Carleton University Responsible Investing Report

September 2023

Carleton University

Table of Contents

This report covers the Combined Funds' Responsible Investing (RI) approach and performance for the period January 1, 2022 – December 31, 2022. 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.

Responsible Investing

Commitment to Responsible Investing

Carleton University ("the University") maintains an Endowment Fund and Non-Endowed Operating Funds, 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, and thus may better align the portfolio with the interests of stakeholders. 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:

PRI Principles for Responsible Investment

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.

Pension Investment Association of Canada
Association canadienne des gestionnaires de caisses de retraite

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. Although PIAC focuses on pensions, information shared is relevant to Carleton as a not-for-profit organization.

University Network for Investor Engagement
Réseau universitaire pour l'engagement actionnarial

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

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 Finance Committee of the Board of Governors and the overall Board of Governors approve the Funds' Responsible Investing Policies every two years or more frequently as required. The University Investment Committee is responsible for providing oversight, and monitoring the implementation of the Policies on a quarterly basis. The Investment Committee implements the Board of Governors' resolutions related to RI and ensures appropriate internal and external resources are available for successful execution of the Policies.

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, into the external manager selection and monitoring process and production of reporting and disclosure aligned with the Policies. The Combined Funds' investments are managed by external investment managers, which impacts 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.

Principles for Responsible Investment (PRI)	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.	100% of the University's external managers are PRI signatories
Task Force on Climate Related Financial Disclosures (TCFD)	TCFD was created under the auspices of the Financial Stability Board to address systemic risk to the global financial system posed by climate change. It developed a framework of climate disclosure recommendations for companies and investors, who can also promote the framework as TCFD supporters. The Fund seeks to align its Responsible Investing Report with the TCFD recommendations.	80% of the University's external managers are TCFD Supporters
Net Zero Asset Managers (NZAM)	NZAM is an international initiative of asset managers who have committed to supporting the goal of net zero GHG emissions by 2050, in line with efforts to limit global warming to 1.5°C.	40% of the University's external managers are NZAM members
Climate Action 100+ (CA100+)	CA100+ is a global engagement collaboration targeting companies that are systemically-important GHG emitters to improve climate governance, reduce GHG emissions and enhance climate disclosure.	67% of the University's external public equity managers are Climate Action 100+ participants

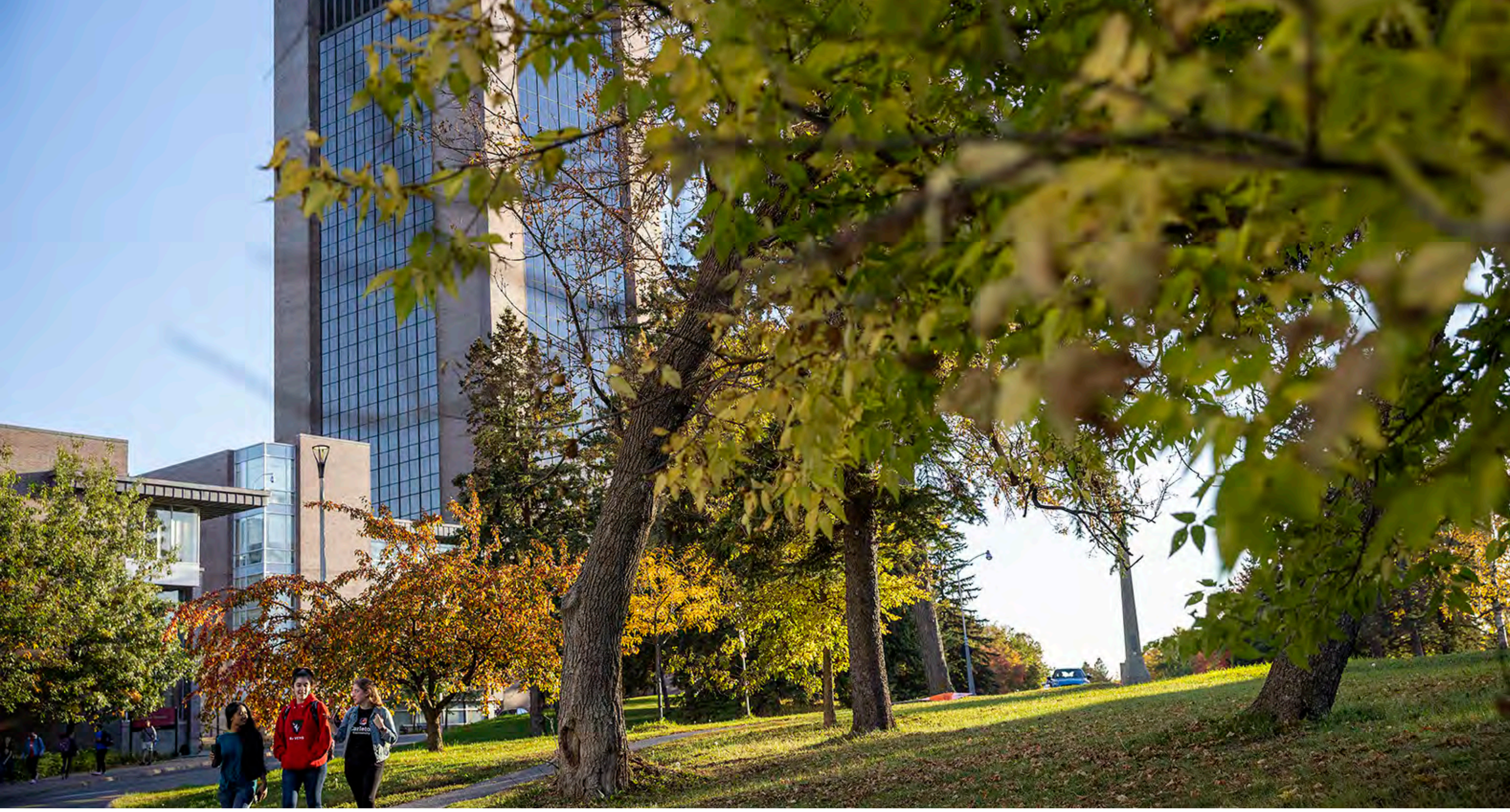
Incorporating ESG into External Manager Selection and Monitoring

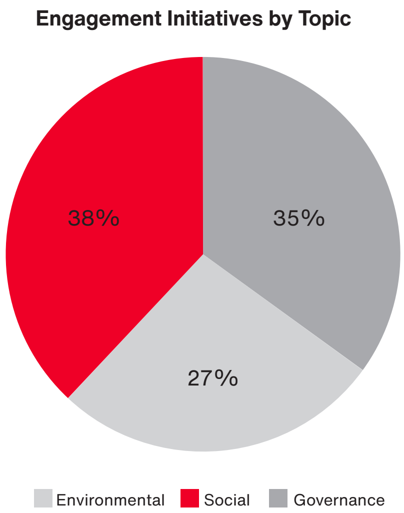
The quality and rigor of the ESG approach is considered in external manager selection and monitoring. When selecting new external managers or allocating new mandates to existing managers, the PFM team assesses the prospective manager's ability to accommodate the Combined Funds' respective Responsible Investing Policies as well as the rigor of the manager's own RI policies and procedures. ESG information is gathered from external investment managers on an ongoing basis through the ESG Questionnaire.

External Manager Engagement

The Endowment Fund's external managers engage with investee companies to address ESG issues. While the specific issues addressed vary by company and by manager, in 2022 approximately 27% of engagement initiatives were focused on Environmental factors, approximately 38% were focused on Social factors and approximately 35% were focused on Governance factors. There were over 180 separate engagements.

External Manager	Asset Classes Managed for the Funds	Disclosures on Responsible Investing Approach
MFS Investment Management	Global Equity (Pooled)	▪ Responsible Investing Policy ▪ Proxy Voting Policy
Phillips, Hager & North Investment Services (RBC Global Asset)	Canadian Equity, Fixed Income (Pooled), Fossil Fuel Free Fund (Pooled)	▪ Responsible Investing Policy ▪ Proxy Voting Policy
Sprott Asset Management	Equities and Fixed Income	▪ Responsible Investing Policy ▪ Proxy Voting Policy





External Manager Responsible Investing Overview

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).

Monitoring the Portfolio on ESG

In 2023, the PFM team put in place a framework to monitor the Fund holdings on ESG, to evaluate implementation of the Responsible Investing Policies and enable more effective engagement with external managers. Monitoring results are reported to the Investment Committee. The monitoring approach, which draws on information received from external managers through the ESG Questionnaire as well as data from third-party ESG research providers, reflects responsible investing standards and expectations for asset owners, including PRI, TCFD, and the Organization for Economic Cooperation and Development (OECD) Guidance on Responsible Business Conduct for Institutional Investors. The portfolio will be monitored for ESG controversies, proxy voting by external managers in relation to significant ESG-related proposals, and progress on climate-related metrics and targets.

Where monitoring reveals significant unresolved ESG concerns relating to the Combined Funds' holdings, the PFM team will engage with relevant external managers. Where it is believed that the Combined Funds' participation could add value, the Funds may also engage directly with investees, typically through collaborative initiatives, since engagement on ESG matters by a group of investors will often have greater influence than a single investor acting alone. The Combined Funds may also participate in coalitions or industry groups that advance ESG disclosure and standards or support ESG principles within the investment industry.

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

In 2022 the PFM team began measuring and monitoring portfolio climate metrics for the Combined Funds. Over the past year, the team obtained third-party 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.

Exposure to Low Carbon Solutions Companies: identifies the market value of the portfolio exposed to companies that have the potential to benefit from the growth in demand for low-carbon products and services (e.g., renewable energy, electric vehicles and solar cell manufacturers).

Exposure to Low Carbon Transition Risk Companies: identifies the market value of the portfolio exposed to companies that have the potential to face increased costs, reduced demand for carbon intensive products or companies facing risks associated with stranded assets.

2022 Fund Public Equity Carbon Metrics

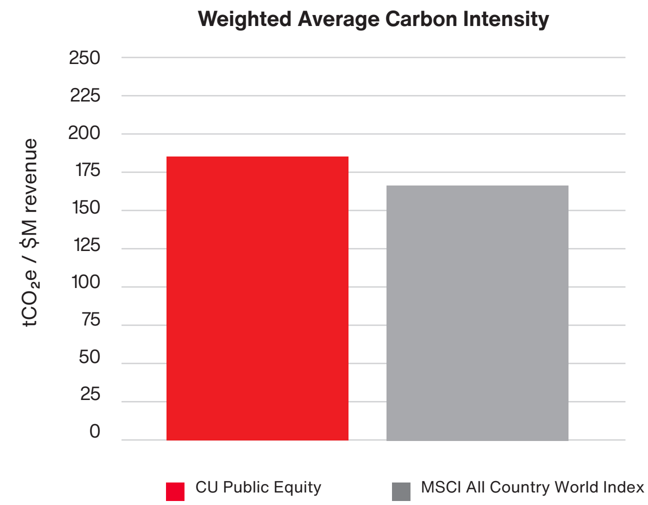
GHG Emissions

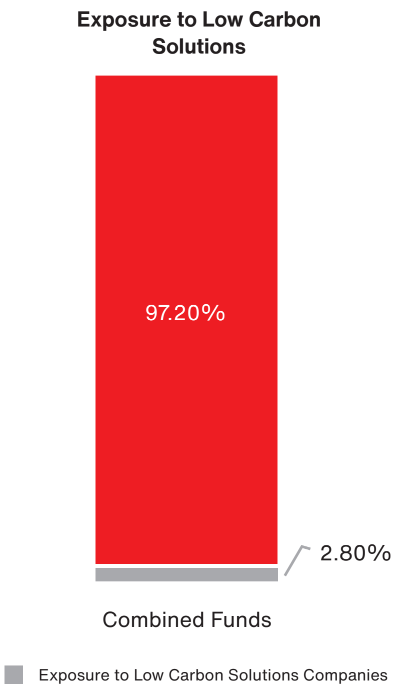
Scope 1 (Direct GHG Emissions): GHG emissions that occur from sources that are owned or controlled by the company (e.g., emissions from the manufacturing or processing of chemicals and materials, transportation of materials, products, and waste, generation of electricity, heat, or steam, etc.).

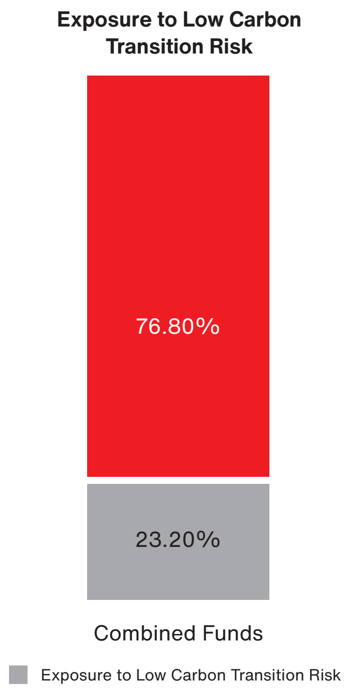
Scope 2 (Indirect GHG Emissions): GHG emissions from the generation of purchased electricity consumed by the company.

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).







Public Equity Allocation by Region

While the Combined Funds' public equity holdings are diversified across many different regions, Canadian investments make up a higher proportion of the Combined Funds' holdings than the MSCI All Country World Index which is a snapshot of the world's investable universe. The Canadian equity universe is more carbon intensive relative to the world.

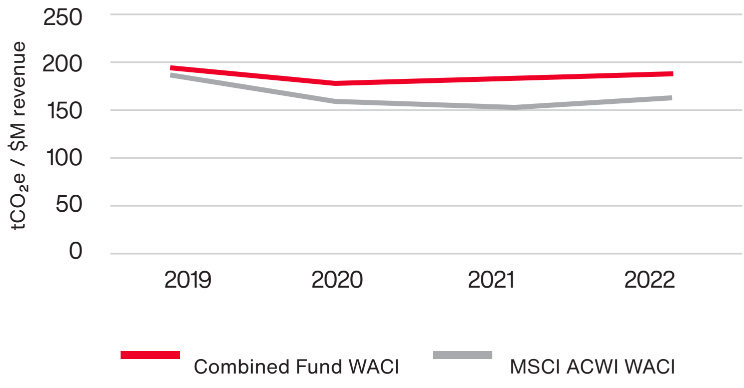
With the exception of the new Fossil Fuel Free Fund, the Combined Funds do not exclude any specific sectors in their indirect investments based on the principle that climate change must be addressed by investors through stewardship across all sectors. However, we are committed to refrain from any direct 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 2022, the Combined Funds had a WACI of 186.3. In comparison, the benchmark, the MSCI ACWI Index, had a WACI of 162.4.

Weighted Average Carbon Intensity 2019-2022



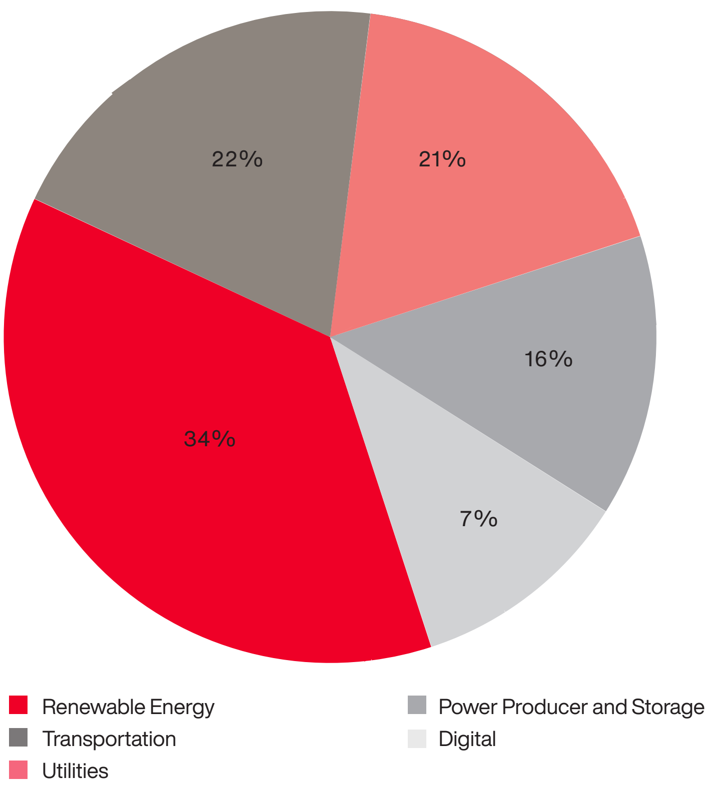
Decarbonization

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 34% 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.

Endowment Fund Infrastructure Allocations



Engaging with External Managers on Climate Investment Strategy

The PFM team regularly engages with the external managers of the Combined Funds to ensure they employ an effective climate investment strategy for the assets under their management.

The Statement of Investment Policies and Procedures for each of the asset pools requires external managers to undertake stewardship with investees on climate change-related matters.

The University also encourages external managers to publicly support the goals of the Paris Agreement, which aim to limit the increase in global average temperature to well below 2°C, and preferably to 1.5°C, compared to pre-industrial levels. The University additionally encourages all external managers to publicly support the recommendations of the TCFD, and make disclosures in line with these recommendations.

To effectively monitor the external managers of the Combined Funds, the PFM team requires each manager to complete an annual ESG Questionnaire. The questions include how the firm addresses climate-related risks and opportunities in the investment process, whether it supports the Paris Agreement, whether it reports in alignment with the TCFD recommendations, and whether it measures the portfolio carbon footprint.

University Commitment to UNIE

"The University participates in 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 2022, UNIE engaged with 42 companies Carleton holds investments in. While 64% of these engagements were focused on reducing greenhouse gas emissions, other topics of focus included sustainable finance, a just transition, and governance oversight related to climate change.

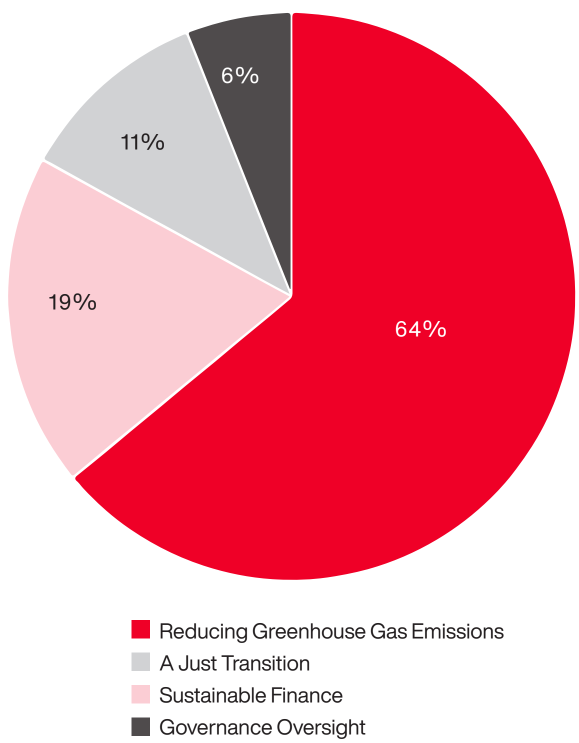
Case Study: Engagement with Bank of Nova Scotia

In 2022 SHARE engaged with Carleton equity holding Bank of Nova Scotia (Scotia) to encourage the company to improve its performance in relation to financed emissions (the GHG emissions of borrower companies), which has lagged its international peers. SHARE filed a shareholder proposal asking the company to bring its lending practices into alignment with the International Energy Agency's (IEA) Net Zero Pathway. SHARE came to an agreement with Scotia to withdraw the proposal when the bank committed to developing criteria for borrower net zero plans. SHARE will continue to engage on behalf of Carleton to support continued progress towards lending practices that are aligned with the IEA's framework.

External Manager Engagement on Climate Change
The Funds' external managers are expected to undertake stewardship with investees on climate change. For example, in 2022, one of the Funds' external managers engaged with a Canadian utility company on the opportunity to improve access to capital by taking advantage of the increasing appetite for ESG-labelled bonds. The company is now in the process of developing a green bond framework.

PIAC Engagement on Climate
In 2022, PIAC continued its advocacy for mandatory climate-related disclosure through submissions to the Canadian Securities Administrators (CSA) and the International Sustainability Standards Board (ISSB).

UNIE Engagements by Topic



Responsible Investing Priorities

While external managers are expected to consider all material ESG factors in their analysis and investment decision-making, the following ESG-related issues are 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 related to these priorities will be further developed over time.

Case Study: Proxy Voting to Promote Increased Disclosure on Retail Supply Chain Risks

During the 2022 proxy season one of the Combined Funds' Canadian Equity managers voted in favour of a shareholder proposal asking a Canadian grocer to publish an annual summary of the company's supplier audit results. Although the company already undertook audits of its suppliers and led its peers in the amount of information it published addressing human rights in its supply chain, the manager supported the proposal because the additional disclosure would allow the manager to better assess the human rights risks faced by the grocer and its suppliers.

Case Study: Engaging on Human Rights and Preventing Forced Labour in Solar Supply Chains

Investments in renewable energy are critical for the success of climate transition, but there is an increasing need to ensure that human rights are respected in renewable energy supply chains. One of the Combined Funds' external Infrastructure managers owns a global solar energy producer. The manager works continuously with the portfolio company to meet the requirements of its Modern Slavery Policy to prevent forced labour in the company's supply chain through active engagement, strategy days, Board meetings and weekly communication. The portfolio company has zero tolerance for the use of child or forced labour in its projects or plants and will not knowingly do business with contractors, sub-contractors, business partners or vendors who violate these standards. The company also provides training to its team on these issues. Oversight of human rights and supply chain issues is provided by the company's Board where the Infrastructure manager has a Board seat. The manager is committed to continuing oversight and engagement on the topic of human rights and preventing forced labour.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