

Western University Responsible Investing Annual Report 2021



Letter from the Chair

As Chair of Western University's Investment Committee, responsible for the stewardship of the Operating & Endowment Fund (the Fund), I'm pleased to share with you our inaugural responsible investing annual report. The report provides a snapshot of the significant work underway to coordinate our responsible investing practices with the University's Strategic Plan, and highlights achievements resulting from our collaborative nature as a research-intensive university.

Building on a long history of responsible investing practices at Western, the 2021 Responsible Investing Report creates transparency about the work we've completed so far, shares our progress toward integrating responsible investing practices into our investment processes and outlines future commitments to which we will hold ourselves accountable.

This report focuses on our climate change ambitions and the need for long-term, sustained, decarbonization of the Fund. This conviction to pursue net-zero by 2050, or sooner, recognizes that our coordinated efforts as a research-intensive university are essential as Western seeks opportunities to contribute solutions to climate change, one of the grand challenges of our time.

While our main goal of net-zero is rooted in a long-term commitment, we've accelerated our efforts over the last two years on our short-term commitments to firmly establish our position for long-term success. This report clarifies our responsible investing principles and beliefs, which are now explicitly part of our investment policy. Further, we're progressing on our commitment to allocate 10% of the Fund to sustainable investments by 2025 and have gathered our baseline carbon measurements for the total portfolio so we can track our progress towards our 2030 carbon reduction goals.

We believe this total portfolio carbon footprint analysis is a first for higher education in Canada.

This report focuses on our growing Operating & Endowment Fund, and the data provided is primarily from December 31, 2020. At that time, the Fund was approximately \$1.6 billion, and it has grown to \$1.9 billion as of December 31, 2021. Relatively speaking, carbon measurement data from

2020 seems like a long time ago; however, seeking this historical data from all investment managers, not just public equity managers, is still a recent phenomenon. As we engage with our alternative managers for this data, we also seek to advance these timelines for reporting.

While measuring and evaluating our carbon footprint is a key element of our commitments, we also see collaboration within and beyond the sector as essential to our success. In 2020, Western signed *Investing to Address Climate Change: A Charter for Canadian Universities* committing to its objectives. We have since enhanced our commitment to engagement by working with like-minded institutions through organizations and collaboratives such as [University Climate Change Coalition](#) and shareholder engagement networks like the [University Network for Investor Engagement](#).

Western is not alone in our pursuit of a more sustainable environment.

We are eager to share the results of our actions with you. More importantly, we're excited about the impact the Responsible Investing Strategy and Pathway will have as the Fund contributes to Western's sustainability ambitions.

Lynn Logan

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

“The mounting threat posed by climate change is one of the great challenges of our time. At this pivotal moment, we must act in ways that mitigate our impact on the environment, contributing to a healthier, cleaner, and more equitable future. At Western, we share a deep commitment to sustainability, both on campus and on a broader scale. The release of our first responsible investing report is an exciting and essential step towards achieving our goal of net-zero emissions for campus operations and building our global leadership in interdisciplinary sustainability research.”
—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 first Responsible Investing Annual Report.



BUILDING ON OVER A DECADE OF WORK

While our work has intensified over the last two years, our responsible investment efforts began in 2009:



Our work on responsible investing continues to evolve to keep pace with the advances in industry practice. We recognize this takes time and careful planning and acknowledge there is much we can do in the short term to help achieve our long-term goals. While challenges exist, we see opportunities for new emerging investment options as the industry matures in this space.

New in 2022

Western joins [University Network for Investor Engagement \(UNIE\)](#)

UNIE engages companies in the investment portfolios of its participating universities. UNIE's engagements focus on accelerating the transition to a low-carbon economy in key sectors where advocacy can make the biggest difference, including energy, utilities, finance, transportation and manufacturing.





Investing Responsibly for a Brighter Future

Western's Investment Committee defines responsible investing as an approach that integrates Environmental, Social, and Governance (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 of a responsible investing approach will help meet these obligations by providing a broader lens to understand emerging and long-term systemic issues.

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 (45%), chairs, professorships, and fellowships (32%) 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.

DESIGNING A PATH FORWARD

Building on progressive change in its responsible investing policy, the Western Investment Committee has developed a Responsible Investing Strategy and Pathway – An action plan based on measuring and reporting, along with continual improvement through a dynamic and adaptable process, to ensure that beliefs, policy and strategy commitments can be met.

Our newly developed Responsible Investing Strategy and Pathway:

- Is grounded in a principled approach, which is essential for us to be responsive to continued shifts in societal values, regulation, and improvements in information standardization and availability.
- Firmly positions sustainability as a fundamental concept in the wise allocation of financial capital to benefit current and future generations.
- Reflects a commitment of the [University's Strategic Plan](#) to tackle climate change, aiming to reduce carbon intensity by 45 percent by 2030, using 2020 as a base year, and to achieve net-zero absolute carbon emissions by 2050, or sooner.

Western's Responsible Investing Pathway timeline and major milestones:



OUR RESPONSIBLE 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's Strategic Plan over the long-term

Align our responsible investing goals with relevant elements of the [University's Strategic Plan](#) as it evolves 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 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.

ASSESSING OUR HOLDINGS: ANALYTICS FOR CLIMATE TRANSITION FRAMEWORK

Western is committed to achieving net-zero emissions in our investments and is aligned with science-based targets to meet the goals of the Paris Agreement. Our responsible investing strategy acknowledges that contributions are needed from all industries to meet this global challenge, and engagement on important climate change issues is required. Engagement first allows investors to retain their voice in terms of voting on shareholder resolutions and has a greater impact on achieving a net-zero future.

Divestment alone will not allow us to reach our net-zero commitment, but requires a long-term conviction to engage, collaborate, and push companies to set meaningful climate goals, and hold them accountable to their commitments. Where engagement fails or is not feasible, Western will divest fossil fuel companies. **Put simply, by 2030, we will divest from any fossil fuel company that has not demonstrated tangible progress toward realistic net-zero pathways, as these investments will not contribute to Western's long-term goals.**

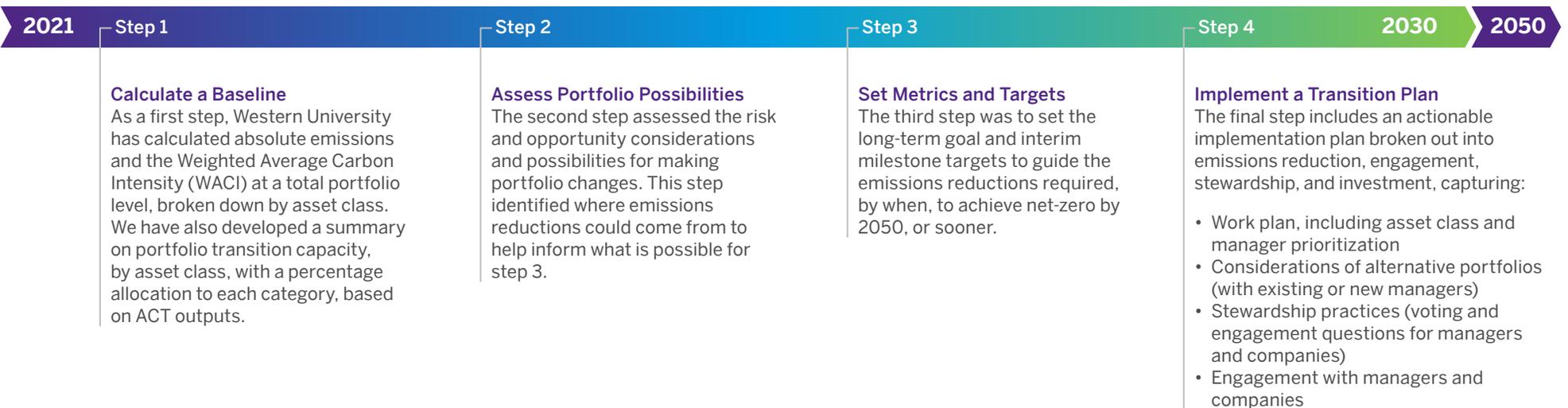
In order to make our commitment and follow through on net-zero pathways, we needed to know what our carbon footprint baseline for 2020 was. While

we have tracked our carbon footprint since 2015 for public equity portfolios, a total portfolio carbon footprint for all asset classes was needed to set a meaningful target; this had never been done before, and we think marks the first attempt at a total portfolio carbon footprint in Canadian higher education.

After having measured our 2020 baseline, Western conducted a total portfolio analysis and assessment of holdings to help us understand what the pathway to net-zero would look like. The **Analytics for Climate Transition (ACT)** is a four-step framework that helps us identify:

- the “grey” assets — those that generate high emissions and have limited capacity for transition;
- the “green” companies — those with low emissions, including the solutions to the net-zero transition; and
- everything in between, where the capacity for transition in the future needs to be understood.

With a firm understanding of our carbon footprint and our holdings, we can better navigate our way to invest responsibly.



MEASURING OUR CARBON FOOTPRINT: 2020 SUMMARY

Western is committed to assessing the total portfolio carbon footprint of our Operating & Endowment Fund, and holding ourselves accountable for reducing that footprint annually.

Carbon Measurements

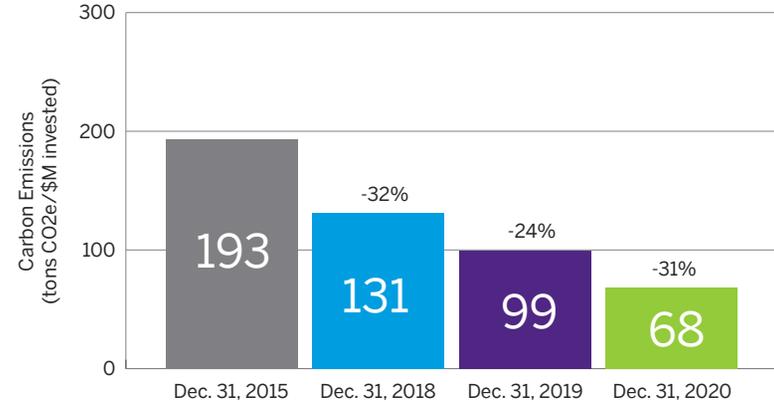
Our commitment to set a baseline to track future progress for all investments demonstrates our leadership for higher education in Canada. Emission measures provide Western with an understanding of the carbon footprint of our investment activities. We can use these measures to attribute emissions to different sectors within the economy and evaluate if 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)**.

Carbon footprint analysis highlights:

- The 2019-2020 analysis of our public equity carbon footprint year-over-year shows a **drop in carbon emissions by 31%**.
- When looking at our carbon emissions from 2015 to 2020, we see our **Public Equity emissions reduced by 65%**.
- As of December 31, 2020, the public equity carbon emissions were 68 tons of CO₂e/\$1M invested.

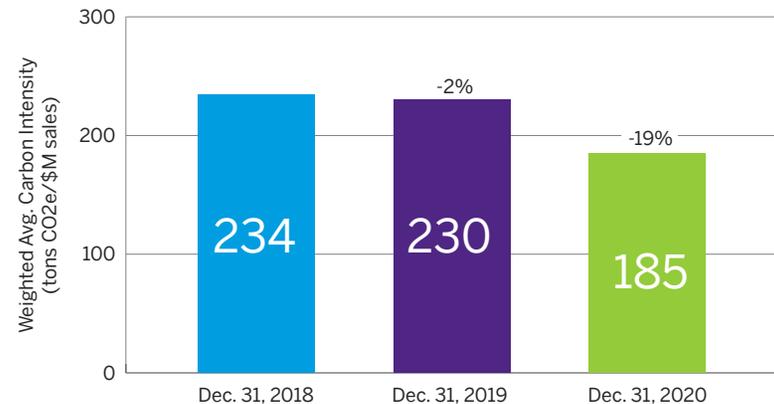
Since December 2015, Western has conducted periodic carbon emission analysis on our publicly traded equity portfolio.

Carbon Emissions – Public Equity Portfolio



Since December 2018, Western has conducted periodic Weighted Average Carbon Intensity (WACI) analysis of our publicly traded equity portfolio.

Weighted Avg. Carbon Intensity – Public Equity Portfolio



Weighted Average Carbon Intensity

In 2021, we embarked on a journey to understand our total fund carbon measurements, to help inform us of the path forward to decarbonize our investments over time. This analysis included public equity, fixed income, and alternative asset classes, breaking new ground in conducting total portfolio carbon footprints by applying sector-based proxies where data gaps exist.

Our Fund weighted average carbon intensity was 187 tons of CO₂e/\$M Sales as at December 31, 2020. The baseline 2020 measurement will be used to measure our success in decarbonizing the Fund and achieving a 45% reduction in carbon intensity by 2030.

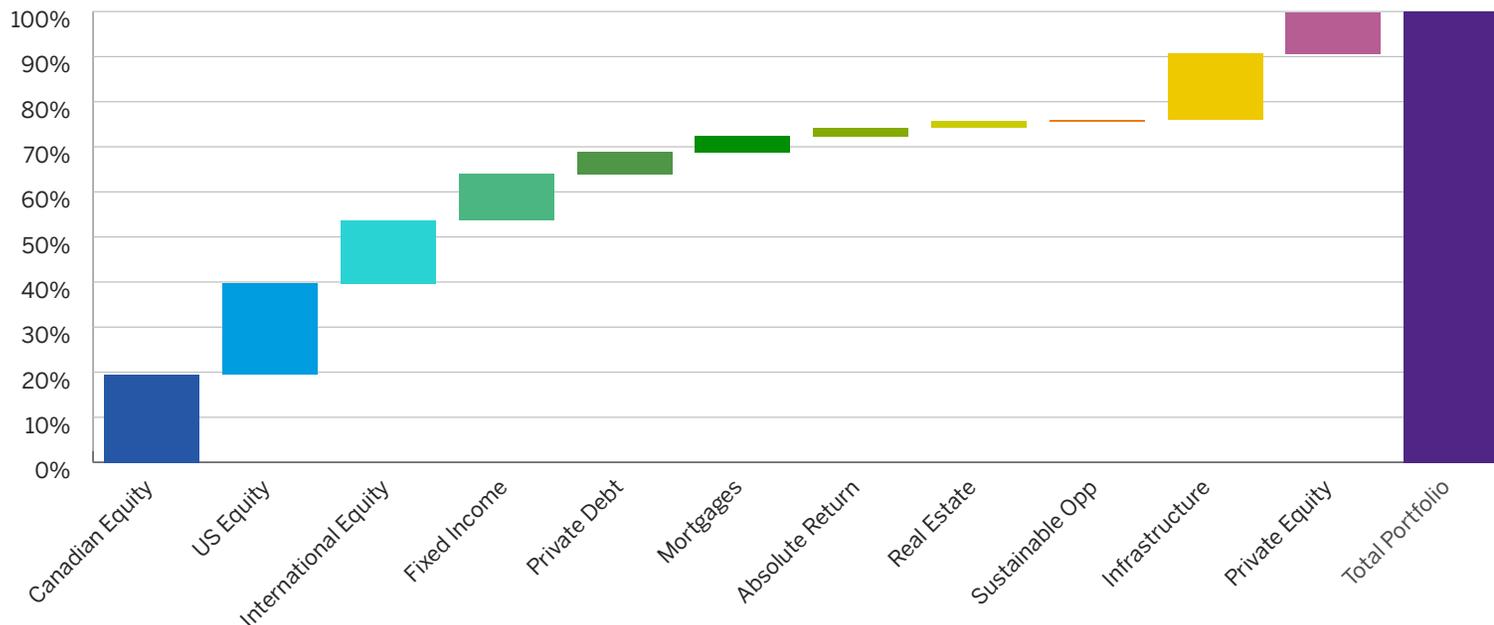
The chart below shows the relative contribution to the Fund's carbon intensity, by asset class. The comparison highlights how a total portfolio approach gives perspective to prioritizing asset classes where emissions

are concentrated and how prioritization can be considered in light of where changes can be made. Our early focus will be on reducing our WACI in public equity asset classes, which have more robust emissions data, while engaging with our alternatives managers to improve the emission data quality. Through this last year, we've noted improved data collection as a result of our engagement for carbon measurements data from these managers. With continued efforts, we expect our measurements to be refined in the future, which will support more targeted engagement.

Fossil Fuel and Renewables Exposure

As at December 31, 2020, indirect and direct investments in fossil fuel companies make up 3.4% of the total portfolio, with only 0.26% of the public equity portfolio being held as direct investments. At the same time, our renewable infrastructure investment was 0.7% of the portfolio, with additional uncalled capital commitments of nearly \$28M.

Contribution to Total Portfolio Carbon Intensity



Calculated using the issuer's enterprise value, including cash (EVIC).

Our Commitments Going Forward

Western is integrating responsible investing practices throughout our investment processes and decision-making. Through engagement with managers and companies, information-sharing, and annual reporting, we will work collaboratively to advance sustainable investing practices.

Western is 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

* Western believes setting targets for the entire Fund is essential to achieve our long-term goals. Therefore, we have targeted a reduction in carbon intensity by 45% by 2030. Unlike weighted average carbon intensity, information for absolute carbon emissions across all asset classes is not yet available – we have used WACI for our interim 2030 target. Western will re-evaluate measures used for targets at least every three years, and convert to an absolute carbon emissions measurement when available.



Progress report

In June 2020, Western made a commitment to allocate 10% of the Operating & Endowment Fund to sustainable investments, initially along the themes of Renewable Alternative Energy, Water Infrastructure and Technologies and Waste Management and Technologies.

Western made its first sustainable investment in September 2020, allocating 2.5% to a renewable-energy infrastructure fund, which will positively impact the carbon footprint and contribute to funding sustainable solutions. A second sustainable investment, an energy transition fund, was approved in early 2022.

NEXT STEPS

Western will be working to progress our Responsible Investing Pathway through integration, stewardship, and investment solutions over the coming year. We will be advancing engagement efforts with our managers and stakeholders on ESG and climate issues, and look forward to being transparent in our work and reporting on our progress.

Q2 2022

- Approval of the updated Statement of Investment Objectives, Policies and Governance by Western's Board of Governors, with a refreshed Responsible Investment Policy and investment beliefs.
- Refresh ESG Manager Survey and Analysis to provide more in-depth information to develop manager engagement priorities on ESG performance.
- Conduct analysis of the carbon footprint for 2021.

Q3 2022

- Climate Scenario Analysis
 - Conduct climate scenario analysis to understand climate-related risks and opportunities.
- Continue to review other sustainable strategies to target other compelling sustainable strategies in pursuit of our 10% investment commitment.

Q4 2022

- 2022 Responsible Investing Annual Report
 - Completion of Western's first reporting under the Task Force on Climate Related Financial Disclosures.

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.

Note: The public equities carbon emissions were calculated using the issuer's market capitalization for public equities, while the total portfolio used the issuer's enterprise value including cash (EVIC).

$$\frac{\sum_n^i \left(\frac{\text{current value of investment}}{\text{issuer's market capitalization}} \times \text{issuer's Scope 1 and Scope 2 GHG emissions} \right)}{\text{current portfolio value}}$$

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.