

Western University Responsible Investing Annual Report **2022**



Letter from the Chair

Earlier this year, Western University's Investment Committee shared our first responsible investing report for the Operating & Endowment Fund (the Fund). The inaugural report outlined our longstanding commitment to responsible investing and the responsible investing strategy and pathway that will guide our actions in the years to come. With a focus on climate change, the report made clear the Fund's commitments:

- **to reduce carbon intensity by 45% by 2030, using 2020 as a base year**
- **to achieve net-zero absolute carbon emissions by 2050 or sooner**
- **to target a 10% allocation to sustainable investments by 2025**

As Chair of the Investment Committee, I'm pleased to share our 2022 Responsible Investing Annual Report, which outlines many actions we've taken this year to advance our responsible investing strategy.

The 2022 report shows progress towards our decarbonization commitments, presenting measurements for the Fund as of December 31, 2021. Once again, we have prepared a total portfolio carbon footprint to provide a holistic view of all the assets in the Fund. As you will see, we have reduced the weighted average carbon intensity of the Fund by 4.3% compared to our baseline 2020 measurements. Carbon emissions from our public portfolio have also fallen by 38.6% year over year. We are encouraged about these first results; but these are just early steps in our decarbonization strategy. Evaluating our progress will require several years of data to see our trendlines, as we expect variation in our footprint from year to year.

To support our decarbonization efforts, we're engaging more actively with our investment managers through our redesigned ESG (Environmental, Social & Governance) survey, launched earlier this year. The survey provides the opportunity for dialogue with our managers so that we can share our responsible investing commitments and expectations. We have also recognized the power of collaboration, having joined the shareholder engagement group University Network for Investor Engagement (UNIE). Across this network, UNIE engages directly with companies, with a focus

on accelerating the transition to a low-carbon economy in key sectors where advocacy can make the biggest difference. Our early experience collaborating with like-minded institutions to pursue greenhouse gas reductions has been positive.

We've also made considerable progress in our sustainable investing strategy, having made a second investment early in 2022, with additional investments expected in early 2023. These allocations target investments in support of the United Nations SDGs (Sustainable Development Goals), while also meeting our financial performance expectations. While these targeted investments specifically focus on supporting the UN SDGs, it's worth noting that our responsible investing beliefs, and integration of ESG factors, are considered when selecting and monitoring our investments.

Encompassing all our climate-related activities for the Fund, we've prepared our first disclosures under the Task Force for Climate-related Financial Disclosures (TCFD) framework. We're excited to share this best practice reporting with you, along with the actions we've taken in 2022 to progress our responsible investing strategy and pathway.



Lynn Logan, FCPA, FCA, MBA, ICD.D
Vice-President (Operations & Finance); Chair, Investment Committee

“ Sustainability remains a top priority at Western. A recognized leader in this area, Western placed first in Canada and third globally in the Times Higher Education Impact Rankings and third in Canada and top twenty worldwide in the QS World University Rankings: Sustainability. This recognition reinforces that our responsible investing strategy and progress toward net-zero emissions for campus operations are making a real difference in the university's efforts to build a more sustainable future for all.

—Alan Shepard, President & Vice-Chancellor of Western University

Welcome

At Western University, we are committed to actively addressing sustainability challenges, both on campus and through our investments, and we recognize the significant impact climate change is having on our world. As such, The Western Investment Committee is pleased to present our second Responsible Investing Annual Report.



Our progress in 2022:

Committed to clear carbon reduction targets

Enhanced and deployed our ESG Manager Survey

Conducted top-down climate scenario analysis to inform strategic asset allocation decisions

Completed our second annual Total Portfolio carbon footprint measurement to begin tracking progress against our 2020 baseline measurements

Joined UNIE to bolster our engagement activities and collaboration within the Higher Education sector on climate engagement

Completed our inaugural TCFD report

Made our second Sustainable Investment allocation and launched our first Sustainable Impact Fund search

Investing Responsibly for a Brighter Future

Western's Investment Committee defines responsible investing as an approach that integrates ESG considerations into investment decisions.

The committee acknowledges that it has a fiduciary obligation to invest for the benefit of the University while also considering the needs of current and future generations. The implementation and continued evolution of our responsible investing approach has helped meet these obligations by providing a broader lens to understand emerging and long-term systemic issues.

We remain committed to our responsible investing journey as our approach continues to evolve as needed through innovation and learning. Through regular reporting, we will be transparent on our progress as we work toward our short and long-term goals.

OUR PATH FORWARD

Western's Responsible Investing Strategy and Pathway has paved the way forward to allow better measurement and reporting, continued improvement through dynamic and adaptable processes, and ensuring that our [Responsible Investing Beliefs](#), policy and strategy commitments can be met.

Grounded in our [Responsible Investing Principles](#), our approach firmly positions sustainability as a fundamental concept in the wise allocation of financial capital to benefit current and future generations; and reflects a commitment of the University's strategic plan to tackle climate change, aiming to reduce carbon intensity by 45 per cent by 2030, using 2020 as a base year, and to achieve net-zero absolute carbon emissions by 2050, or sooner.



Advancing our Efforts

MEASURING OUR CARBON FOOTPRINT: 2021 SUMMARY

As communicated in the first iteration of our annual responsible investing report, Western is committed to assessing the total portfolio carbon footprint of our Operating & Endowment Fund, and holding ourselves accountable for reducing that footprint annually. In our 2021 report, we released our baseline 2020 carbon footprint. Our second carbon footprint measurements show our progress in reducing our carbon footprint compared to the 2020 baseline measurements. Several more years of data are needed to help us understand the true trendlines in our reductions, however, these early results are promising.

Carbon Measurements

Emission measures provide Western with an understanding of the carbon footprint of our investment activities. We can use these measures to attribute emissions to different sectors within the economy and evaluate whether emissions are declining within our portfolio when compared to other investment approaches. Western monitors two carbon emission measures: **Absolute Carbon Emissions** and **Weighted Average Carbon Intensity (WACI)**.

We also recognize that carbon footprint reporting has not yet been regulated and the data and methodology is still evolving. It is important that we continue to align with best practice as outlined by the TCFD. For our 2021 measurements, we updated our calculation methodology for the absolute carbon emissions metric as recommended by the TCFD. We will continue to evolve our reporting methodology with these metrics to ensure we remain aligned with industry best practices over time.



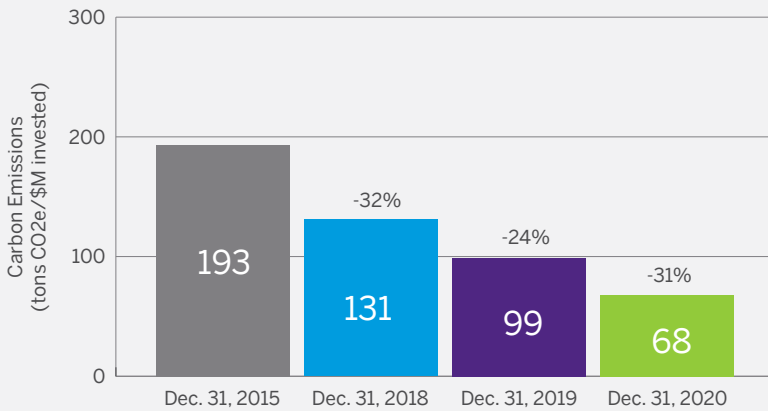
Carbon footprint analysis highlights:

- The 2020-2021 analysis of our public equity carbon footprint year-over-year shows a **drop in carbon emissions by 39%**.
- As of December 31, 2021, the public equity carbon emissions were 27 tons of CO₂e/\$1M invested.
- WACI has decreased by 4.3% year-over-year, on track for meeting our 2030 decarbonization commitment.

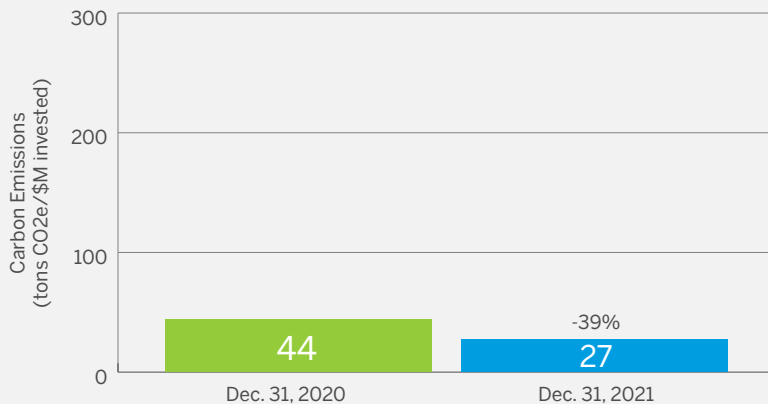
Carbon Emissions – Public Equity Portfolio

The chart on the top reflects progress from 2015–2020 using the prior methodology. The chart on the bottom reflects progress from 2020–2021 using the new methodology in alignment with latest best practice.

Carbon Emissions – Public Equity Portfolio (2015–2020)
Previous Methodology – Normalized by Market Cap



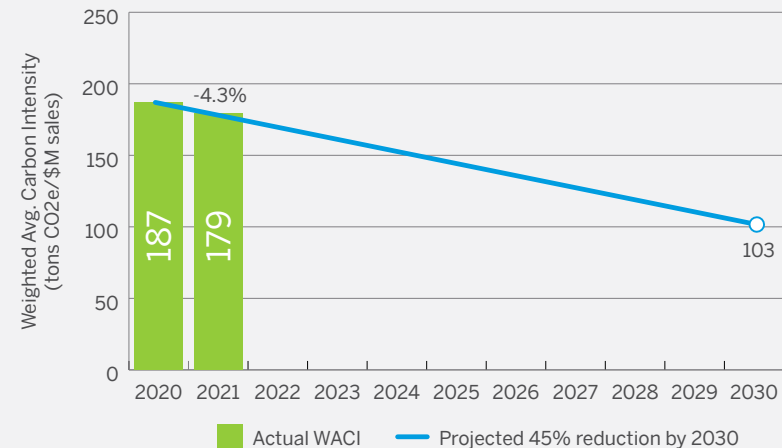
Carbon Emissions – Public Equity Portfolio (2020 onward)
Updated Methodology – Normalized by EVIC



Weighted Average Carbon Intensity – Total Portfolio

This chart is reflective of the total portfolio WACI, and the progress in reducing WACI from 2020 to 2021.

Weighted Average Carbon Intensity



Fossil Fuel and Renewables Exposure

As at December 31, 2021, direct and indirect investments in fossil fuel companies make up 3.7% of the total portfolio, with only 0.33% of the public equity portfolio being held as direct investments. At the same time, our direct investment in renewable infrastructure investment was 1.0%.

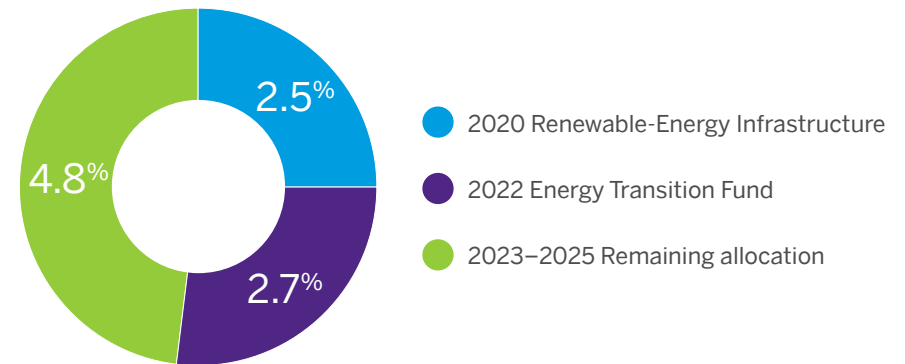


\$70 M USD has been committed to sustainable investing strategies

SUSTAINABLE INVESTING STRATEGY

Western has committed to invest 10% of the Fund in sustainable investing strategies by 2025. These investment opportunities will be in support of the UN Sustainable Development Goals and can be made across asset classes. To date, the university has made two allocations to sustainable investments. Our first allocation in 2020, committed \$30M USD to a renewable-energy infrastructure fund, and a second commitment of \$40M USD was made to an energy transition fund in 2022. To date, we have committed over 5% to the strategy, with additional investments expected in early 2023.

In reviewing sustainable investment opportunities, we see private markets, and infrastructure in particular, emerging as areas that will positively contribute to the portfolio and the sustainable investing strategy. Selection of quality sustainable investing opportunities is critical for achieving the Fund's long-term objectives. It's important that within this strategy, we are combining the expectations of the sustainable investing strategy with solid performance fundamentals. As such, not all investment opportunities will be appropriate, and we are disciplined in pursuing new opportunities meeting all our financial and non-financial performance expectations.





CLIMATE SCENARIO ANALYSIS

Assessing our Portfolio's Climate Resiliency

In 2022, we conducted top-down climate scenario analysis. Climate scenario analysis is used to support strategic asset allocation decisions by testing the resilience of the Fund under multiple potential future climate outcomes. With the support of Mercer Canada, we conducted this analysis covering a range of policy assumptions, market responses, and global temperature outcomes.

Potential financial impacts are driven by two key sources of change; the physical damages expected from an increase in average global temperatures, and the associated transition to a low-carbon economy. In shorter timeframes, transition risk tends to dominate while over longer timeframes, physical risk will be the key driver of climate impacts.

The Mercer climate model uses a variety of climate scenarios, including an average temperature increase of 1.5°C, 2.0°C or lower, and above 4°C. Each climate scenario incorporates a world view of economic activity, market pricing shocks, and financial returns; combined with a narrative that articulates a view of transitional and physical risks. The effects are then

forecast onto the portfolio to show the financial impact of each scenario over time (short - 5yrs, medium - 15yrs, and long-term - 40yrs).

The climate-scenario analysis indicated that our portfolio is reasonably positioned under these scenarios, and our sustainable investment allocation may moderate some risk in 1.5°C and 2.0°C or lower scenarios.

We expect to utilize climate scenario analysis as a strategic tool when considering future asset mix and University investment payout policy reviews. The analysis will be repeated periodically to assess the exposures of the Fund and will require updating as scenario information evolves with real-world experience. It will also support us with investment manager selection decisions and engagement priorities and serve as a benchmark to track the success of climate risk mitigation strategies moving forward.

For further details on this analysis, please refer to the climate section of our [TCFD report](#).

OUR ENGAGEMENT ACTIVITIES

Engaging with our Managers

Engagement with our investment managers is a crucial part of our Responsible Investing Strategy and Pathway. Since 2014, we've engaged and surveyed our investment managers on ESG. During 2022, to advance our responsible investing efforts, we redesigned and significantly improved our ESG Manager Survey. The survey results are an opportunity for Western to engage in a dialogue with our Managers on their sustainability activities and will help inform future allocation decisions as we monitor the results and progress, through time.

Key findings

20 of our 21 Managers are signatories to the Principles for Responsible Investment (PRI)

85% of our investment managers have a process in place for integrating climate change risk and opportunity within their core decision making framework

60% of our investment managers have either set climate transition targets, or plan to set targets within the next 1–2 years

75% of managers consider diversity within the investment process, and **95%** of managers track diversity metrics for the organization

90% of managers engage with individual companies/issuers on material ESG issues as part of the investment process

Western is integrating the survey findings and carbon measurements into our manager reviews and discussions, and during the due diligence process for new managers under consideration. Where there are opportunities for managers to improve practices in certain key ESG areas, we will use these discussions to encourage action in line with Western's broader sustainability goals.

We've prioritized the following areas for engagement with our Managers:

- 1 Climate change targets, impacts and climate transition
- 2 Equity, diversity and inclusion in the investment decision making process
- 3 Stewardship and engagement practices
- 4 Continued data and disclosure improvements

Collaborating for Change

While individually engaging with our Managers is important, we have further strengthened our engagement efforts through collaborations with networks that engage with individual companies directly. In 2022, we partnered with the [UNIE](#), a shareholder engagement program for Canadian university endowments and pension plans, to help leverage our power as an institutional investor to meaningfully address climate change-related risks.

Western contributes to the development of the overall engagement plan for UNIE annually and receives quarterly engagement updates. For the first three quarters of 2022, Western had participated in 78 engagements with 53 unique companies, the majority focused on reducing greenhouse gas (GHG) emissions, which is aligned with the decarbonization strategy of the Fund.

Our Commitments Going Forward

Western will continue to integrate responsible investing practices throughout our investment processes and decision-making.

Western remains committed to:

- Investing 10% of the Operating & Endowment Fund in sustainable investment strategies by 2025
- Reducing our carbon intensity at least 45% by 2030
- Achieving net-zero absolute carbon emissions by 2050, or sooner

As we progress into 2023, engagement will remain a key focus as we use our leverage to drive change at both the manager and individual company level.



Next Steps

Investigate becoming a PRI Signatory upon release of their updated framework

Engagement through ESG surveys and UNIE. Prioritize manager engagement through a focus on updating and leveraging findings from the manager survey and total carbon footprint

Pursue new sustainable investment opportunities across asset classes

Conduct the 2022 carbon footprint and share our progress through the Responsible Investing Annual Report



TCFD Reporting

We are pleased to present the Fund's inaugural climate-related financial disclosures.

The information included in this reporting has been prepared in accordance with the TCFD, a global framework for disclosing the impacts of climate change for Western as an asset owner. Transparency and reporting are a core principle of Western's Responsible Investing Strategy, and this voluntary disclosure is in keeping with that commitment.

CLIMATE-RELATED FINANCIAL DISCLOSURES

Governance

a. Describe the board's oversight of climate-related risks and opportunities.

The **Board of Governors (the Board)** is responsible for approving Western's strategic direction, supporting the execution of the strategic plan, and the overall risk management of the University. The Board has delegated certain responsibilities to standing

committees, which report to the Board approximately quarterly.

The Board, through the **Property and Finance Committee (P&F)**, has delegated responsibility for managing the Operating and Endowment Fund (**the Fund**) to the **Investment Committee (IC)**. The IC brings expert advice and knowledge to bear on the effective long-term management of the Fund, consistent with its objectives. The IC is comprised of various industry experts, including responsible investing (RI).

The IC is responsible for the oversight of University investments, setting investment strategy and objectives, and monitoring performance. The IC establishes a [Statement of Investment, Policies and Governance \(SIOPG\)](#) that guides the management of the Fund. In addition to financial objectives, the SIOPG outlines the importance of Environmental, Social and Governance (ESG) factors in assessing the Funds' performance, as well as the climate-related decarbonization objectives and sustainable investing goals supporting United Nations Sustainable Development Goals (UN SDGs), such as climate-action. The SIOPG, as recommended by the IC, is approved by the Board and is in alignment with Western's climate goals.

The IC meets quarterly to review the performance of the Fund against its objectives. The IC is updated quarterly on climate-related engagement activity, as well as performance against our sustainable

investing strategy. On an annual basis, the climate carbon metrics are compared to our decarbonization targets. The Board is updated quarterly, through P&F, on the IC activities, including those related to climate and RI.

b. Describe management’s role in assessing and managing climate-related risks and opportunities.

The Director, Investments, and their investment team, along with senior leadership of the institution (collectively the **Administration**), are responsible for the ongoing management of the Fund and its Investment Managers (**Managers**). Recommendations for changes to existing Managers or new investment mandates are presented by Administration to the IC and include climate-related considerations that contribute to Western’s decarbonization and sustainable investment objectives.

Administration integrates ESG and carbon-related metrics into the ongoing Manager risk and performance management processes. Core to this work is obtaining annual carbon metrics and ESG surveys from Managers. The results of this work are combined with other financial and risk metrics to form the performance review, where we can engage with the Manager on climate-related metrics and survey responses. Administration also collaborates with the [University Network for Investment Engagement \(UNIE\)](#), to engage directly with companies on climate change-related risks.

Administration monitors the overall performance of the Fund with respect to the 2030 and 2050 decarbonization objectives by obtaining a total Fund carbon measurement and tracking the results to target(s). Administration is also responsible for investigating new sustainable investment strategies to fulfil Western’s 10% sustainable investment capital allocation by 2025, without compromising financial performance objectives.

Administration keeps up-to-date with relevant climate-related risks and opportunities through relevant industry conferences, articles, and educational opportunities. This is supplemented by working closely with and learning from the University investment consultant, Mercer Canada (Mercer), who maintain expert knowledge of RI and climate-related issues. Administration is subject to annual performance reviews, which include consideration of ESG and Climate-related objectives of the Fund.

Strategy

a. Describe the climate-related risks and opportunities the organization has identified over the short, medium and long term.

The University recognizes that proper assessment of ESG factors, including climate-related risks, as it relates to Managers, and the underlying holdings in any investment strategy is essential for determining the true risk of any investment opportunity. The financial impact

of an incomplete risk assessment, could affect financial performance of an investment strategy, ultimately impacting the endowment and the financial contributions it makes to University activities.

As acknowledged in our SIOPG beliefs and RI strategy, the risks posed by climate change are relevant and material to the Fund, and we must manage and mitigate both the physical and transition climate risks to achieve our objectives. In response, our Administration integrates ESG risk factors, inclusive of climate-related risks, into our investment decision making process.

The Fund, by its nature, has a long-term horizon and therefore the potential risks from climate change may impact the Fund over the short, medium and long-term. Administration commissioned a scenario analysis prepared by Mercer, to identify the potential impacts of climate change over these time frames (5/15/40 years). The analysis reflects our views that transition risks will be most profound in the short-term, while physical risks exist throughout, but will have a more significant impact in the medium to long-term.

The University is in process of developing our framework to articulate transition and physical risks to our asset classes. While the transition risks, such as technology, market, and reputation, will have varying degrees of impact on our Fund, the initial view is that policy and legal risks, which incorporate changing regulatory environments, will play the

most significant role on Fund investments in the short-term.

Our initial views on physical risk, is that we expect acute and chronic risks to exist throughout the time horizons but increase in severity over the medium to long-term. The ultimate severity will depend on our global path for average temperature increases by the end of the century.

Administration expects a variety of investment strategies to develop in relation to climate-related opportunities. As these strategies are developed, the Fund is well positioned to consider these new opportunities given its long-term nature. In the long-term, Administration expects these strategies will arise in asset classes that are able to capitalize on the transition to a low carbon economy while managing the complexity of that transition.

b. Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy and financial planning.

Western began its RI journey in 2009, when ESG factors were included into formal Manager reviews. Since that time, the RI strategy, included in our SIOPG, has evolved and incorporated climate-specific strategies, such as our decarbonization, engagement, and sustainable investment objectives.

As a signatory to the [Paris Pledge for Action](#) and [Investing to Address Climate Change: A](#)

[charter for Canadian Universities](#), Western has also joined with many institutions and organizations in pursuing action towards climate-change.

The IC and Administration have embraced these developments to integrate ESG factors into the investment decision making process, engage with Managers and companies for positive change on climate-action, reduce the Fund's carbon exposure and be transparent with our campus community about our progress. These climate-related objectives are aligned with the Fund's objective of meeting the needs of current and future generations.

Western is recognized as a leader in sustainability, as was demonstrated by the [Times Higher Education 2022 Impact Rankings](#), and the [QS World University Rankings: Sustainability](#). As sustainability is important to Western, 10% of the Fund has been allocated to our sustainable investing strategy. These targeted investment strategies are in support of the UN SDGs, including SDG#13 – climate-action. Administration expects that investment opportunities meeting our sustainable investment and financial performance criteria will increase over time as asset classes and Managers develop new strategies in response to climate-action. Recently, the University has invested in more mature investment strategies related to renewable energy and transitioning to a low-carbon future.

c. Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

The IC and Administration believe that sector exposure will play a significant role in performance results of the Fund over the medium to long-term. Changes to sector exposure may occur within existing Manager mandates, and the University has flexibility within the SIOPG to make asset-mix adjustments. Over the medium to long-term, changes to the Manager line-up or the existing asset mix may be required to manage the risks associated with sector exposure. While Manager performance is reviewed annually, the asset mix is reviewed approximately every 5 years.

To help manage climate-related risks to the Fund, Administration has relied on a top-down scenario analysis to review the resiliency of the current investment asset mix. The analysis, performed by Mercer, uses a variety of climate scenarios, including 1.5°C, 2.0°C or lower, and above 4°C scenarios. Each climate scenario incorporates a world view of economic activity, market pricing shocks and financial returns; combined with a narrative that articulates a view of transitional and physical risks. The effects are then forecast onto the Fund to show the impact of each scenario over time (short - 5yrs, medium - 15yrs, and long-term - 40yrs).

The IC and Administration expect to utilize climate scenario analysis as a strategic

tool when considering future asset mix and University investment payout policy reviews. The analysis will be repeated periodically to assess the exposures of the Fund and will require updating as scenario information evolves with real-world experience. The 2022 climate-scenario analysis indicated that our Fund is reasonably positioned under the scenarios, and our sustainable investment allocation may moderate some risk in 1.5°C and 2.0°C or lower scenarios.

In addition to managing the overall climate-related risks of the Fund through scenario analysis, the University has set a decarbonization strategy aligned with a 1.5°C scenario that is resilient because of its comprehensiveness. Administration has had Mercer perform an Analytics for Climate Transition (ACT) analysis in 2021 that helps to clarify what the pathway to net-zero would look like. This analysis is integrated into our Manager reviews, to discuss the transition capacity inside the strategy. Additionally, engagement through UNIE allows Western to engage collectively on climate-action with individual companies in our Fund.

Administration's focus to reduce weighted average carbon intensity (WACI) is initially through public equity asset classes, which have more robust emissions data, while engaging with our Managers in other asset classes to improve the quality of emissions data before turning our attention to them. Every asset class is expected to contribute to carbon reduction. Private markets,

infrastructure in particular, are emerging as a fertile ground for low carbon emitting assets with their exposure to renewable energy and better control over the assets.

Risk Management

a. Describe the organization's processes for identifying and assessing climate-related risks.

The Fund's climate-related risks are identified at the macro view by performing climate-scenario analysis periodically and understanding the implications from the current investment mix. This scenario-based analysis is used to generate financial implications of the Fund to assess the magnitude of financial impacts under various climate scenarios. This is performed by Mercer and considered by the IC and Administration.

Climate-related matters may also be identified by Mercer, who supports the IC and Administration in the quarterly review of the Fund. Mercer has a dedicated global Sustainable Investment group that keeps up-to-date on climate-related issues. As climate-related risks and opportunities arise, or knowledge increases, Mercer shares this with Administration monthly, and the IC quarterly. For example, Mercer interviews and rates Managers on their ESG integration; this combination with other factors, is integrated into the investment monitoring and decision-making process.

Administration also engages with Managers annually through the ESG survey, which

includes climate-related inquiries. The information collected through the survey informs Administration of the individual risks from the Managers view, and in combination the collective climate-related risks in the Fund.

Administration also works with other Canadian Universities to advance climate-action. The sharing of knowledge and best practices with each other assists Administration in identifying and assessing climate-related risks and opportunities.

b. Describe the organization's processes for managing climate-related risks.

The IC and Administration manage climate-related risks within the Fund based on a combination of factors. Some analysis may reflect a point-in-time risk of the Fund, which must also consider the future plans of Managers and the underlying investments. Managing climate-related risks is similar to managing other risks inherent in the portfolio. The risks are considered in combination with other risk and opportunities to determine if adjustments to investments are required. In this way, climate-related risks are integrated into our normal risk management practices, Manager reviews and due-diligence processes.

In reviewing or making decisions with respect to the Managers, Administration combines financial performance with climate-related performance. Climate-related risk factors are informed by the previously mentioned analyses, such as sector risk (scenario analysis),

transition capacity (ACT), ESG integration (ESG survey and Mercer reviews), peer benchmarking, and carbon measurements (Mercer). In managing risk, the formal review process is used to engage with the Manager on their specific climate-related risks, carbon data, and how to improve data quality, where applicable. This is also the opportunity to inform the Manager of our Fund's climate objectives and our expectations of how their actions contribute to our outcome(s). This type of engagement enables Administration to consider which Managers are on a path to contribute (or not) to our long-term climate-related goals, such as net-zero by 2050, or sooner.

The Fund's net-zero by 2050, or sooner, decarbonization objective is managed by performing an annual review of the total Fund carbon footprint, including all asset classes. Western's interim objective, a 45% reduction in weighted average carbon intensity by 2030, will be monitored against 2020 baseline measurements. The annual carbon footprint analysis, helps Administration determine where progress has been made, and where future reductions may come from. The ACT assists Administration in determining which Managers have transition capacity and may inform future changes to the Fund line-up if those with limited transition capacity fail to evolve.

In addition to engaging with Managers, Administration works with UNIE, an engagement collaborative to manage climate-action with individual companies and pursue

decarbonization strategies. This engagement is aimed at using the collective power of many institutional investors to effect change in climate-related risks for individual companies. Administration contributes to development of the overall engagement plan for UNIE annually and receives quarterly engagement updates. For the first three quarters of 2022, Western had participated in 78 engagements with 53 unique companies, the majority focused on reducing GHG emissions.

The IC and Administration also manage climate-related risks and objectives through asset allocation and have allocated 10% of the Fund to sustainable investment opportunities. Administration has set out a pathway to achieve the 10% allocation by 2025. Administration must carefully manage the allocations to ensure that all objectives, including financial performance, and proper diversification, are met under the SIOPG. After an asset class has been reviewed, generally, the best ideas have been explored and therefore future reviews are likely to explore new asset classes.

c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

Climate-related risks are included as a factor in the overall risk management of the portfolio. This includes investment decision making, whether in due diligence, or in ongoing performance reviews with Managers. Further,

climate-related risks are managed at the total Fund level, with commitments for the Fund to become net-zero and to meet a 10% capital allocation to sustainable investments.

Metrics and Targets

a. Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

Western tracks the carbon emissions per million invested and WACI of its investments (collectively the metrics are referred to as the 'Carbon Footprint'). The selected metrics enable the IC and Administration to review the Fund's contribution to actual carbon emissions and its exposure to carbon-intensive companies. Carbon emissions metrics are completed for equity and equity like instruments, whereas the WACI is compiled for the entire Fund, across all asset classes. Although the University has tracked carbon emissions since 2015, in 2020 baseline Carbon Footprint measurements were completed from which the decarbonization targets of the Fund will be measured against. All measurements are completed as of December 31.

It is recognized that the global carbon emission measurement frameworks continue to evolve and standardize. For example, in 2021, Western updated its carbon emissions methodology to be calculated using enterprise value including cash (EVIC) instead of market capitalization,

and will track progress using this metric going forward. The use of EVIC is considered best practice by TCFD and the adjustment is in keeping with our SIOPG to update and evolve our metrics as information improves, over time.

Administration tracks progress towards the capital allocation against the sustainable investment strategy by using the value of the investment commitments made. By the nature of the investment opportunities that exist, the capital will be called from the Manager over time, which is tracked separately.

b. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

The carbon metrics include Scope 1 and Scope 2 GHG emissions. As the reliability of Scope 3 emissions data increases, the IC will consider including material Scope 3 GHG missions into the measurements.

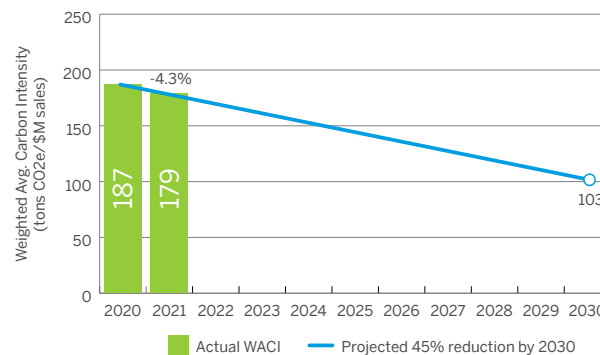
The Carbon Footprint metrics are compiled annually by Mercer, combining data from MSCI, data directly from real asset managers, and proxy data (based on indexes) for asset classes without reliable data. As part of our engagement with Managers we request improved carbon data. For example, six of nine real asset Managers use indexes as a carbon proxy. However, in 2021 we had one additional real asset Manager provide improved data based on our requests, and we expect this trend to continue. As the data improves,

reliance on indexes as a proxy will decrease, and the accuracy of our metrics will rise.

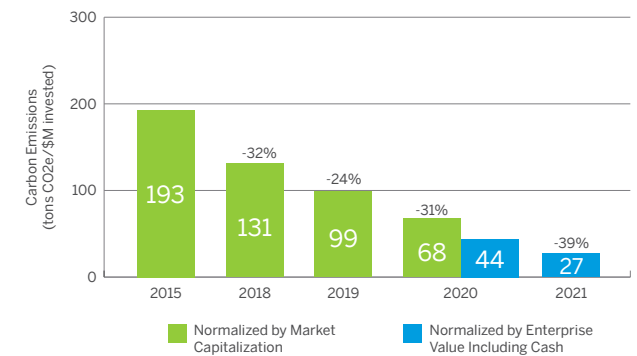
c. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Western aims to reduce the carbon intensity of the Fund by 45% by 2030, using 2020 as a base year of measurement. Additionally, the Fund aims to achieve net-zero absolute emissions by 2050, or sooner.

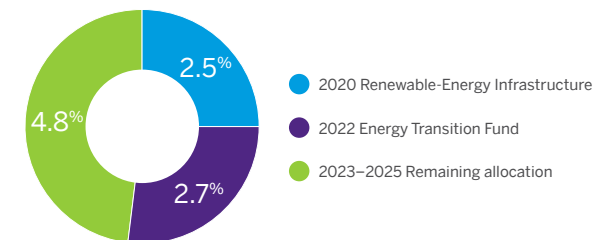
The WACI for 2021 was 179 tons CO2e per \$M sales (2020 – 187 CO2e per \$M sales). This represents a decrease of 4.3% year over year. Administration will continue to monitor the progress towards the 2030 target as shown below:



The carbon emissions have decreased to 27 tons CO2/\$M invested (2020 – 44 tons CO2/\$M invested) a decrease of 38.6% year over year when normalizing using EVIC. The chart below shows the public equity carbon emissions normalized by EVIC and by market capitalization (the measurement used prior to 2021).



The University has made two allocations towards the sustainable investment strategy (\$30M USD and \$40M USD), both infrastructure investments representing 2.5% and 2.7%, respectively. A third and fourth allocation to private equity impact funds are expected by early 2023.





Resources and Definitions

OUR INVESTMENT PRINCIPLES



Meet our existing commitments

Integrate responsible investing practices into our investment decisions, manage and monitor key ESG risks and opportunities within our investments, and practice active ownership.



Deepen our commitment to Responsible Investing

Consider new commitments that help us achieve our long-term investment goals.



Transparency and reporting on our progress

Be open and transparent with our stakeholders and report regularly on our progress and milestones achieved.



Align with the University Strategy over the long-term

Align our responsible investing goals with relevant elements of the University Strategy as they evolve over time.



Create a flexible framework to respond to changing circumstances

Ensure our responsible investing processes are flexible, and allow us to respond to current and future issues.

OUR RESPONSIBLE INVESTING BELIEFS

- 1 A Responsible Investing approach and consideration of ESG issues can enhance long-term performance and is aligned with our objective of meeting the needs of current and future generations.
- 2 Active stewardship is important for long-term value creation and for promoting best practices with our managers.
- 3 The risks posed by climate change are relevant and material to the Portfolios, and that we must manage and mitigate both physical and transition climate risks in order to achieve our objectives.
- 4 An understanding of sustainability issues may lead to new investment opportunities that contribute to our Portfolio objectives.
- 5 Responsible Investing (RI) is a journey that requires continuous learning, innovation, and a dynamic and adaptive approach. Being transparent with the University community and regularly reporting on our RI progress is fundamental to our long-term journey.

THE FUND

The Fund, Western’s Research Mission, and Climate Change

The Operating & Endowment Fund is the core long-term investment for Western, comprised of funds available for long-term investment and gifts from many donors that have been entrusted to Western in perpetuity. A key objective of the endowment(s) is to provide a sustainable and predictable source of funding to support university activities, and to ensure benefits of the endowment accrue to current and future students. For example, over the last 5 years, on average, the endowment supported student aid (44%), chairs, professorships, and fellowships (33%), and other activities including research and academic enrichment (23%).

Our endowments serve a breadth of purpose to the University community. Given the long-term nature of the Fund, we must harmonize our responsible investing goals with elements of the University Strategic Plan as they evolve over time. We recognize that Western’s investment portfolios have a significant influence on University sustainability outcomes and aligning strategies is advantageous to maximize impact. Our responsible investing policy sets the stage for Western to be an active owner contributing to the sustainability and climate change goals of the institution.

Climate change is a global challenge, demanding contributions and resources from all sectors, industries, and disciplines. Western recognizes that universities will play a significant role in the global energy transition needed to achieve a more environmentally sustainable future.

Creating the conditions necessary where we can be proud of Western’s collective contribution to this global energy transition demands a collaborative institution-wide approach, that doesn’t limit our potential as a research-intensive university. Our responsible investing policy, and the commitments we’ve made as an asset owner, set out our conviction to be a participant in the global energy transition.

The vision we’ve set out as an asset owner supports our role as a research-intensive university that will seek out opportunities to lead collaborative interdisciplinary research and find solutions to climate change challenges. By coordinating our institutional approach to the global energy transition, our position as a participant is strengthened.

DEFINITIONS

Carbon Emissions Per \$M Invested (CO₂e/\$1M)

The total carbon emissions of an investment portfolio are calculated as the sum total of the carbon emissions of each company we are invested in, proportionate to our investment in that company. This metric can be used to accurately compare portfolios of any size. It focuses on the dollars invested and closely reflects the portfolio’s contribution to emissions. The metric is calculated using \$M invested in CAD.

The calculation methodology for carbon emissions per \$M invested CAD involves normalizing by enterprise value including cash (EVIC) rather than market value in the calculation of carbon emissions. This is in line with best practice as outlined by the Task Force for Climate-Related Financial Disclosures (TCFD), driven by the Partnership for Carbon Accounting Financials (PCAF) and EU regulations for Climate Transition and Paris-aligned benchmarks. Enterprise value is a more reflective measure of the operations of an underlying company from both an equity and debt perspective in comparison to market value.

Listed Equity

$$\sum \left(\frac{\text{Outstanding amount}}{\text{EVIC}} \times \text{Company emissions} \right)$$

EVIC = Enterprise value including cash

Note: the value of outstanding listed equity is defined based on its market value (i.e., market price times number of shares).

Listed Corporate Bonds

To private companies:

$$\sum \left(\frac{\text{Outstanding amount}}{\text{Total equity + debt}} \times \text{Company emissions} \right)$$

c = borrower or investee company

To listed companies:

$$\sum \left(\frac{\text{Outstanding amount}}{\text{EVIC}} \times \text{Company emissions} \right)$$

*EVIC = Enterprise value including cash
c = borrower or investee company*

Note: the value of outstanding corporate bonds is defined based on the book value of the debt that the borrower owes the lender.

Weighted Average Carbon Intensity (WACI)

WACI is calculated as the sum total of the carbon emissions per unit of sales revenue of each company we are invested in, proportionate to our investment in that company. Carbon Intensity measures the portfolio's exposure to carbon-intensive companies. This measure can be applied across asset classes including equity and fixed income. It is calculated using \$M revenue in USD.

$$\sum_n^i \left(\frac{\text{current value of investment}}{\text{current portfolio value}} \times \frac{\text{issuer's emissions}}{\text{issuer's \$M revenue}} \right)$$

For **Listed Equities & Corporate Fixed Income**, the WACI represents companies' scope 1 and scope 2 carbon emissions normalized for the size of a company, based on annual revenue (tons CO2 per \$M sales). For **Sovereign Fixed Income**, the WACI represents the carbon intensity of an economy (tons CO2 per \$M nominal GDP). For **Private Markets**, the average carbon intensity of comparable listed market subsectors have been used as proxies.

Scope 1 Emissions are those from sources owned, or controlled, by the company, and typically direct combustion of fuel, as in a furnace or vehicle, while **Scope 2** are emissions caused by the generation of electricity purchased by the company.

Net-Zero Emissions refers to the decarbonization of the investment portfolios by reducing, offsetting, or removing greenhouse gas emissions, with the 'net' effect being zero. The [Intergovernmental Panel on Climate Change \(IPCC\)](#) has repeatedly warned that global warming must not exceed 1.5°C to limit climate change's catastrophic impacts. To achieve this, the world must reduce emissions by 45% (relative to 2010 levels) by 2030 – and drop to net-zero by 2050.