



FOR INFORMATION

PUBLIC

OPEN SESSION

TO: Governing Council

SPONSOR: Professor Meric Gertler, President

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DATE: May 10 for May 17, 2018

AGENDA ITEM: 5

ITEM IDENTIFICATION:

Responsible Investing Report: University of Toronto Asset Management Corporation

JURISDICTIONAL INFORMATION:

UTAM must report annually to the Pension Committee on its progress with respect to responsible investment.

UTAM's *Responsible Investing Report* is being provided to the Pension Committee for the March 28, 2018 meeting for discussion purposes and as background material for UTAM's annual update to the committee on responsible investment.

GOVERNANCE PATH:

1. Pension Committee [For Information] (March 28, 2018)
2. **Governing Council [For Information] (May 17, 2018)**

PREVIOUS ACTION TAKEN:

The Pension Fund Master Trust Statement of Investment Policies and Procedures (SIPP) was updated in June 2016 requiring UTAM to report annually to the Pension Committee on responsible investing.

HIGHLIGHTS:

- UTAM continued to make enhancements to its investment processes to more fully take into account ESG factors and responsible investing generally.

- UTAM developed and published (on its website) a Responsible Investing Policy that guides all of its decision-making with respect to responsible investing.
- In September 2017, UTAM signed the Montréal Carbon Pledge and committed to disclose the carbon footprint of the Pension investment portfolio on an annual basis. UTAM expects to disclose the footprint on its website by the end of April 2018.
- UTAM is taking a more active role in a number of the responsible investing organisations that it has joined. For example, Doug Chau, Chief Risk Officer, has joined the United Nations-supported Principles for Responsible Investment (PRI) Asset Owner Advisory Committee, and Lisa Becker, Chief Operating Officer, has joined the Pension Investment Association of Canada's Investor Stewardship Committee.
- UTAM hired BMO Global Asset Management to undertake engagements with select companies held in its portfolios on ESG related matters. UTAM continues to be a member of the Canadian Coalition for Good Governance (CCGG) that undertakes engagements with Canadian companies, but the addition of the BMO service provides for engagement with companies located around the world.
- UTAM joined Climate Action 100+, which is an investor-led initiative to engage with more than 100 of the world's largest corporate greenhouse gas emitters. The goal is to encourage these companies to curb greenhouse gas emissions, implement a strong corporate governance framework, and adopt enhanced disclosure practices. UTAM has joined as a 'Participant', which means a commitment to engage directly with at least one company on the list.
- UTAM has continued to implement the ISS Sustainability policy and guidelines in its proxy voting, wherever possible.
- UTAM purchased carbon offsets to mitigate the impact of domestic and international travel by staff.

FINANCIAL IMPLICATIONS:

See above.

RECOMMENDATION:

For information.

DOCUMENTATION PROVIDED:

Responsible Investing Report: University of Toronto Asset Management Corporation

The Broader Perspective

University of Toronto
Asset Management Corporation
Responsible Investing Report

2017



Hart House – St. George Campus

Over the past two years, UTAM has worked with the University of Toronto leadership to strengthen and formalize our shared commitment to responsible investing.

As we balance prudent risk management with our efforts to generate sustainable returns, we also take a broader view of the managers we invest with – because we believe that material environmental, social and governance (ESG) considerations can have a significant impact on investment performance. We’ve therefore incorporated ESG considerations into our investment analysis and decision-making processes as part of our long-term strategy, as well as our day-to-day management of the university’s pension, endowment and short-term working capital assets.

THE BROADER PERSPECTIVE

Message from the University of Toronto's President

I am pleased to offer this opening message to The Broader Perspective, UTAM's second annual report on responsible investment. The report demonstrates, once again, UTAM's commitment to responsible investing built around a systematic consideration of environmental, social and governance (ESG) factors.

As I argued in my March 2016 report "Beyond Divestment: Taking Decisive Action on Climate Change," the university's most valuable and effective contributions to the global effort to avert or mitigate the consequences of climate change will flow from our fundamental role as an institution of research and education. And the University of Toronto is continuing to make important contributions in this regard.

At the same time, the university community can take pride in UTAM's role as an emerging leader in the responsible investing movement. This report shows the significant progress UTAM has made in the past year, both in its investment practices and in its public engagement. Indeed, UTAM has worked closely with the University of Toronto's senior leadership and governance, as well as its external investment managers, to deepen and advance our shared commitment to the tools and mechanics of sustainability and responsible investing.

I would especially commend UTAM for its public leadership. Over the past year, I have been struck by how often UTAM has approached the university with new ideas and opportunities for company engagement, public advocacy and improving communications and transparency. UTAM has been a leading collaborator and partner on these issues, defining an increasingly prominent role for itself within the responsible investing community. Readers will find the sections in this report on shareholder voting, responsible engagement, and collaborative action and advocacy particularly illuminating.

I am delighted that UTAM, with leadership and initiative from Daren Smith and his entire team, continues to embrace responsible investing opportunities enthusiastically, with increasing influence and growing success.

Let me congratulate Daren and his team on excellent progress and an impressive report.

Sincerely,



Meric Gertler
President, University of Toronto



THE BROADER PERSPECTIVE

Message from the President and CIO

We're very pleased to mark the publication of UTAM's second annual Responsible Investing Report. In reviewing the past year's investment activities within an ESG framework, we're continuing a commitment to transparency and accountability that was formalized in 2016 when we became a signatory, on behalf of the University of Toronto, to the United Nations-supported Principles for Responsible Investment (PRI).

WHILE THIS REPORT IS A RECENT ADDITION to our ongoing conversation with stakeholders, the spirit behind it is not; UTAM has long considered various aspects of ESG in our investment activities. As we've worked with the university's leadership to refine and strengthen our responsible investing processes, there is a clear understanding that any decisions we make to grow the three portfolios that we manage – Pension, Endowment and the short-term working capital pool – must respect the fundamental values of the university.



In 2017, we took significant steps to sharpen our focus on responsible investing. Most notably, we published a formal Responsible Investing Policy designed to guide our decision-making in this area, from the management of internal processes and systems to our conduct of proxy voting and ESG-related engagements. We also added our support to a range of international responsible investing initiatives. For example, we wrote to companies asking that they respond to disclosure requests from CDP (formerly the Carbon Disclosure Project). And we signed a May 2017 letter – developed by CDP, the PRI and other groups – that was sent to governments of the G7 and G20 nations urging leaders to stand by the pledges they made in signing the Paris Agreement on climate change.

Among our efforts as an active owner, UTAM has signed up to participate in Climate Action 100+, an investor-led initiative to engage with more than 100 of the world's largest corporate greenhouse gas emitters in an effort to have these companies reduce emissions, strengthen disclosure and improve governance on climate change issues. As a founding participant, we've committed to engaging directly with at least one company on these important matters. We've also joined more than 120 global investors, with over US\$10 trillion in assets under management, in signing the Montréal Carbon Pledge. Aligned with the Paris Agreement, the pledge formalizes our commitment to measure and disclose the carbon footprints of the Pension and Endowment investment portfolios.

Lastly, to further support our engagement activities and represent our ESG concerns to issuers globally, we've complemented our existing engagement activities by hiring BMO Global Asset Management to engage directly with corporate leaders on our behalf to help ensure these risks are effectively managed.

We conduct all of these efforts within a robust governance framework. Internally, our Responsible Investing Committee – comprising the President and Chief Investment Officer, the Chief Operating Officer, the Chief Risk Officer and senior members of the Investment team – oversees the development and adoption of our policies and practices that integrate ESG factors into our investment decision-making processes.

A shared commitment to investing responsibly also informs our close collaboration with the University of Toronto leadership, as President Meric Gertler emphasizes in his opening message to this report. The strategic guidance provided by the university supports our careful consideration of ESG-related factors that we carry through – and work to continuously improve – in the execution of our responsible investing activities.

UTAM's commitment to responsible investing is not a one-time declaration. It's the continuation of a journey – on a path defined by learning, adaptation, innovation and evolving best practices – in order to deliver the best possible value to the university and its stakeholders.

Moving forward, we'll continue collaborating with like-minded investors globally to strengthen and refine what responsible investing can accomplish. In addition to our usual rigorous financial and risk analysis, we'll also consider this broader perspective in our investment decision-making processes.



Daren M. Smith, CFA
President and Chief Investment Officer

THE BROADER PERSPECTIVE

How and why we invest responsibly

UTAM's commitment to responsible investing is consistent with our fiduciary duty as the investment manager for the University of Toronto's Pension, Endowment and short-term working capital assets. It enables us to make better-informed decisions that we believe will yield superior long-term results for beneficiaries of the university's investment portfolios. In our view, a formalized approach to responsible investing is an essential complement to a sound overall investment strategy.

ESTABLISHED AS A STANDALONE CORPORATION by the University of Toronto in 2000, UTAM invests funds according to objectives and guidelines set out by the university administration, as well as by the Pension Committee, the Business Board and the Investment Committee. Our mandate is clear: to serve as a strategic and disciplined manager, realizing the highest possible returns while respecting our sole client's risk tolerance, policy constraints and guiding values.

Working in close collaboration with the U of T administration and the Investment Committee, we focus exclusively on investing university-owned assets, which we manage in three portfolios:

- **PENSION** – the assets of the university's employee pension plan, officially called the University of Toronto Master Trust.
- **ENDOWMENT** – known formally as the Long-Term Capital Appreciation Pool and consisting primarily of certain Endowment assets, but also including other funds invested for the long term.
- **EFIP** – or Expendable Funds Investment Pool, consisting of university funds that can be invested over the short to medium term, and principally comprising the university's working capital.

In fulfilling our mandate, UTAM typically doesn't make direct investments in traded securities. Rather, we follow what is known in the investment industry as a manager of managers approach. We select investment managers that we believe are best in class, empowering them to invest directly on our behalf. As part of our evaluation process, we consider the manager's ESG capabilities, as we believe that applying this additional lens will lead to better outcomes for our client over the long term.

Why Do We Practice Responsible Investing?

We define responsible investing as the incorporation of environmental, social and governance (ESG) factors into investment decision-making processes, active ownership – through proxy voting and engagement – and disclosure.

UTAM pursues a responsible investing approach because we believe that material ESG factors can have a significant impact on long-term investment returns. ESG considerations are part of our investment analysis and decision-making processes, particularly in our selection of investment managers. We've developed ways to engage with companies, both directly and through various organizations, to help ensure ESG-related risks are effectively managed. We cast our proxy votes, where possible, applying an ESG-focused policy. Moreover, we disclose our responsible investing activities on a regular

basis, via this report and on our website. We believe that taking this broader perspective allows us to make better-informed decisions and ultimately results in better outcomes for the Pension, Endowment and short-term working capital assets that we manage on the university's behalf.

Turning Principles into Policy

In December 2016, UTAM became a signatory, on behalf of the university, to the United Nations-supported Principles for Responsible Investment (PRI) – a set of shared commitments adopted by institutional investors around the globe as they work to integrate an ESG perspective into their investment processes. Consistent with our fiduciary obligation to the beneficiaries of the university's assets, we've embraced the initiative's six core Principles (see page 08). As part of that commitment, the PRI will be evaluating our ESG capabilities and rating various aspects of our activities. We'll make the 2017 report available on our website (utam.utoronto.ca) once it is released.

The PRI framework guided us in crafting our comprehensive Responsible Investing Policy, which was published in December 2017 and applies to all assets under our management. The six Principles also underpin the deliberations of our Responsible Investing Committee, which meets regularly to consider all matters relating to the development and implementation of our responsible investing practices.

ESG Factors Defined



Environmental

Relating to companies' interactions with the physical environment – including issues such as climate change, greenhouse gas emissions, air and water pollution, water scarcity, deforestation and threats to biodiversity.



Social

Relating to business practices that have an impact on specific communities or all of society – including issues such as health and safety, working conditions (including child labour and slavery), labour relations, human rights and respect for indigenous communities.



Governance

Relating to organizations' structure, policies, responsibilities and stakeholder relations – including issues such as executive compensation, board composition and independence, shareholder rights, and corporate accountability and transparency.

THE BROADER PERSPECTIVE

Putting our principles into action

01

PRI Principle

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

UTAM Actions

- Evaluate ESG-related risks across all portfolios.
- Integrate consideration of ESG factors into our investment and operational due diligence policies, and into other policies where relevant and material.
- Incorporate ESG considerations into our manager selection and monitoring processes, where relevant and material.
- Support development of ESG-related tools, metrics and analyses.
- Encourage academic and other research on ESG integration.
- Provide and promote ESG training for our investment professionals.

02

PRI Principle

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

UTAM Actions

- Adopt a proxy voting policy that is ESG-focused and apply this, where possible, to all public equity segregated account mandates, as well as to public equity funds in which the university's Pension and Endowment portfolios are the only investors.
- Encourage managers to adopt ESG-focused voting policies, where relevant.
- Support corporate and regulatory proposals that contribute to improved governance practices and more effective boards.
- Participate in collaborative engagement initiatives.

03

PRI Principle

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

UTAM Actions

- Discuss ESG risks in managers' portfolios and in relation to particular securities those managers hold.
- Ask managers to undertake and report on ESG-related engagements with companies in their portfolios.
- Ask managers to report on ESG incidents in their portfolios.
- Support collaborative initiatives promoting ESG disclosure by companies.

04

PRI Principle

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

UTAM Actions

- Encourage managers to become signatories to the PRI.
- Communicate our ESG expectations to managers.
- Support the development of tools for benchmarking ESG integration.
- Support regulatory or policy developments that enable implementation of the Principles.

05

PRI Principle

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

UTAM Actions

- Support and participate in networks and information platforms in order to share tools and pool resources.
- Address relevant emerging issues collectively with other asset owners and managers.
- Identify and support appropriate coalitions whose beliefs are aligned with the Principles.

06

PRI Principle

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

UTAM Actions

- Disclose how ESG issues are integrated within our investment process.
- Disclose active ownership activities (e.g., voting, engagement and policy dialogue).
- Communicate with stakeholders on ESG issues and the Principles.
- Report on progress and achievements relating to the Principles.
- Make use of reporting to raise awareness among a wider group of stakeholders.

PLEASE NOTE: Our use of the terms “relevant” and “material” in describing UTAM actions reflects the view that ESG factors are not equally important for all strategies. For instance, the expected holding period of an investment can have an impact on the relevance and materiality of ESG factors.

THE BROADER PERSPECTIVE

Integrating ESG into our investment activities

UTAM previously took some ESG considerations into account when evaluating investment managers. But as our responsible investing approach has evolved, we've become more rigorous and systematic in incorporating this dimension – both when we evaluate and select new managers and when we monitor current managers on an ongoing basis. Our 2017 Annual Report describes many elements of our overall approach to manager selection and monitoring. Presented at right is a more granular view of some of the ESG-related factors that we typically consider:

Investment Manager Selection

- Issue ESG due diligence questionnaires, review responses and follow up where appropriate.
- Review the manager's responsible investment policies.
- Meet with staff members who are focused on responsible investing in order to assess their skills and competence.
- Discuss current governance and management of the firm's responsible investing activities.
- Assess any collaborative initiatives or direct engagements with the management teams of companies in the investment portfolio.
- Evaluate the quality of the manager's investment policy and its reference to ESG.
- Assess how ESG implementation is enforced.
- Review how the manager evaluates ESG materiality.
- Examine the process for defining and communicating ESG incidents.
- Review the manager's proxy voting policy and processes (in cases where UTAM would not direct voting).
- Determine whether the manager is a signatory to the PRI and/or other relevant initiatives and organizations.
- Review responsible investment reporting to clients and/or the public.
- Communicate our expectations for future ESG reporting.
- Evaluate the coverage and quality of the firm's ESG-related research.
- Assess current strategies for incorporating ESG factors, as well as the manager's ability to identify and manage ESG-related issues.
- Review ESG-related characteristics of the investment portfolio.

- Investigate the impact of ESG factors on specific investment decisions and, where relevant, subsequent stock and portfolio performance.
- Discuss securities in the manager's portfolio that appear to have material ESG risks.
- Incorporate a review of ESG considerations in our internal manager recommendation memos, including rating the manager's ESG capabilities.

Investment Manager Monitoring

- Issue ESG due diligence questionnaires annually, following up on the manager's responses where appropriate.
- Include responsible investing as a standard agenda item at annual performance review meetings.
- Highlight examples of good practices by other managers in the area of responsible investing.
- Encourage the manager to join responsible investing initiatives or organizations, and to participate in collaborative projects with other investors.
- Review the manager's responsible investment reporting.
- Meet with staff members who are focused on responsible investing to discuss current research and review any changes in the manager's approach since the last meeting.
- Review ESG-related characteristics of the investment portfolio.
- Request details of the integration of ESG factors in specific investment decisions.
- Discuss securities in the manager's portfolio that appear to have material ESG risks.
- Incorporate a discussion of ESG considerations in our internal manager review memos, including rating the manager's ESG capabilities.

THE BROADER PERSPECTIVE

Shareholder voting and company engagement

UTAM is committed to being an active owner as part of our responsible investment activities. This means we exercise our shareholder rights applying an ESG lens. We also engage with companies on ESG-related topics, either directly or through various organizations. In both instances our goal is to strengthen companies' accountability on ESG-related issues, as we believe this is essential for effective operations, long-term performance and the ongoing management of risk.

Voting for Sustainability

ALL PUBLIC EQUITY SECURITIES in the university's Pension and Endowment portfolios – whether held directly or in pooled funds – typically extend the option of proxy voting by shareholders. In the past, UTAM would delegate voting to our external investment managers and we took a relatively passive approach, reviewing each manager's voting record and policies annually. However, as our responsible investment strategy evolved, we wanted to take a more deliberate and proactive role in our voting. We therefore shifted voting responsibility back to UTAM, and in September 2016 we engaged a third-party provider, Institutional Shareholder Services (ISS), to vote our proxies, where possible, in accordance with our beliefs and priorities. As a framework for ensuring our views are consistently represented, we've adopted the ISS Sustainability voting guidelines, which ISS describes as follows:

“The ISS Sustainability voting guidelines represent an approach to corporate governance and proxy voting that aligns with the perspectives of mainstream investors that wish to incorporate ESG considerations in their investment decision-making processes to a greater extent. The Sustainability guidelines focus on long-term economic value preservation/enhancement through promotion of corporate governance best practices that mitigate risks to shareowners, but also reflect the recognition that ESG factors could present material risks to portfolio investments.

“The Sustainability guidelines were specifically formulated to meet the growing need by mainstream institutional investors to account for ESG elements in their voting practices, including signatories to PRI looking to fulfill their obligations to the PRI from a proxy voting perspective. ISS liaised with the UN PRI Secretariat to help inform the development of the Sustainability guidelines.”

Our Proxy Voting Record

AS WE PLAN AND EXECUTE our proxy voting, we apply the ISS Sustainability guidelines to public equity investment mandates where the securities are held directly by the Pension or Endowment portfolios. We also apply the guidelines, where possible, to public equity funds in which Pension and Endowment are the only investors, and where the funds in turn hold public equity securities. During 2017, we voted directly – applying the ISS Sustainability guidelines – on more than 4,000 proposals and agenda items at 241 meetings in 13 countries. In 11% of cases, we voted against management.

We voted on 199 shareholder proposals, in most cases supporting them. For example, we backed a shareholder proposal on the ballot of First Republic Bank calling for the preparation of reports on employment diversity and related policies. We also voted in favour of a shareholder proposal at Amazon.com, Inc. to include sustainability as a performance measure for senior executive compensation.

Shareholder proposals, which are often ESG-focused, don't often pass, but according to ISS, they've recently been receiving more support than in previous years. And even those that don't pass may positively influence management behaviour on the issues they address.

We also encourage the investment managers that we invest with to consider adopting ESG-friendly proxy voting policies.

THE BROADER PERSPECTIVE

Shareholder voting and company engagement

Engaging Companies on ESG Issues

HISTORICALLY, UTAM HASN'T ENGAGED directly with the boards and management of public equity companies. This will change now that we've chosen to become an active participant in Climate Action 100+ (see page 18), an initiative to directly engage with some of the world's largest corporate greenhouse gas emitters. However, given the size of our assets under management and the fact that we invest through third-party investment managers, we expect that most of our engagement activities will continue to be through formal and informal collaborations with other institutional investors.

For example, since 2008 we've worked with other institutional investors through our membership in the Canadian Coalition for Good Governance, which promotes sound governance practices to the boards and management of issuers in Canada. More recently, we've augmented these efforts – particularly with regard to issuers outside Canada – by adopting reo®, the responsible engagement “overlay” service provided by BMO Global Asset Management. This service identifies ESG risks and opportunities in select companies within its clients' equity portfolios, then initiates dialogue with the companies' leaders to help ensure risks are effectively managed. Through constructive dialogue, reo® works to drive changes in policies and behaviours to optimize long-term investment performance.

The reo® Service Comprises:

- **PRIORITY ENGAGEMENTS** – in-depth, frequent interactions with companies that have significant ESG risks.
- **THEMATIC ENGAGEMENTS** – aimed at improving ESG practices in specific areas across groups of companies. Examples of recent themes include executive remuneration, US pharmaceutical pricing and the impacts of water, food and energy shortages.
- **REACTIVE ENGAGEMENTS** – responding to current controversies or breaches of the UN Global Compact on human rights, labour, environmental protection and anti-corruption.

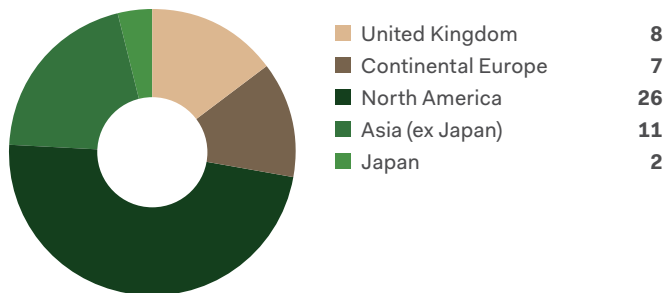
By adding reo® to UTAM's multi-pronged approach, we can leverage the influence of a larger asset base, extending the reach of responsible engagement to represent our ESG concerns to issuers globally.

Companies Engaged via reo® on Our Behalf in 2017

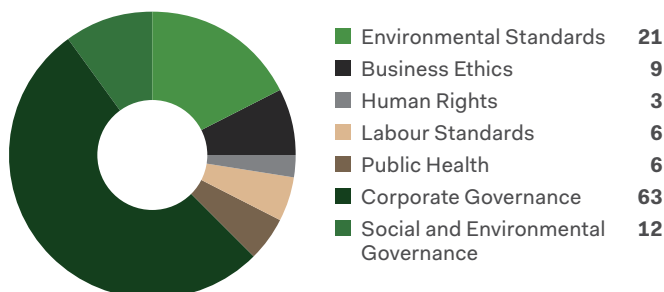
The goal of the reo® engagement approach is to drive companies' behavioural change with regard to ESG-related issues and risks. Successful outcomes are noted as "milestones" – changes in corporate policies or behaviour following intervention. The following graphics summarize reo® engagement activities with companies in the Pension and Endowment portfolios during the period in 2017 when we engaged BMO Global Asset Management to provide this service.

54 Companies engaged 24 Milestones achieved 12 Countries covered

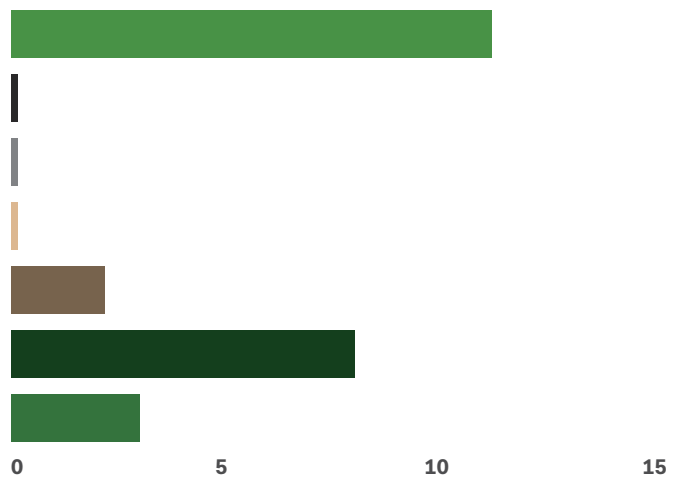
Companies engaged by country



Companies engaged by issue



Milestones achieved by issue



■ Environmental Standards
■ Business Ethics
■ Human Rights
■ Labour Standards
■ Public Health
■ Corporate Governance
■ Social and Environmental Governance

Source: BMO Global Asset Management, reo® Engagement Report – 4th Quarter 2017

THE BROADER PERSPECTIVE

Shareholder voting and company engagement

The reo® Case Study: Royal Dutch Shell PLC

Country: Netherlands

Sector: Energy

Theme: Environmental Standards

Issue: Climate Change

Excerpt from BMO Global Asset Management
reo® Engagement Report

Background

Shell has been on the receiving end of a number of climate change-related shareholder resolutions over the past couple of years. In 2015, the Board supported a resolution asking for better disclosure around its business resilience to low-carbon energy trends. For this year's general meeting, the Dutch NGO Follow This refiled a proposal requesting the company to set specific reduction targets for its operational carbon emissions (Scope 1+2), as well as for those associated with the use of its products (Scope 3). Although the resolution was widely perceived to be too prescriptive, receiving only 6.3% of shareholder support, it prompted extensive debate within the institutional investor community around the type of carbon targets that are most effective and realistic for oil and gas companies at this stage of the energy transition.

Action

[The reo® team] had a number of meetings with senior Shell executives this autumn [2017] to reiterate that despite the reservations around the specific resolution text on Scope 3 emissions, there is continued expectation that the company display more leadership in this area. At its annual investor day in November, the company outlined its ambition to reduce the net carbon footprint of its energy products by around half by 2050, with an interim goal of achieving a 20% reduction in 2035. These targets have been set to align with the broader political commitments of the Paris Agreement limiting climate change to well below 2 degrees Centigrade [Celsius]. In addition, the scope of the operational emissions target, currently anchored in the remuneration scorecard, has been expanded to cover 90% of operations. Shell also confirmed that it has taken a leading role in developing the reporting framework on long-term scenario planning in the emerging guidelines put forward by the Task Force on Climate-related Financial Disclosures (TCFD).

Verdict

Shell's announcement takes some of the heat out of what could otherwise have become another round of an increasingly public debate on its responsibility to be more proactive in the face of climate change. In comparison to industry peers, this attempt at defining emission targets around product sold sets a precedent and certainly stands out as a significant and positive step-change in climate-related reporting. It is a reflection of energy companies' increasing level of confidence in mapping the business impacts and strategic opportunities of a low-carbon energy transition. There are a number of open questions we have started to address with Shell, primarily around the extent to which its net carbon footprint methodology can be used to test alignment with a 2-degree energy trajectory. However, despite these outstanding issues, we recognize Shell's announcement as a crucial step that will help accelerate dialogue with companies across sectors around the possibilities of setting realistic and ambitious business targets in relation to climate change.

Source:
BMO Global Asset Management, reo® Engagement Report – 4th Quarter 2017



THE BROADER PERSPECTIVE

Collaborative action and advocacy

We believe that responsible investors typically have more impact working together than they're able to achieve on their own. UTAM collaborates with like-minded investors on joint initiatives and advocacy efforts across Canada and around the globe. In 2017, we added two key initiatives to our responsible investing activities:

Climate Action 100+

UTAM, on behalf of the University of Toronto, is a founding participant in Climate Action 100+ and will play an active role in this investor-led initiative to engage with more than 100 of the world's largest corporate greenhouse gas emitters. Officially launched on December 12, 2017 – the second anniversary of the Paris Agreement – this five-year initiative seeks to secure the following key commitments from boards and management of the 100+ companies:

- Implement a strong governance framework that clearly articulates boards' oversight of, and accountability for, climate change risk.
- Take action to reduce greenhouse gas emissions across the value chain – consistent with the Paris Agreement objective of limiting global average temperature gains to less than two degrees Celsius above pre-industrial levels.
- Adopt enhanced disclosure practices – based on recommendations from international advisory bodies – that allow investors to assess companies' business plans against a range of climate scenarios.

UTAM has embraced Climate Action 100+ not just by supporting its principles as a signatory, but by actively advancing the initiative's goals. For instance, we've committed to engage directly with at least one company in addressing the priorities outlined above. Like other responsible investors, we see collaborative engagement with emitting companies as critical to ensuring a sustainable global economy.

Montréal Carbon Pledge

UTAM has joined more than 120 global investors – collectively responsible for over US\$10 trillion in assets under management – in signing the Montréal Carbon Pledge. Aligned with the 2015 Paris Agreement on climate change, the pledge formalizes our commitment to measure and disclose the carbon footprints of the Pension and Endowment investment portfolios.

Originally launched at the Principles for Responsible Investment (PRI) annual conference in September 2014, the Montréal Carbon Pledge has attracted support from investors around the world. Participants share the belief that robust carbon disclosure will help investors better understand and manage climate change-related impacts, risks and opportunities.

Other 2017 ESG Activities

In May, UTAM joined 216 other global investors – representing more than US\$5 trillion in assets – in conveying our strong support for the Paris Agreement to governments of the G7 and G20 nations, urging leaders to stand by their commitments to the accord.

We have purchased carbon offsets – through Less, a Bullfrog Power company – to mitigate the impact of UTAM employees' domestic and international travel in 2017. These greenhouse gas offsets, representing 45.05 tonnes of CO₂ equivalent, were sourced from a Gold Standard certified project. The credits were issued by the United Nations Executive Board as certified emission reductions based on the Clean Development Mechanism standard.

We hosted a roundtable called ESG Integration in Credit Risk and Ratings – part of the ESG in Credit Ratings Initiative spearheaded by the PRI. Representatives of various credit rating agencies exchanged ideas and views with portfolio managers, responsible investing practitioners and other interested parties.

THE BROADER PERSPECTIVE

Collaborative action and advocacy

Affiliations



Canadian Coalition for Good Governance

The Canadian Coalition for Good Governance (CCGG) represents the interests of institutional investors in promoting sound corporate governance practices among Canadian public companies. The CCGG advocates for more effective Canadian capital markets, as well as for regulatory change to better align shareholder interests with those of company boards and management.

In 2017, we reinforced the CCGG's support of proposed amendments to the Canada Business Corporations Act, as set out in Bill C-25, particularly with respect to adding majority voting for directors, annual and individual elections of directors, and diversity disclosure.

ccgg.ca
Member since 2008



CDP

CDP, formerly the Carbon Disclosure Project, operates a non-profit global system that enables companies and governments to measure and manage their environmental impacts. More than 500 cities, 100 states and regions, and 6,300 companies with about 55% of global market capitalization disclosed environmental data in 2017.

UTAM led engagement initiatives encouraging specific companies to respond to CDP disclosure requests.

cdp.net
Signatory since 2016



Institutional Limited Partners Association

The Institutional Limited Partners Association (ILPA) advances the interests of private equity investors globally through education programs, independent research, development of best practices, and opportunities for networking and collaboration.

UTAM has endorsed ILPA's Private Equity Principles, which stipulate that managers should provide investors with portfolio information on all material risks, including those related to ESG.

ilpa.org
Member since 2002



Pension Investment Association of Canada

The Pension Investment Association of Canada (PIAC) has served as a national voice on investment and governance matters since 1977. Speaking on behalf of both private and public pension funds, PIAC promotes and evaluates sound pension and corporate governance standards and practices.

Our Chief Operating Officer is a member of PIAC's Investor Stewardship Committee, which aims to develop, monitor and promote robust standards and best practices for investor stewardship of pensions in Canada. Activities reviewed by the Committee include proxy voting, corporate engagement, governance, integrating ESG factors into the investment process, and advocacy around responsible investing with policy-makers and standard-setters.

piacweb.org
Member since 2004



Principles for Responsible Investment

Principles for Responsible Investment (PRI) works to understand the investment implications of ESG factors, supporting a global network of signatories as they incorporate these factors into their investment decisions. The PRI acts in the long-term interests of financial markets, economies, society and the environment.

Our Chief Risk Officer is a member of the PRI's Asset Owner Advisory Committee, which provides advice, tools and support to asset owners implementing PRI, as well as insights into the opportunities offered by incorporating ESG factors into investment decision-making. The committee also undertakes engagement with industry stakeholders, including existing and potential PRI signatories, about responsible investment practices.

unpri.org
Signatory since 2016



Responsible Investment Association

The Responsible Investment Association (RIA) brings together Canadian mutual fund companies, financial institutions, asset managers, advisors, consultants, researchers and individual investors who believe that integrating ESG factors into investment management can yield superior risk-adjusted returns and positive societal impact.

UTAM's Chief Operating Officer participated on a panel with other RIA members discussing ESG integration. We actively contribute to the RIA Toronto Working Group, regularly hosting its meetings.

riacanada.ca
Member since 2016

UTAM is committed to maintaining open, transparent communications with regard to our responsible investment activities and all other aspects of our operations. For more information, including our Responsible Investing Policy, the latest UTAM Annual Report, our relationship with the University of Toronto, our collaboration with other organizations, and all other reporting and disclosure activities, please visit our website – utam.utoronto.ca – or contact us using one of the options below.

**UNIVERSITY OF TORONTO
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UNIVERSITY OF TORONTO
ASSET MANAGEMENT CORPORATION

About UTAM

University of Toronto Asset Management Corporation (UTAM) is a corporation without share capital incorporated on April 25, 2000 by the Governing Council of the University of Toronto under the *Corporations Act* (Ontario) in Canada. UTAM is a non-profit organization under the *Income Tax Act* (Canada). At December 31, 2017, UTAM was registered with the Ontario Securities Commission as a Portfolio Manager.

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