
- Product lifecycles, particularly feasibility of early adopter technologies to shift to mainstream.

In its 2012-2013 term, the Steering Committee of the General Policy on ESG

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.

Subcommittee took these factors as case studies of what type of risk strategies to look for in external managers, and outline the sort of criteria from academic research and shareholder coalitions to search for in 2013-15. A timeline was created for a 2013-15 project to conduct a scan of the questionnaires and best practice guides of established IGO, regulatory, and investor groups to determine the 'top-down' criteria consider for inclusion in dialogue with the University's external managers. Some early type of inquiries to be analyzed for feasibility and effective in evaluating ESG literacy were taken from the Carbon Disclosure Project's annual survey and included:

1. Did the firm have an emissions reduction target that was active (ongoing or reached completion) in the reporting year? Was this a relative or an absolute target?
2. Does the firm give incentives for the management of climate change issues, including the attainment of the target? Who is entitled to benefit from these incentives? What is the performance indicator?
3. What methods do you use to drive investment in emission driving activities?
4. How do you analyze if a climate change opportunity (current or future) has the potential to generate a substantive change in business operations, revenue or expenditure?
5. Do you distinguish between different subcategories of ESG indicators such as Scope 1 versus Scope 2 emissions?

The Steering Committee has also worked to expand its network of academic, industry, and IGO contacts to identify prospective supervisors to, at minimum, vet the research of the RIWG volunteer team so as to ensure its academic integrity and accuracy. Progress has been made within the University as we try to expand our network in the Rotman School of Management particularly, but success reaching out to our post-secondary partners (e.g. UBC/Carleton) have suggested that the RIC might consider whether this should be an inter-institutional project or maintained as an in-house initiative.

Next Steps

The General Policy on ESG Subcommittee has begun work on preliminary milestones and to set criteria to propose an environmental scan of the existing investor guidelines on the subject matter. It is critical to meet the RIC's direction that the Subcommittee establish, first the investor questions to test, and second the effectiveness and scope of each question to establish the ESG capacity of an investment manager and expand our ability to assess the University's external investment managers beyond involvement of third-party service consultants.

Most of the volunteers of the Subcommittee worked jointly with UNPRI Subcommittee and, as such, have also found synergies to assist them in establishing this baseline. Several members found that the new focus of the UNPRI on distinguishing direct and indirect investors helpful, as well as publications on external manager engagement such as *Aligning Expectations: Guidance for asset owners on incorporating ESG factors into manager selection, appointment, and monitoring, February 2013*, offered by the UNPRI. Future work items include calls with the UNPRI Secretariat to determine how, should the University elect to become a signatory, the "PRI in Practice" database and available mentor support can assist with this research project.

ACTIVITIES OF THE PROXY VOTING SUBCOMMITTEE

Review of Proxy Voting Records for the University's Public Holdings

The Proxy Voting Subcommittee analyzed the results of the proxies voted on behalf of the University throughout the 2011-2012 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 held in segregated account mandates. 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 “A” to this Annual Report, with relevant excerpts below:

“For management proposed items, the investment managers voted according to management’s recommendation 90% of the time. In 10% of cases, they voted against management’s recommendation or withheld their vote. For shareholder proposals, the investment managers voted for management’s recommendation 70% of the time. In 30% of instances, investment managers voted against management’s recommendation for shareholder proposals or withheld their vote.”

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. The Proxy Voting Subcommittee did see an increase in the percentage of votes voted against management for both management-proposed and shareholder-proposed items. Especially in the area of executive compensation, external managers voted 60% of all votes in accordance with shareholder recommendations on shareholder proposals, voting against management 40% of the time.

In concluding its report, the Proxy Voting Subcommittee also noted that UTAM has for the third 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. All investment managers provided reasons for why they voted a certain way. Investment managers also disclosed their proxy voting policies to the RIC for the first time. The subcommittee’s review of the policies concluded that they were sufficiently broad enough to incorporate ESG on a case-by-case basis.

ACTIVITIES OF THE COMMUNITY OUTREACH SUBCOMMITTEE

January Symposium

The Community Outreach and Issues Identification Subcommittee hosted a symposium in January 2013 entitled “Investing in Change for a Better Tomorrow”. The symposium was well-received by the University community and included several prominent speakers on responsible investment including visiting scholars and industry experts. The event attracted a number of students, who subsequently joined the RIC subcommittees and contributed significant research efforts, in particular, to the UNPRI Subcommittee. 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 on the RIC’s activities, including the 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 and Issues Identification Subcommittee is actively managing an enhanced social media presence. The Community Outreach and Issues Identification Subcommittee has given the RIC a strong voice on campus.

FUTURE STEPS

UN Principles of Responsible Investment

The subcommittee was quite active over the summer months and will present the bulk of its formal feasibility plan to the RIC and UTAM in the fall of 2013. The feasibility plan, once fully complete, will then be proposed formally to the University for consideration along with the RIC's recommendation.

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 and Issues Identification Subcommittee is actively planning an early 2014 Symposium for the new school year as well as 3 social events for member recruitment to take place during the year.

General Policy on ESG Research

The General Policy on ESG Policy Subcommittee will continue to support the UNPRI Subcommittee's research into the University becoming a UNPRI signatory.

SCHEDULE 'A'
Proxy Voting Summary July 1, 2011 to June 30, 2012

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 2010-11 and 2009-2010 have been adjusted to the same basis.

On behalf of University of Toronto (“U of T”) mandates, 960 company meetings provided opportunities for proxy voting and a total of 9,651 management proposed items and 233 shareholder proposed items were voted on.⁴ At 22.8% (2010-11 – 17.3%, 2009-10 – 11.2%) of

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. In 2011-2012 segregated account mandates were only within the UTAM Pooled Funds.

⁴

	2011-2012	2010-2011	2009-2010
Company meetings voted	741	1,510	3,771
Company meetings not voted	219	315	478
Total company meetings	960	1,825	4,249
Management proposed items	9,651	17,870	37,712
For management recommendation	8,685	16,348	33,522

all company meetings, proxies were not voted, mostly due to shareblocking⁵. Therefore, at over 77.2% of all company meetings, eligible proxy votes were exercised.

For management-proposed items at company meetings at which proxies were voted, external investment managers voted according to management's recommendation 90% (2010-2011 - 91.5%) of the time. In 10% 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 70.0% (2010-2011 - 75.6%) of the time. In 30.0% of instances, investment managers voted against management's recommendation or withheld their vote.

Among investment managers, there is wide variation in their voting results when comparing their percentages of proxies voted according to management's recommendation on both management and shareholder proposals. Overall, we can say that proxies have become an important aspect of investment management, given the increase in shareholder activism across the globe, whereas in the past, proxies may have been regarded as routine items of business.

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 and continuing in 2012, UTAM changed the mandate mix such that there were reductions in the number of segregated

	2011-2012	2010-2011	2009-2010
Against management recommendation	934	1,264	3,894
Withheld	32	258	296
Shareholder proposed items	233	430	720
For management recommendation	163	325	428
Against management recommendation	70	103	286
Withheld	0	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 facilitate the voting process. Investment Managers may decide not to vote where such restrictions impact their ability to transact shares

mandates and an increase in pooled mandates; pooled mandate proxy voting is not reflected in this report.

The decrease in actual number of meetings and proxy items reflects the fact that a greater proportion of the UTAM mandate has been allocated to pooled funds, which were excluded from the analysis. It should be noted however that UTAM has retained Blackrock Asset Management Canada Ltd. (Blackrock) for four of its equity pooled funds. BlackRock is a signatory to the United Nations Principles of Responsible Investment and invests in compliance with this protocol, including with respect to how it engages in proxy voting.

It should also be noted that, as a result of the mandate mix, in 2010-12 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 addressed. 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.

Again this season, UTAM requested detailed proxy voting records on shareholder proposals related to executive compensation from each investment manager. Approximately 60% (2010-2011 – 26.3%) of total shareholder proposals related to compensation were voted against the management recommended vote. In 40% (2010-2011 – 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, there was a significantly higher percentage of votes against management's recommendation reported in this proxy season than previous years. In fact, the percentage has almost inversed from the previous year. Furthermore, as compared to last year when only a small minority of investment managers provided reasons, almost all investment managers in 2011-2012 provided reasons as to why they voted a certain way on shareholder proposals related to compensation.

Proxy Voting Policies

As part of its ongoing mandate, the Proxy Voting Subcommittee ("PVS") is charged with the responsibility of requesting, receiving and analyzing the proxy voting policies of investment managers retained by UTAM. 2011-2012 marks the first year in which investment managers were specifically asked for approval to disclose their proxy voting policies to the RIC. While two investment managers reported using the policies of Institutional Shareholder Services and one reported using Glass, Lewis & Co, the overwhelming majority use proprietary in-house policies which were provided to the PVS but which remain confidential. The PVS analyzed the policies with the view of identifying consistencies and differences between the policies.

Proxy voting policies are guidelines as at time of drafting, drafters are not able to foresee with certainty, exactly what issues will arise in the coming proxy season, nor what holdings their

portfolio managers will hold. Therefore, a strong proxy voting policy will be sufficiently broad to capture anticipated proxy issues while providing the opportunity to apply an ad hoc analysis of unanticipated proxy issues. All proxy voting policies are designed to guide the portfolio manager to vote on issues in a manner consistent with their fiduciary duty, that is, in the best interests of the funds they manage. After analyzing the proxy voting policies provided by investment managers, the PVS concludes that all of the proxy voting policies of the investment managers retained by UTAM are sufficiently broad that they are generally consistent with one another. How a proxy actually is voted, therefore, comes down to the individuals at the firm voting the proxy, their analysis and the investment context in which they are operating.

As part of its work for the year, the PVS has analyzed the 2013 proxy voting policies of the Canadian Pension Plan Investment Board, Ontario Teachers' Pension Plan, Royal Bank of Canada Global Asset Management, which are the policies of Institutional Shareholder Services and Glass, Lewis & Co. The central theme that runs through these policies is accountability at the board level and an acknowledgement that shareholders are not to duplicate the efforts of the board or management. There is heavy emphasis on pay for performance, board responsiveness to majority supported proposals, 'overboarded' directors, director competence, board tenure and director nominee disclosure. Political issues have surpassed environmental and social issues for 2013. Proxy voting policies are adopting a more flexible approach to consider social, governance and environmental issues, opting for a case-by-case approach rather than a 'vote-against' approach. Industry movement on ESG proposals seems to be strengthening as major proxy voting policy providers have established overarching principals for ESG proposals for use in all markets, which should drive consistency.

In conclusion, oversight of proxy voting on behalf of investments held by U of T is stronger than pre-2009 levels. There is however, still much work to be done, including greater transparency into the voting process, full public disclosure of proxy voting policies, and a consistent position being taken by U of T across all of its investment holdings, regardless of the third party investment manager. While UTAM has been a member of the Canadian Coalition for Good Governance since 2008 and has adopted a proxy voting policy consistent with that membership, there continues to be difficulty in applying it to all of U of T's public holdings, given the various pooled funds and other investment products held in its portfolio. We look forward to a time when we can demonstrate that all 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.

MEMBERSHIP 2012-2013

Students	Graham Carey Ph.D. Student, Faculty of Engineering and Applied Science Email: graham.carey@utoronto.ca
	Jaclyn Pace (Vice-Chair) Undergraduate Student, Faculty of Commerce E-mail: Jaclyn.pace@utoronto.ca
Alumni	Emily Tan (Chair) Faculty of Law '08 E-mail: emily.tan@utoronto.ca
	Thomas Felix (Vice-Chair) Trinity College '11 E-mail: thomas.felix@utoronto.ca
	Ran Goel Faculty of Law '07 Email: ran.goel@utoronto.ca
Faculty	Yue Li Associate Professor of Accounting, Department of Management Email: yue.li@utoronto.ca
	Beth Savan Faculty member, Centre for the Environment E-mail: b.savan@utoronto.ca
Staff	Vacant
Office of Financial Affairs	Sheila Brown Chief Financial Officer, University of Toronto Email: sheila.brown@utoronto.ca
Office of Financial Affairs Appointee	Lisa Becker Director, Operational Due Diligence & Chief Compliance Officer, UTAM Email: lisa.becker@utam.utoronto.ca