Carleton University Responsible Investing Report

November 2024

Carleton University

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Carleton University Endowment and Operating Funds Responsible Investing Report – Year end 2023

This report covers the Combined Funds' Responsible Investing (RI) approach and performance for the period January 1, 2023 – December 31, 2023. Within this report, the terms "the Funds", "the Fund", "the portfolio" or other similar terms refer to the Combined Funds, made up of the Endowment Fund and Non-Endowed Operating Funds. The University seeks to align its reporting with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Created by the Financial Stability Board, the goal of the TCFD is to improve and increase the reporting of climate-related financial information.

Commitment to Responsible Investing

Carleton University ("the University") maintains an Endowment Fund ($378M) and Non-Endowed Operating Funds ($787M), referred to collectively as the Combined Funds ("the Combined Funds"), in order to meet, or to supplement, expenditure requirements. The income generated by the Endowment Fund supports student aid (such as scholarships and grants); the Non-Endowed Operating Funds support campus initiatives such as infrastructure refurbishment and transition, and a variety of other campus goals. The objective of the Combined Funds is to provide a flow of income while maintaining the real value of the capital to ensure that the University is able to continue to fund the above-described activities. We believe that consideration of environmental, social and governance (ESG) factors can have a positive effect on long-term financial performance. Full descriptions of the Combined Funds' approaches to Responsible Investing (RI) are available in the Endowment Fund Responsible Investing Policy and Non-Endowed Funds Responsible Investing Policy ("the Policies").

As part of Carleton's commitment to RI, the University participates in leading investor collaborations and coalitions:

The PRI is the world's leading proponent of responsible investment and works to support investor signatories in incorporating ESG factors into their investment and ownership decisions.

UNIE is a shareholder engagement program for university endowments and pension plans, leveraging their power as institutional investors to address climate change-related risks. Carleton is a founding member.

ACPM is the leading advocacy organization for retirement plan sponsors and administrators in Canada who manage plans for millions of plan members.

CPBI fosters professional development of Canadian pension and benefits industry via networking and educational content and bring people together to build relationships and exchange ideas in a safe, respectful and inclusive environment.

PIAC is a forum for pension plans to share information and knowledge. It is made up of over 130 of the largest pension plans in Canada.

Governance of Responsible Investing

Governance

Ultimate oversight of the Combined Funds' approach to Responsible Investing is provided by the University's Board of Governors. As part of this responsibility the Board of Governors approves the Funds' Responsible Investing Policies every two years or more frequently as required based on the recommendation of the Finance Committee. The University Investment Committee is responsible for providing oversight and monitoring the implementation of the policies on a quarterly basis including ensuring appropriate internal and external resources are available for successful execution. Fiduciary duty is at the forefront of the decision making to ensure the objectives of the Combined Funds are met.

Management

The Pension Fund Management (PFM) office is responsible for day-to-day implementation of the Policies and provides quarterly reporting to the Investment Committee. The PFM team's responsibilities include developing and implementing frameworks for incorporating ESG factors, including risks and opportunities related to climate change. These factors are incorporated into external manager selection and monitoring processes. The Combined Funds' investments are managed by external investment managers, with 95% of the public equities in pooled funds. This limits the University's ability to influence the selection of individual investments and/or undertake direct stewardship with investees. Therefore, the team implements the Policies primarily through ESG-related requirements for external managers and monitoring of external manager activities and performance on ESG matters, including climate risks and opportunities.

Responsible Investing Approach

ESG Expectations for External Managers

The Combined Funds' Responsible Investing Policies set out expectations for external managers, including requirements to incorporate ESG through:

- **ESG Integration**: Integrate consideration of material ESG risks and opportunities into the investment decision-making process, alongside financial considerations.
- **ESG Engagement**: Monitor investments and engage with investees where significant ESG concerns are identified.
- **Proxy Voting**: Undertake proxy voting on behalf of the Funds for listed equity holdings, taking ESG considerations into account.

External Manager	Asset Class	Disclosures on RI Approach
Phillips, Hager & North	Canadian Equities Canadian Fixed Income	Responsible Investing Policy Proxy Voting Policy
MFS Investment Management	Global Equities	Responsible Investing Policy Proxy Voting Policy
Jarislowsky Fraser	Canadian Equities Global Equities Canadian Fixed Income	Responsible Investing Policy Proxy Voting Policy
Sprott Asset Management	Global Equities Bullion	Responsible Investing Policy Proxy Voting Guidelines

All the Funds' public markets external managers publish details of their RI approach, including their own responsible investing policy, and their proxy voting policy (in the case of equity managers).

External Managers Engagement Stats

In addition to proxy voting, the Combined Funds external managers engage with investee companies to address ESG issues. We observed over 144 separate engagements on issues including net zero alignment, climate transition risk, toxic emissions, raw material sourcing, packaging, indigenous rights, product safety, health and safety, modern slavery, labour management, privacy and security, human capital, executive compensation, succession planning, board independence, board oversight, and incentive alignment.

PFM Engagements

The PFM team monitors external investment managers through the annual ESG Questionnaire as well as data from third-party ESG research providers, including PRI, TCFD, and the Organization for Economic Cooperation and Development (OECD) Guidance on Responsible Business Conduct for Institutional Investors. The PFM team completed a carbon footprint and climate risk assessment of the Combined Funds' public equity holdings and engaged the external investment managers on the progress of decarbonizing their portfolios. The team also volunteers with the Pension Investment Association of Canada (PIAC) which was involved in policy development feedback on the new reporting requirements for Canadian Sustainability Disclosure Standards (CSDS S1 & S2).

Climate Change

Approach to Climate Change

The University recognizes that climate change is one of the ESG factors with the most significant potential to impact the value of investments across all sectors through risks and opportunities associated with both the physical impacts of climate change and the transition to a low-carbon economy. The University believes that climate-related risks can be mitigated by adopting a portfolio decarbonization strategy. The Combined Funds are therefore committed to pursuing portfolio decarbonization by measuring and disclosing the portfolio carbon footprint and setting targets for reducing portfolio carbon emissions aligned with global climate goals.

Measuring and Disclosing Portfolio Carbon Footprint

The PFM team measures and monitors portfolio climate metrics for the Combined Funds. MSCI provides data on portfolio emissions for all public equity investments. At present, measurement of portfolio carbon is limited to the Scope 1 and 2 emissions of public equities because reliable and consistent data is not yet available for other asset classes or Scope 3 emissions. The PFM team will look to incorporate additional asset classes as data availability improves. Using data from MSCI, the PFM team tracks the following metrics for the Combined Funds:

Weighted Average Carbon Intensity (WACI): expressed in tons of CO_2 equivalent per million dollars in revenue (tCO_2e / \$M revenue). WACI is a portfolio carbon footprint metric that describes a portfolio's exposure to carbon-intensive assets.

GHG Emissions

Scope 1 (Direct GHG Emissions): GHG emissions that occur from sources that are owned or controlled by the company (e.g., emissions from the manufacturing or processing of chemicals and materials, transportation of materials, products, and waste, generation of electricity, heat, or steam, etc.).

Scope 2 (Indirect GHG Emissions): GHG emissions from the generation of purchased electricity consumed by the company.

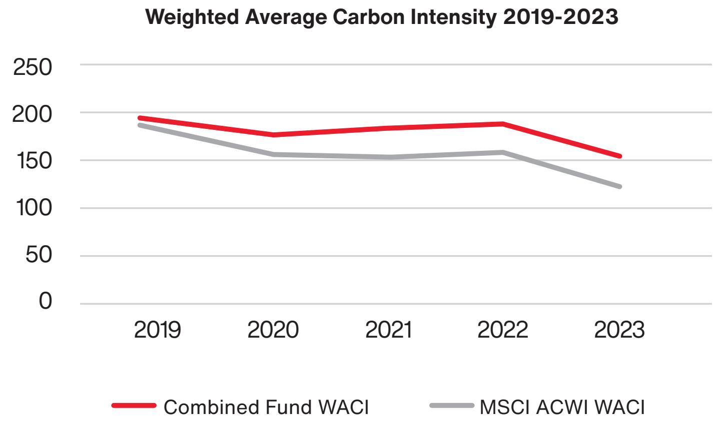
Scope 3 (Other Indirect GHG Emissions): GHG emissions that are a consequence of the activities of the company but occur from sources that are not owned or controlled by the company (e.g., outsourced activities, employee business travel, the use of sold products and services, etc.).

Net Zero GHG Emissions: GHG emissions produced are balanced out by the removal of an equivalent amount of GHG emissions. GHG emissions should first be reduced as much as possible and any remaining GHG emissions should be balanced using carbon removal mechanisms (e.g., green infrastructure, carbon capture, utilization and storage, or carbon offsets).

With the exception of the new Fossil Fuel Free Fund, the Combined Funds do not exclude any specific sectors in their indirect investments based on the principle that climate change must be addressed by investors through stewardship across all sectors. However, we are committed to refrain from any direct fossil fuel investments and the new Fossil-Fuel Free Fund has been established so donors may choose to direct their gifts away from fossil fuels.

Setting Targets for Reducing Portfolio Carbon Footprint

As part of the University's commitment to decarbonization, the Combined Funds have set a target for the portfolio carbon footprint to reach net zero by 2050 and an interim target to achieve a 50% reduction in WACI by 2030 using 2019 WACI as a baseline. 2019 was selected as the baseline year because it offers the greatest level of confidence in the underlying data and it pre-dates the pandemic when fossil fuel use was at full capacity. As of the end of 2023, the Combined Funds had a WACI of 156. In comparison, the benchmark, the MSCI ACWI Index, had a WACI of 123. The Combined Funds WACI has declined 21% since 2019.



Decarbonization

Carleton University is committed to demonstrating leadership by integrating sustainability principles into its decision-making and activities. As part of this commitment the University has set a target of reducing Scope 1 and 2 emissions associated with campus operations by 50% by 2030 and reaching net zero by 2050. Climate change is also recognized as one of the ESG factors with the most significant potential to impact the value of investments across sectors. The PFM team has begun monitoring the carbon footprint associated with the Combined Funds' public equity investments and, as data availability improves, will also seek to measure additional asset classes. Carleton has also set a target, complementary to the broader campus target, to reduce the Combined Funds' public equity portfolio carbon footprint by 50% by 2030 and reach net zero by 2050.

Renewable Energy

Renewable energy investments make up 32% of the Endowment Fund's 15% Global Infrastructure allocation.

Renewable energy includes hydro, wind, solar and storage. The Endowment Fund's infrastructure managers also leverage their scale and global footprint to decarbonize their traditional infrastructure businesses in the digital, utilities, and transportation sectors.

Climate Engagement

University Commitment to UNIE

The University participates in the University Network for Investor Engagement (UNIE), a collaborative engagement program for university endowments and pension plans organized through SHARE. SHARE is one of Canada's leading shareholder engagement programs. UNIE engages companies to enhance climate governance, reduce GHG emissions, implement responsible climate lobbying, and work towards a just transition to a low-carbon economy. In 2023, UNIE engaged with our public equity holdings on the following issues:

Focus Area	2023
A Just Transition	2
Affordable Cities	8
Decent Work in Branded Operations	22
Decent Work in Supply Chains	14
Health Equity	18
Investing in the Indigenous Economy	2
Reconciliation: Investing in the Indigenous Economy	3
Reducing Greenhouse Gas Emissions	60
Sustainable Finance	10
Technology and Digital Rights	8

Case Studies

Metro: Following the 2023 climate-focused shareholder proposal filed by SHARE Metro issued a press release in November updating its climate plan, committing to setting the following targets with a 2023 baseline year; Reducing absolute scope 1 and scope 2 GHG emissions by 42% by 2030; Having 45% of suppliers by spend with science-based targets by 2028; Reducing absolute scope 3 GHG emissions from purchases of goods and services by 25% by 2030; Reducing absolute scope 3 GHG emissions from downstream transportation and distribution by 25% by 2030; and Reducing scope 3 FLAG GHG emissions by 30% by 2030.

The parties signed an agreement to withdraw the proposal, which includes a commitment to ongoing engagement.

Dollorama: At Dollarama's AGM, the CEO announced a time-bound commitment for the release of scope 3 emissions first the first time. This announcement can be understood to be a direct result of the shareholder proposal put forward by SHARE, which asked for greenhouse gas emissions disclosure and Paris-aligned target setting and received 25.89 percent of votes in favor of the request. SHARE met with Dollarama in the fall to discuss progress underway at the company where they committed to a timeline of disclosing scope 3 emissions within two years, including a one year timeline for preliminary disclosure. SHARE will work to determine next steps that could harness and encourage further executive buy-in of climate work, and escalation of current timelines.

UN Principles for Responsible Investing (PRI) Scorecard

During the calendar year, PFM submitted a report on the Combined Funds responsible investing activities to the United Nations supported Principles for Responsible Investment (PRI). The report is compulsory and is required of signatories. The results below assess the Combined Funds’ responsible investing initiatives relative to 5,391 signatories representing over US$121.3 trillion in assets.

Summary Scorecard

Module score Star score	AUM coverage	★☆☆☆☆ 0<=25%	★★☆☆☆ >25<=40%	★★★☆☆ >40<=65%	★★★★☆ >65<=90%	★★★★★ >90%
Policy Governance and Strategy ★★★★☆					87	
Indirect - Listed equity - Active ★★★★★	>=10 and <=50%					100
Indirect - Fixed income - Active ★★★★★	>=10 and <=50%					100
Indirect - Infrastructure ★★★★★	<10%					100
Confindence building measures ★★★★★						100

| PRI Median | 100 Module Score

Responsible Investment Timeline

Timeline	Goal	Action
June 1997	Statement of Investment Policies and Procedures (SIPP) adopted	
Sept 2009	Socially Responsible Investing (SRI)	Investment managers monitor and flag possible SRI risks
Sept 2010	SRI evolves to increase focus on ESG factors	Core investment beliefs are formalized consistent with United Nations' Principles for Responsible Investing (UNPRI) Two investment managers become signatories to PRI Investment managers are required to disclose how ESG is being incorporated into analysis and investment decision-making process
April 2012	Manager coalitions	One of three managers signs on to Carbon Disclosure Project and the Coalition for Good Governance
July 2012	SIPP reaffirms RI beliefs consistent with UNPRI All investments shall be made in accordance with the Code of Ethics and Standards of Practice of the CFA Institute	The UNPRI principles will be applied by: • Encouraging investment managers and other service providers to incorporate ESG issues into investment analysis and decision making, • Requiring annual disclosure by investment managers of the processes by which ESG factors are incorporated into the investment decision making process, • Examining ways to support the UNPRI by aligning with coalitions and/or industry groups that support ESG principles within the investment industry, and • Requiring disclosure of proxy voting records by investment managers.
Dec 2019	Carbon footprint	2019 is selected as the baseline year for carbon footprint benchmarking
Dec 2020	100% PRI Signatories	100% of the external Investment Managers are signatories to the Principles for Responsible Investing (PRI)
March 2022	PRI Signatory Decarbonization strategy adopted	Carleton University becomes a PRI Asset Owner Signatory The university sets mid and long-term GHG reduction targets
Feb 2023	Fossil Fuel Free (FFF) fund	Opened a FFF fund for donor directed dollars with $1M university seed money
June 2023	PRI Reporting	Test year reporting submitted to PRI
June 2024	PRI Reporting	Inaugural PRI report submitted
Jan 2025	PRI Transparency report	Results of the inaugural report are made public
2030	GHG Emissions Target	50% reduction in Scope 1 and 2 GHG emissions

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