Policy Name:	Endowment Fund Responsible Investing Policy
Originating/Responsible Department:	Investment Committee
Approval Authority:	Board of Governors
Last Updated:	March 2023
Mandatory Revision Date:	March 2025
Contact:	Executive Director, Pension Fund Management

Principles and Scope

The goal of Carleton University (“the University”) with respect to the Endowment Fund (“the Fund”) is to provide a steady flow of income in perpetuity to meet expenditure requirements while at the same time increasing the market value of the Fund so that capital, in real terms, is maintained. The prudent and effective management of the Fund as described in this Statement has a direct impact on the achievement of this goal.

The University is guided by certain principles as they relate to responsible investing. These are:

- That the fund will strive to achieve the best possible risk-adjusted rate of return on the Fund’s assets.
- That portfolio diversification is necessary to achieve these returns.
- That responsible corporate behaviour with respect to environmental, social and governance (ESG) factors can have a positive effect on long-term financial performance (to varying degrees across companies, sectors, regions, assets classes and time).
- That taking into account ESG issues may better align the portfolio with the interests of our stakeholders.
- That imposing constraints or negative screens on portfolio investments may increase risk or reduce returns or both.
- That stewardship by investors is an effective way to encourage responsible corporate behaviour.

The University is a signatory to the United Nations-supported Principles for Responsible Investment (PRI), which are considered best practice in the area of responsible investing. As a signatory, the University commits to the following Principles:[1]

- Incorporate ESG issues into investment analysis and decision-making processes.
- Be an active owner and incorporate ESG issues into ownership policies and practices.
- Seek appropriate disclosure on ESG issues by the entities in which it invests.
- Promote acceptance and implementation of the Principles within the investment industry.
- Work together with other signatories to enhance its effectiveness in implementing the Principles.
- Report on its activities and progress towards implementing the Principles.

This Policy applies to all Fund assets, unless otherwise specified. External Investment Managers (the “Managers”) must follow the Policy when investing assets allocated to them for investment.

[1] For information on how the Responsible Investing Policy aligns with the PRI Principles, see Appendix A.

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Definitions

ESG factors are environmental, social and governance factors that can impact the value of investments.
Responsible investing is the incorporation of ESG to the management of the Fund, including:

- **ESG integration:** consideration of material ESG risks and opportunities in investment decision- making, alongside financial considerations, with the objective of enhancing portfolio returns.
- **Stewardship:** exercising influence on investees relating to ESG matters, through:
  - **Engagement:** dialogue with investees to address ESG concerns and encourage improvements in ESG performance.
  - **Proxy voting:** considering ESG factors when exercising voting rights associated with listed equity investments.

Responsible Investing Approach

The Fund is managed by external Managers, impacting the University's ability to influence the selection of individual investments and undertake direct stewardship with investees. Therefore, the Policy primarily is applied by requiring the Managers and other service providers to incorporate ESG issues into investment analysis and decision making, and to undertake stewardship.

- Managers are required to integrate consideration of material ESG risks and opportunities to the investment decision-making process, alongside financial considerations.
- Managers are required to undertake ongoing monitoring of the Fund's investments relating to ESG factors. Where this monitoring identifies significant ESG concerns relating to an investment, Managers are expected to engage with the investee to address these concerns, and to inform the Committee.
- The Committee delegates to Managers the responsibility for exercising all voting rights acquired through the Fund. Managers are required to provide to the Committee the voting rights policies that set out their approach to proxy voting. Managers are expected to take ESG considerations into account in proxy voting, and are encouraged to adopt proxy voting guidelines that address ESG factors.

These expectations are communicated to current and potential Managers and other service providers, including through this Policy. The quality and rigor of the ESG approach is considered in the selection and monitoring of the Managers, all of which are required to be PRI signatories.

Managers are required to report no less frequently than annually to the Investment Committee regarding:

- The processes by which ESG factors are integrated to the investment decision-making process, portfolio monitoring, and stewardship.
- Stewardship activities undertaken with investees on ESG matters.
- Proxy voting records, including voting rationales and departures from, or exceptions to, voting rights policies.

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The University believes that engagement on ESG matters by a group of investors will often have greater influence than a single investor acting alone. Where it is believed that the Fund's participation could add value, the Fund may engage directly with investees, typically through collaborative initiatives. The Fund may also participate in coalitions and/or industry groups that advance ESG disclosure and standards or support ESG principles within the investment industry.

Responsible Investing Priorities

Managers are expected to consider all material ESG factors and be mindful of the interplay between those factors when analysing investments. While all relevant ESG factors should be considered in investment decision-making, the following are some of the important strategic priorities for the University:

- Climate Change
- Indigenous Rights
- Human Rights, including Accessibility and LGBTQ2S+ Rights
- Diversity, Equity and Inclusion
- Mental Health and Wellness

The responsible investing initiatives relating to each of these priorities will be further developed over time.

Climate Change

It is recognized 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, including the following elements:

- Measuring and disclosing portfolio carbon emissions.
- Setting targets for reducing portfolio carbon emissions aligned with global climate goals, including the achievement of net-zero greenhouse gas (GHG) emissions by 2050, and consistent with the University's investment responsibility. Progress on portfolio carbon emissions reduction and the impact of targets on investment performance will be assessed annually, and targets will be reviewed at least once every five years.
- Engaging with Managers on climate investment strategy and portfolio carbon emissions.
- Requiring Managers to undertake stewardship with investees on climate change-related matters.

- Encouraging Managers to publicly support the Paris Agreement climate goals and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).[2]
- Implementing the Board of Governors' resolutions relating to climate change.

Given the importance of climate change to society, the University, supported by the Board of Governors, has taken the following actions:

- Adopted a strategy, called decarbonization, of divestment and active ownership to transition the Endowment Fund to a significantly lower carbon portfolio by 2030. This included:
  - Setting an interim target of at least 50% reduction by 2030 in the Weighted Average Carbon Intensity ("WACI") of listed equity holdings, based on Scope 1 and 2 investee GHG emissions, compared to a 2019 baseline.
  - Continuing to not to hold any direct fossil fuel investments.
- Established a fossil-fuel free fund, as of the end of 2022, to which donors may direct their gifts.
- The longer-term strategy for indirect investments and pooled funds is to be based in the important principle that climate change must be addressed across all sectors of the economy and not be limited to fossil fuel investments.

Governance and Transparency

The Board of Governors:

- Directs the Investment Committee on University priorities relating to responsible investing.
- Undertakes an approval of the Policy by the Finance Committee of the Board and the Board of Governors every two years or as required.

The Investment Committee:

- Reviews the Policy every two years or as required and recommends approval to the Finance Committee of the Board.
- Monitors the implementation of the Policy on a quarterly basis.
- Implements the Board of Governors' resolutions related to responsible investing.
- Ensures internal and external resources are available for implementation of the Policy.

The Office of Pension Fund Management supports the University and the Investment Committee by:

- Developing and implementing frameworks for incorporating ESG into Manager selection and monitoring processes, and for monitoring the Fund on ESG matters.
- Reviewing Manager reporting and disclosures for consistency with the Policy.

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[2] The University supports the imperative to address climate change and acknowledges that achieving the Paris Agreement goal of limiting the rise in global average temperature to well below 2°C requires the global economy to achieve net-zero greenhouse gas (GHG) emissions by 2050. The University supports the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) for disclosure of climate-related risks and opportunities.

- Providing quarterly reporting to the Committee on the implementation of the Policy.
- Preparing an annual Responsible Investing Report for disclosure to Plan stakeholders.

To provide transparency on the implementation of the Policy, the following disclosures will be developed:

- This Policy
- An annual Responsible Investing Report, prepared by Pension Fund Management, to include:
  - Information on Manager ESG policies, practices and stewardship activities, including engagement and proxy voting.
  - Climate-related disclosures aligned with the Task Force on Climate-related Financial Disclosure (TCFD) recommendations, including portfolio carbon metrics and progress against portfolio carbon targets, once established.

Contacts:

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University Secretary

Related Policies:

Carleton University Non-Endowed Funds Responsible Investing Policy
Carleton University Retirement Fund Responsible Investing Policy

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Appendix A: Alignment of Responsible Investing Policy with PRI Principles

PRI Principles	Fund Responsible Investing Practices
Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.	• Managers are required to integrate consideration of material ESG risks and opportunities to the investment decision-making process, alongside financial considerations. • Portfolio carbon emissions will be measured and disclosed, and targets will be set for reducing portfolio carbon emissions aligned with global climate goals and consistent with fiduciary responsibility.
Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.	• Managers are required to undertake stewardship with investees. • Managers are required to undertake ongoing monitoring of the Fund's investments relating to ESG factors. Where this monitoring identifies significant ESG concerns relating to an investment, Managers are expected to engage with the investee to address these concerns, and to inform the Committee. • Managers are required to provide the voting rights policies that set out their approach to proxy voting. • Managers are expected to take ESG considerations into account in proxy voting, and are encouraged to adopt proxy voting guidelines that address ESG factors.
Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.	• The Fund may participate in coalitions and/or industry groups that advance ESG disclosure and standards. • The University supports the recommendations of the Task Force • on Climate-related Financial Disclosures (TCFD) for disclosure of climate-related risks and opportunities.
Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.	• Responsible investing expectations are communicated to current and potential Managers and other service providers. • The quality and rigor of the ESG approach is considered in the selection and monitoring of Managers, all of which are required to be PRI signatories. • The Fund may participate in coalitions and/or industry groups that • support ESG principles within the investment industry.
Principle 5: We will work together to enhance our effectiveness in implementing the Principles.	• Where the Fund's participation could add value, the Fund may engage directly with investees, typically through collaborative initiatives. • Carleton participates alongside other Canadian universities in the collaborative engagement initiative University Network for Investor Engagement (UNIE).
Principle 6: We will each report on our activities and progress towards implementing the Principles.	• An Annual Responsible Investing Report will be developed.