University of Waterloo Responsible Investment Policy

1. Introduction

The University's Board of Governors ("Board") exercises oversight of the investment portfolios, including the endowment fund and the registered pension fund (the "Funds" or, individually, the "Fund"), primarily through three Board Committees including the Finance & Investment Committee, the Pension & Benefits Committee and the Pension Investment Committee. (the "Committees" or, individually, a "Committee").

These Funds are normally invested through the selection and retention of external investment managers, investing in institutional pooled funds which serve a range of clients on a comingled basis. The Committees may also approve or recommend investing directly in securities to achieve specific outcomes.

In 2020, both the University and the Pension Plan for Faculty and Staff became signatories to the United Nations supported Principles for Responsible Investment ("UN PRI") which requires participation in a comprehensive annual assessment framework.

Each Committee fulfills its Board-assigned responsibilities prudently and in accordance with legislation, policies, guidelines and agreements governing the investment of the Funds. The Board acknowledges that as a pension plan administrator, it has a fiduciary duty to act reasonably and prudently and exclusively in the best financial interest of plan members and other beneficiaries.

The Board and its Committees will apply Environment, Social and Governance ("ESG") factors as part of their investment decision making processes, including the climate change mitigation/carbon reduction approach approved for those portfolios. ESG factors will be integrated into the Committees' investment analysis and asset management activities in accordance with this document, the registered pension fund statement of investment policies and procedures ("SIPP"), the registered pension fund implementation procedures ("FIP"), and the endowment investment guidelines ("Guidelines"), as applicable. The decision to integrate ESG factors into investment decisions is based on the belief that this approach is expected to enhance the long-term value of the Funds' portfolios and reduce the risk of loss.

2. Defining ESG

- Environmental – factors which relate to the physical environment (including contamination, greenhouse gas emissions, extreme weather, water scarcity)
- Social – factors arising from relationships with employees, consumers, suppliers, and communities (including labour rights, health and safety, equity, diversity and inclusion, product safety)
- Governance – factors which relate to the structures in place to ensure the effective direction and control (including the delineation of roles, executive compensation, and board independence)

3. Responsible Investing Principles

Responsible investing actively incorporates ESG factors into each investment decision and monitors those decisions. While ESG factors are relevant throughout all stages of the investment process from pre-investment, to monitoring, to exiting, the degree to which ESG factors are integrated depends on many factors such as active vs. passive mandates, the asset type, the time horizon, and the specific investment strategy.

In June 2021, the Board affirmed climate change mitigation as a priority area among ESG factors requiring focused investment attention relating to its impact on the financial performance of investments; the Board also recognized that further consideration is required relating to other ESG factors such as social justice, equity, diversity and inclusion and their potential consequential impact on investment risk and reward.

4. Application

This policy applies to the investments of the endowment fund and the registered pension fund. This policy will be cited in both the SIPP and Guidelines and communicated to each investment manager.

This policy is intended to be read together with the SIPP or Guidelines, as applicable, for the Funds, as amended from time to time. While the Board will strive to maintain consistency between this policy and the SIPP or Guidelines, to the extent there is any conflict in the investment principles and approach as set out in this policy or the SIPP or Guidelines, the SIPP or Guidelines shall govern with respect to the relevant Fund.

To the extent possible, taking into account their particular fund's constating or disclosure documents (and, in the case of the pension fund, the SIPP) the Funds' investment managers are required to integrate this policy into their investment analysis and decision-making based on forecasted financial impacts (in conjunction with traditional financial analysis) to support each Fund's return objectives.

5. ESG Factor Integration

The Funds' investment approach focuses on long-term value creation in a constantly changing environment experiencing many risks and opportunities. The Committees do not seek to limit an investment manager's investible universe (i.e., no exclusions) but do specify some traditional limitations such as minimum credit quality and maximum single security exposure which are stated within the particular fund's investment guideline (or constating or other disclosure documents) and the SIPP.

This approach is to be executed by the Committees principally through the rigorous selection of investment managers offering institutional pooled funds which are considered leaders in ESG factor integration. Each investment manager is monitored by the Committees on a quarterly basis to ensure consistency of style/approach including their ESG factor integration strategies, reviewing any significant personnel changes, reviewing the consistency of their proxy voting actions with their policy statement, and the Fund's investment performance metrics. The Committees encourage each investment manager to engage on ESG matters with the companies they invest in and report on such engagement and how it supports the manager's duty to act in the best interest of the Funds.

Investment managers will be required to consistently enhance their quarterly reporting to address evolving areas such as ESG factor integration, carbon metrics reporting, climate change risk assessment and scenario analysis.

The Committees prefer each Fund's investment managers to be signatories to UN PRI.

The Board has approved a carbon footprint reduction plan for the endowment and pension funds where progress is reviewed annually based on a percentage of the aggregate assets of the Funds. The Board is targeting to achieve a 50% carbon reduction by 2030 (relative to base year 2018) in the carbon footprint

(scope 1 and scope 2) with an aspirational target/goal of achieving carbon neutrality by 2040. Any changes to these targets will be promptly reported to the investment managers.

To these ends, Investment managers must consider carbon-related emissions and climate change to the extent such factors may have a consequential impact on future investment values and performance. Specifically, in this regard, the investment managers shall:

- disclose how they address climate related risk and opportunities and potential impacts on their investment decisions;
- provide climate change related financial disclosures including appropriate carbon metrics which the University will consolidate to measure progress for each Fund on a total portfolio basis; and
- provide climate change risk assessments and scenario analysis when sufficient data becomes reliably available.

Notwithstanding the foregoing, any and all investment decisions in respect of the Funds shall be subject to appropriate due diligence and analysis that support the conclusion that the decision is in the best financial interest of the Fund as outlined in the governing documents for the Fund and, with respect to the pension Fund, as required by applicable law.

6. ESG Engagement by the University on behalf of the Committees

The University will participate in the appropriate investor coalitions and collectives (both formal and informal) where partner members have similar fiduciary responsibilities and will periodically review the effectiveness of those collective approaches.

7. ESG Analysis & Reporting

The Committees will require its investment consultant(s) and service providers to have the necessary systems, resources, and experience to support evolving ESG analysis and reporting standards.

The University will support responsible investment training opportunities for the staff involved in the day-to-day administration of the Funds.

The University will report annually on the Funds and the investment managers' responsible investing activities including proxy voting, company engagement, carbon metrics as well as the outcomes from UN PRI's annual assessments.

The University will undertake a climate change risk assessment and scenario analysis for each Fund at the portfolio level once sufficient reliable information is available.

8. Review

This Responsible Investment Policy will be reviewed concurrently with the review of the endowment's investment guidelines (by the Finance & Investment Committee) and registered pension plan's SIPP (by the Pension Investment Committee, with recommendation to the Pension & Benefits Committee for any amendments) including an overall assessment of the current ESG landscape, future risk & opportunities, and the identification of any changes to priority areas of focus.