OUR MANDATE

In accordance with the objectives and constraints established by the University of Toronto for the management of its assets, we manage investment funds that fall into three portfolios:

- Endowment, or the Long-Term Capital Appreciation Pool
- Expendable Funds Investment Pool (EFIP), consisting of short-term working capital
- Pension

In carrying out this responsibility, we do not normally select traded securities ourselves. Rather, we seek to identify best-in-class investment managers and then allocate capital to these managers either in the form of segregated account mandates (i.e., where the securities are directly held by Endowment, EFIP or Pension) or, more commonly, via investments in funds (i.e., where Endowment, EFIP or Pension invests in a fund that in turn invests in securities).

RESPONSIBLE INVESTING

Responsible investing is an approach that aims to incorporate environmental, social and governance (ESG) factors into investment decisions in order to better manage risk and generate sustainable long-term returns.¹

We define ESG factors as follows:

**Environmental**: Factors relating to a company’s interactions with the physical environment. These include (but are not limited to) climate change; greenhouse gas emissions; biodiversity loss; deforestation; air, water or resource depletion or pollution; waste management; change in land use; and ocean acidification.

**Social**: Factors relating to business practices that have an impact on the rights, well-being and interests of people and communities. These include (but are not limited to) human rights; labour standards in the supply chain; child, slave and bond labour; workplace health and safety; freedom of association and freedom of expression; human capital management and employee relations; diversity; relations with local communities (including indigenous communities); activities in conflict zones; health and access to medicine; consumer protection; and controversial weapons.

**Governance**: Factors relating to the governance of a company. These include (but are not limited to) board structure, composition, size, diversity, skills and independence; executive pay; shareholder rights; stakeholder interactions; transparency; business ethics; bribery and corruption; internal controls; and conflicts of interest.

¹ Source: UN PRI definition of responsible investment, [https://www.unpri.org/about/what-is-responsible-investment](https://www.unpri.org/about/what-is-responsible-investment)
POLICY

We believe that ESG factors can have a material impact on the long-term risk and return of a given investment and that incorporating relevant and material ESG issues into our decision-making processes is consistent with our fiduciary duty. It is, therefore, our policy to take ESG matters into account in our investment decisions together with other relevant and material considerations (i.e., we take an integration approach). Moreover, we believe that, by being active owners through our voting and engagement policies and practices, we can realize greater long-term value for the beneficiaries of the investments that we manage.

This policy is applicable to all assets under our management.

RESPONSIBLE INVESTING PRINCIPLES

In December 2016, UTAM, on behalf of the University of Toronto, became a signatory to the United Nations-supported Principles for Responsible Investment (PRI). The PRI is a set of six aspirational principles designed to encourage and assist investors in integrating ESG issues into their processes. In becoming a signatory, we have made the following commitment:

As institutional investors, we have a duty to act in the best long-term 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 recognise that applying these principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the six PRI principles listed below.

Guided by these principles in our approach to responsible investing, UTAM undertakes, where relevant and material, the following non-exhaustive actions:

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2 Representing both the University of Toronto Endowment and the University of Toronto Pension Plan.
3 Our use of the terms “relevant” and “material” in describing UTAM actions reflects the view that ESG factors are not equally important for all managers and strategies. For example, the expected holding period of an investment can have an impact on the relevance and materiality of ESG factors.
<table>
<thead>
<tr>
<th>Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.</th>
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<tbody>
<tr>
<td>- Evaluate ESG-related risks across all portfolios.</td>
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<tr>
<td>- Integrate consideration of ESG factors into our investment and operational due diligence policies, and into other policies.</td>
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<tr>
<td>- Incorporate ESG considerations into our manager selection and monitoring processes.</td>
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<tr>
<td>- Support development of ESG-related tools, metrics and analyses.</td>
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<tr>
<td>- Encourage academic and other research on ESG integration.</td>
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<td>- Provide and promote ESG training for our investment professionals.</td>
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<th>Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.</th>
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<tbody>
<tr>
<td>- Adopt a proxy voting policy that integrates ESG considerations and, where possible, apply this integrated policy to all public equity segregated account mandates, as well as to public equity funds in which Pension and Endowment portfolios are the only investors.</td>
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<tr>
<td>- Encourage managers to adopt voting policies that integrate ESG considerations.</td>
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<tr>
<td>- Support corporate and regulatory proposals that contribute to improved governance practices and more effective boards.</td>
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<tr>
<td>- Participate in collaborative engagement initiatives.</td>
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<th>Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.</th>
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<tr>
<td>- Discuss ESG risks in managers’ portfolios and in relation to particular securities that those managers hold.</td>
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<tr>
<td>- Ask managers to undertake and report on ESG-related engagements with companies in their portfolios.</td>
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<tr>
<td>- Support collaborative initiatives promoting ESG disclosure by companies.</td>
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<th>Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.</th>
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<td>- Encourage managers to become signatories to the PRI.</td>
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<td>- Communicate ESG expectations to managers.</td>
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<tr>
<td>- Support the development of tools for benchmarking ESG integration.</td>
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<tr>
<td>- Support regulatory or policy developments that enable implementation of the Principles.</td>
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<tr>
<th>Principle 5: We will work together to enhance our effectiveness in implementing the Principles.</th>
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<tr>
<td>- Support and participate in networks and information platforms in order to share tools and pool resources.</td>
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<tr>
<td>- Address relevant emerging issues collectively with other asset owners and managers.</td>
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<tr>
<td>- Identify and support appropriate coalitions whose beliefs align with the Principles.</td>
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</table>
**Principle 6:**

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

- 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 broader group of stakeholders.

## ACTIVE OWNERSHIP

UTAM is committed to being an active owner as part of our responsible investment activities. This means we exercise our shareholder rights taking into account ESG considerations. We also engage with companies on ESG-related topics, either directly or through various organisations. In both instances, our goal is to improve the management of ESG risks and opportunities at companies held in client portfolios, which we believe is important for long-term outperformance.

In the following sections, we discuss the ways in which we implement proxy voting and undertake engagement activities.

### Proxy voting

Proxy voting is one of the most important rights available to public equity investors. UTAM’s approach to proxy voting reflects our fiduciary duty to act in the best interest of our client. We also expect our third-party investment managers to act in the best interest of their investors when they vote proxies in companies held in any fund in which our client invests. To that end, we routinely review the proxy voting practices of our investment managers as part of our operational due diligence reviews.

In undertaking proxy voting, we consider the following, where applicable:

- Conflicts of interest
- Share blocking
- Securities lending, including the recall of shares from borrowers in order to vote
- ESG factors

As a responsible investor and a PRI signatory, UTAM has adopted the Institutional Shareholder Services (ISS) Sustainability Guidelines for proxy voting, which are consistent with the objectives of investors who take an integration approach to responsible investing. We apply these guidelines wherever possible.

The guidelines, updated annually by ISS and disclosed on our website, reflect the following considerations:
ISS recognizes the growing view among investment professionals that sustainability or environmental, social, and corporate governance (ESG) factors could present material risks to portfolio investments. Whereas investment managers have traditionally analyzed topics such as board accountability and executive compensation to mitigate risk, greater numbers are incorporating ESG performance into their investment-making decisions in order to have a more comprehensive understanding of the overall risk profile of the companies in which they invest to ensure sustainable long-term profitability for their beneficiaries.

Investors concerned with portfolio value preservation and enhancement through the incorporation of sustainability factors can also carry out this active ownership approach through their proxy voting activity. In voting their shares, sustainability-minded investors are concerned not only with economic returns to shareholders and good corporate governance, but also with ensuring that corporate activities and practices are aligned with the broader objectives of society.

These investors seek standardized reporting on ESG issues and request information regarding an issuer’s adoption of, or adherence to, relevant norms, standards, codes of conduct, or universally recognized international initiatives including affirmative support for related shareholder resolutions advocating enhanced disclosure and transparency.

ISS has, therefore, developed proxy voting guidelines that are consistent with the objectives of sustainability-minded investors and fiduciaries. On matters of ESG import, ISS’ Sustainability Policy seeks to promote support for recognized global governing bodies promoting sustainable business practices advocating for stewardship of environment, fair labor practices, non-discrimination, and the protection of human rights. Generally, ISS’ Sustainability Policy will take as its frame of reference internationally recognized sustainability-related initiatives such as the United Nations Environment Programme Finance Initiative (UNEP FI), United Nations Principles for Responsible Investment (UNPRI), United Nations Global Compact, Global Reporting Initiative (GRI), Carbon Principles, International Labour Organization Conventions (ILO), CERES Principles, Global Sullivan Principles, MacBride Principles, and environmental and social European Union Directives. Each of these efforts promotes a fair, unified and productive reporting and compliance environment which advances positive corporate ESG actions that promote practices that present new opportunities or that mitigate related financial and reputational risks.

On matters of corporate governance, executive compensation, and corporate structure, the Sustainability Policy guidelines are based on a commitment to create and preserve economic value and to advance principles of good corporate governance. 4

UTAM applies the following practices to address proxy voting effectively in all the ways we may invest:

Segregated account mandates
Where public equity investments are made through segregated account mandates, proxy voting will be conducted according to the ISS Sustainability Guidelines, with ISS administering the proxy voting process on our behalf. We strive to recall all securities on loan in order to vote.

Customized fund investments
Where public equity investments are made through customized funds created for our client’s assets, proxy voting, where possible, will be conducted according to the ISS Sustainability Guidelines, with ISS administering the proxy voting process on our behalf.

Commingled fund investments
Where public equity investments are made through funds with other investors (i.e., commingled or pooled funds), UTAM will not, typically, be able to require the investment manager to implement our proxy voting guidelines. In such cases, we will ensure that the manager has an appropriate policy to vote proxies in the best interests of the fund, and, if this is not already the case, we will encourage the manager to consider adopting proxy voting guidelines that integrate ESG considerations.

Engagement
One of the pillars of a best-in-class active ownership approach is engagement with the management and boards of equity and fixed income issuers on ESG considerations. The objectives of engagement include seeking a better understanding of a company’s position on various issues and communicating our views with the goal of improving management of ESG risks and opportunities at portfolio companies. We believe that sound management of ESG risks and opportunities is essential for long-term outperformance.

Given our size and our practice of investing through third-party investment managers, we typically undertake engagement activities as part of formal and informal collaborative groups. We believe that the combined influence of like-minded investors with substantial combined holdings will typically lead to better outcomes than we could achieve on our own.

Collaborations
We participate in formal engagement collaborations through memberships in various organizations, by teaming up with other like-minded investors and by using service providers to engage on our behalf.

We have a consultative process managed by our Responsible Investing Committee to determine the collaborations in which to participate. In order to identify and prioritize collaborative engagements, we use a number of criteria including the value we can add to the collaboration, the materiality of the specific ESG risks to be addressed and the potential impact on client portfolios.

Where we contract service providers for engagement activities, we conduct regular discussions with them on engagement priorities, key objectives,
progress in meeting those objectives and the outcomes achieved. We endeavour to participate selectively in their engagement activities from time to time.

We monitor all of our collaborative engagement activities to assess their effectiveness.

We regularly report to internal and external stakeholders on the progress of collaborative engagements and may share insights from engagement activities with external investment managers where relevant.

*Engagement not divestment*

We believe that in most cases we are more likely to effect positive change by engaging with company boards and management rather than by divesting. Therefore, except where mandated by the University of Toronto, or by Canadian federal or provincial government regulations, we will not divest from particular companies or sectors. Instead, where possible and practicable, we will participate in engagement. There is currently one exception to this general position: the University of Toronto directed UTAM to divest from tobacco companies in 2007 and since then has explicitly prohibited any further investment in tobacco securities. We do not hold these companies in any segregated account mandate and will not invest in any fund that has, or is likely to have, holdings in tobacco companies in excess of 10% of the value of the fund.

**RESPONSIBLE INVESTING GOVERNANCE AT UTAM**

We have established an internal Responsible Investing Committee with a mandate to consider all matters relating to the development and implementation of our responsible investing practices. The committee, which is comprised of the most senior leaders at UTAM, meets quarterly—or more frequently if required—and undertakes the following activities:

- Develops and approves our Responsible Investing Policy
- Sets annual responsible investing objectives, including those specifically related to climate issues
- Identifies and evaluates evolving best practices with respect to responsible investing
- Approves and oversees the implementation of responsible investing practices, including:
  - Integration of ESG factors in manager selection and monitoring
  - Consideration of ESG factors in our risk framework, including in scenario analysis
  - Consideration of ESG factors in our strategic asset allocation research
  - Proxy voting practices
  - Engagement activities
- Provides appropriate training for staff
- Develops responsible investing reporting to stakeholders
- Oversees annual PRI reporting
- Considers any other relevant matters

The Committee comprises the following positions:
- President and Chief Investment Officer
- Chief Operating Officer
- Chief Risk Officer and Head of Research
- Head of Public Equities, Investments
- Head of Private Markets, Investments
- Head of Fixed Income, Investments

**TRANSPARENCY – REPORTING AND DISCLOSURE**

We are committed to being transparent with our stakeholders and to regular reporting and disclosure activities that include (but are not limited to) the following:

- Publishing a responsible investing report annually
- Publishing a carbon footprint report annually
- Reporting proxy voting activities annually
- Publishing our UN-PRI assessment report annually
- Updating our website with responsible investing activities regularly

**POLICY REVIEW**

This policy is subject to review at least annually.