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YORK UNIVERSITY PENSION FUND

# 2023 Sustainable Investing Report

**46%**
Lower than the benchmark WACI for equities

**57%**
Reduction in our carbon emissions of equity funds

**68%**
Reduction in our WACI score for equities since 2016

**13.2%**
Overall investment return for last 1-year period

**$100M+**
Committed to sustainability-focused infrastructure

**33%**
Below the equity portfolio emissions benchmark

Latest data is at **June 30, 2023**

*Measure and conserve – Decarbonize – Innovate*

# Measure and conserve – Decarbonize – Innovate

## Message from the Director, Pension Fund

The York University Pension Fund seeks to embed sustainability in all aspects of investment decision-making to create positive change for the future. With this in mind, investments through business transformation, clean energy, sustainable solutions, greenfield investments, and carbon removal have been prioritized. We also recognize the value of having a seat at the table to meaningfully engage and encourage behaviours that support our collective transition to a lower-carbon world.

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*Guided by a strategy to measure and conserve, decarbonize, and innovate, the Pension Fund has outperformed national sector and international sustainability benchmarks while generating positive returns.*

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This report is a representation of our commitment to reporting and transparency. It is a mechanism to hold ourselves accountable to continuously evolve our approach to investing and reporting as the connection between environmental, social and good governance (ESG) factors and risk and return becomes better understood. It also represents the most comprehensive compilation of data on sustainable investments in our pension fund to date. As ESG factors and sustainability measures evolve over time, we will adapt how we assess investments and report on our progress. It is our hope that you will find it to be informative, educational, and accessible.

Allocating time and resources to integrate ESG factors into the York University Pension Fund is only one of the ways the fund is helping to create a more sustainable future.

**Leona Fields**
Director, Pension Fund
York University

# Measure and conserve – Decarbonize – Innovate

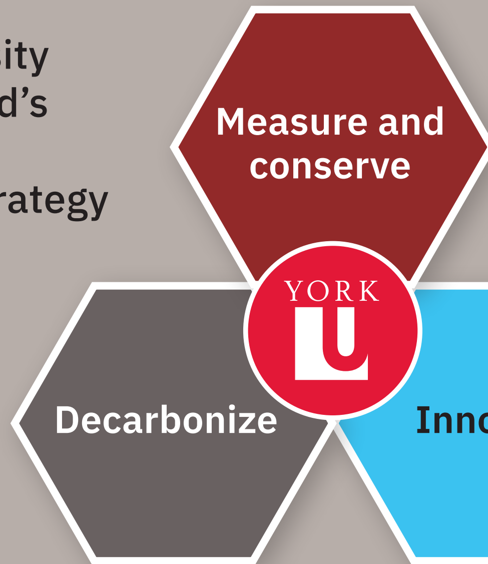
## Welcome to the 2023 York University Pension Fund Annual Sustainable Investing Report

We are making excellent strides toward investing in a sustainable future – for both the environment and for the pension fund.

Here's how:

- **Measure and conserve:** Continuous improvement is a key driver of our sustainable investing strategy. Our Pension Fund Investment Committee and Board of Trustees oversee our investment approach, where we apply world-class metrics to measure environmental, social and governance (ESG) factors.
- **Decarbonize:** Not only did we achieve the Paris Accord international standard for a weighted average carbon intensity (WACI) within our equity investments in 2023, we've reduced the carbon emissions held within our pension fund equity assets by 57% since 2016. Decarbonatization is not a destination; it is a journey – and we are making great progress!
- **Innovate:** We have invested over $130 million toward sustainability-focused investments, including next-generation renewable and low-emissions energy solutions, and the world's largest fund dedicated to energy transition.

York University Pension Fund's Sustainable Investing Strategy




## Make the most of this report

Select these icons on the following pages for additional content and special resources.

**Online resources** for more context and details

**Did you know?** Interesting facts, observations, and analysis

# Our investment philosophy

The York University Pension Fund's sustainable investing approach considers environmental, social and governance (ESG) factors that could affect an investment's level of risk and return. As part of this strategy, we are a member of the University Network for Investor Engagement (UNIE), the Canadian Coalition for Good Governance (CCGA), the Responsible Investment Association (RIA), and the Carbon Disclosure Project (CDP). We believe that active engagement with our investment managers, discussion with consultants and experts, and participation in relevant organizations, are effective ways to assess ESG factors and to produce better returns.

We recognize the need to take action to reduce the impacts of climate change. Our investment portfolio has been restructured with the aim of aligning with – or being ahead of – Paris Accord objectives. At June 30, 2023, 23% of the Infrastructure portfolio had been invested in sustainable infrastructure such as business transformation, clean energy, sustainable solutions, greenfield investments in energy intensive sectors, and carbon removal. We believe that these investments will be impactful in decreasing current and curtailing future greenhouse gas emissions.

## We are further **DECARBONIZING** our portfolio

- ☑ Committing to a sustainable investment strategy that integrates ESG factors
- ☑ Aiming to deliver competitive financial returns while identifying ESG risks and opportunities
- ☑ Specifically targeting sustainability themes such as clean energy, green property, and aligned solutions

# Our investment approach

We have a responsibility to manage the long-term sustainability of the fund's investments to provide predictable funding to students and researchers. We integrate ESG factors to assess risks and returns in its investments as these factors can affect the overall performance of the portfolio.

Our investment philosophy, with a foundation in research, is that climate risk manifests in two ways to financial markets, investments and humanity, transition risks and physical risks:

- **Transition risks** are those associated with the pace and extent at which an organization manages and adapts to the internal and external pace of change to reduce greenhouse gas emissions and transition to renewable and low or zero carbon energy.
- **Physical risks** are those associated with the impacts from climate change. These risks can be event-driven (acute) or associated with longer-term shifts in climate patterns (chronic).

Therefore, we monitor and communicate metrics related to carbon emissions with our fund managers to reduce the carbon footprint of our investments.

We take an active approach to sustainable investing rather than employ a negative screening process. We believe this approach will generate better and sustainable returns for both a sustainable pension fund and a sustainable planet. Our approach evolves as the connection between ESG factors and risk and returns becomes better understood.

# Our ESG policy and priorities

Our ESG strategy means investing the pension fund in companies that care about the environment, society, and good governance.


York University is a founding member of the University Network for Investor Engagement and is a member in good standing for the Responsible Investment Association (RIA), the Canadian Coalition for Good Governance (CCGG), and the Carbon Disclosure Project (CDP).

**Principles for Responsible Investment (PRI):** ESG integration in listed equity: A technical guide. https://tinyurl.com/PRIequities

**PRI:** Do ESG information providers meet the needs of fixed income investors? https://tinyurl.com/PRIfixedincome

# Our sustainable investment priority sectors

## Business transformation

Helping transition utility, energy and industrial businesses by reducing $CO_2$e-emissions and energy consumption through investment in greener production processes and energy efficiency technologies.

## Clean energy

Expanding low-carbon and renewable energy production and related technologies that provide and support additional capacity to the energy mix.

## Sustainable solutions

Advancing the growth of a circular economy through waste management, resource efficiency, development of resilient infrastructure, and services that support these solutions.


## Greenfield investments

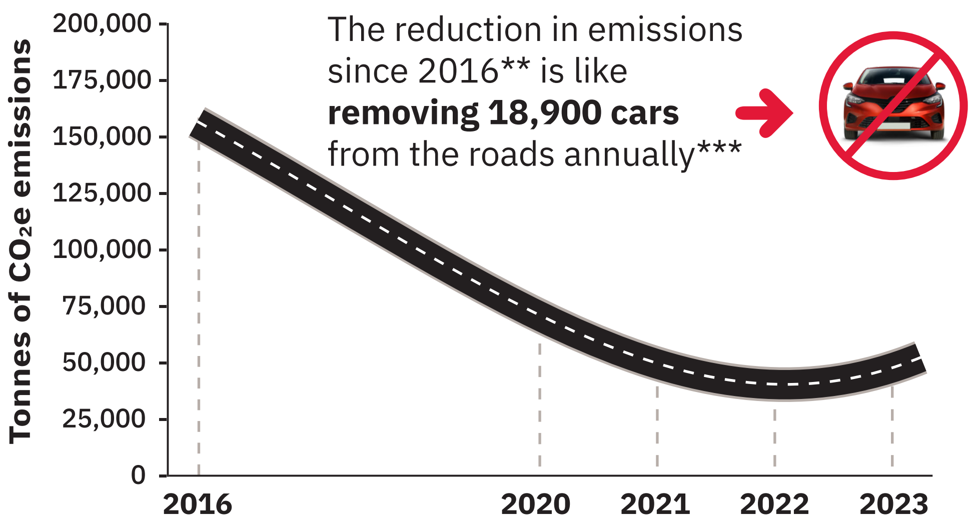
Decarbonize hard-to-abate sectors using technologies such as Power-to-X, carbon capture utilization and storage (CCUS), and advanced biofuels.

## Carbon removal

Through geologic storage, net-zero enhanced oil recovery, energy carriers, clean firm power, and direct air capture.

# Our journey toward a sustainable future

## The carbon emissions of our equity portfolio have DROPPED 57% since 2016*




* 73% drop **from 151 tonnes** of $CO_2e$ per million dollars invested in Q4 2016 **to 40** in Q2 2023

**57% drop from **152,602 tonnes** of $CO_2e$ in Q4 2016 **to 65,597** in Q2 2023

*** Assumes the average car emits 4.6 tonnes of $CO_2$ per year

MSCI reports the carbon footprint of its global indices: https://tinyurl.com/MSCImetrics

**2014**
Updated our Statement of Investment Principles to include sustainable investing

**2016**
First assessed the fund's carbon footprint

**2018**
First assessed fund managers' ESG metrics

**2020**
Developed our sustainable investing framework

**2022**
Improved our sustainability credentials

# Our journey toward a sustainable future (cont'd)

## Key benchmarks and results

### Equity investments (Q2 2023)

| Metric | Unit | Benchmark | York Pension | Change since 2016 |
|---|---|---|---|---|
| **Total carbon emissions** | $tCO_2e$ | 89,346 | 65,597 | **Down 57%** |
| **Carbon footprint** | $tCO_2e$ /$million invested | 54 | 40 | **Down 66%** |
| **WACI** (Weighted Average Carbon Intensity) | $tCO_2e$/$million in revenue | 133* | 72 | **Down 68%** |

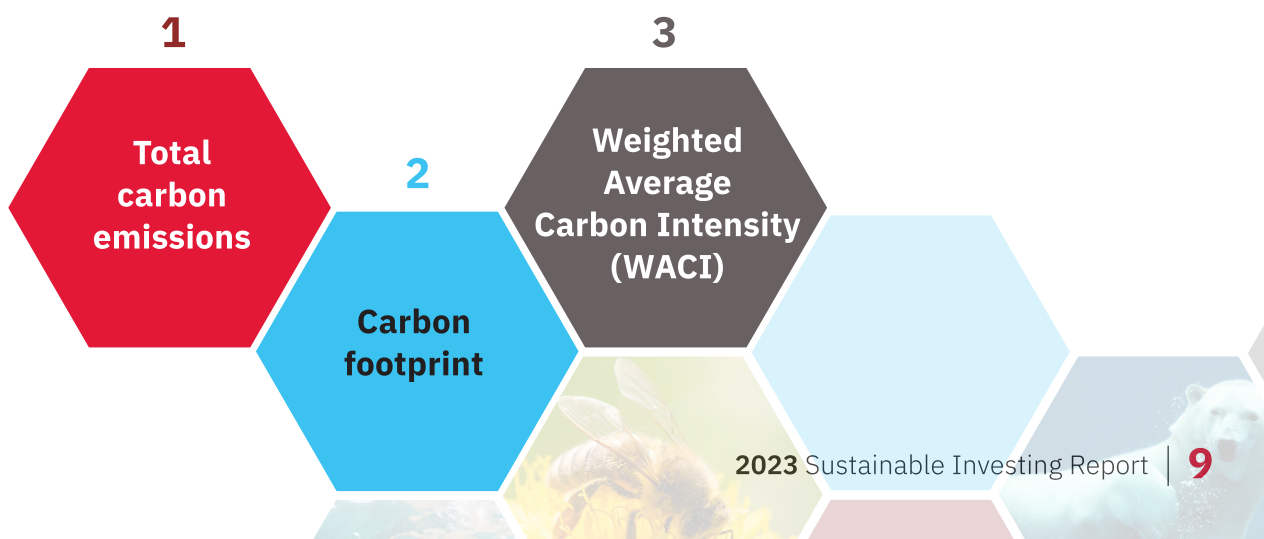
* Paris Accord goal is <94.5

### Fixed income investments (at year end)

| Metric | Unit | 2021 Results | 2022 Results | Change since 2021 |
|---|---|---|---|---|
| **Total carbon emissions** | $tCO_2e$ | 48,500 | 15,724 | **Down 68%** |
| **Carbon footprint** | $tCO_2e$ /$million invested | 112 | 34 | **Down 70%** |
| **WACI** (Weighted Average Carbon Intensity) | $tCO_2e$/$million in revenue | 144 | 86 | **Down 40%** |

### Did you know?

As of this report's publication date, York University is the only major Canadian university that reports publicly on all **three key emissions standards.**



# Climate-related financial disclosures

## Governance

Financial markets play an important role in capital allocation decisions, and accurate and timely disclosure of financial results is essential. To accurately price and value assets, investors need to understand the governance and risk management context in which financial results are achieved.

The financial crisis of 2007-2008 highlighted the impact of weak corporate governance and risk management practices on asset values, subsequently increasing demand for transparency from organizations. The Task Force on Climate-Related Financial Disclosures was established to help identify information needed by investors, lenders, and insurance underwriters to assess and price climate-related risks and opportunities. The Task Force developed four widely adoptable recommendations applicable to organizations across sectors and jurisdictions. The recommendations focus on decision-useful, forward-looking information on financial impacts and risks and opportunities related to transitioning to a lower-carbon economy.

By improving transparency, financial markets can become more efficient and economies more resilient and stable.



## Why are we disclosing what we are disclosing?

As leaders in sustainable investing – with our strategy of measure and conserve, decarbonize, and innovate – we adhere to the principles set out by the Task Force on Climate-related Financial Disclosures.

- **Principle 1:** Disclosures should present relevant information (WACI + carbon footprint + carbon emissions)
- **Principle 2:** Disclosures should be specific and complete
- **Principle 3:** Disclosures should be clear, balanced, and understandable
- **Principle 4:** Disclosures should be consistent over time
- **Principle 5:** Disclosures should be comparable among organizations within a sector, industry, or portfolio
- **Principle 6:** Disclosures should be reliable, verifiable, and objective. They are more reliable now because they are from WTW and Morgan Stanley Capital International
- **Principle 7:** Disclosures should be provided on a timely basis

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**Did you know?** The emissions data reported in this document include **Scope 1** (direct emissions controlled by a company, e.g., gasoline in a delivery truck) and **Scope 2** (indirect emissions, such as generating electricity in an office building).

# Climate-related financial disclosures (cont'd)

## Climate-related risks, opportunities, and financial impact

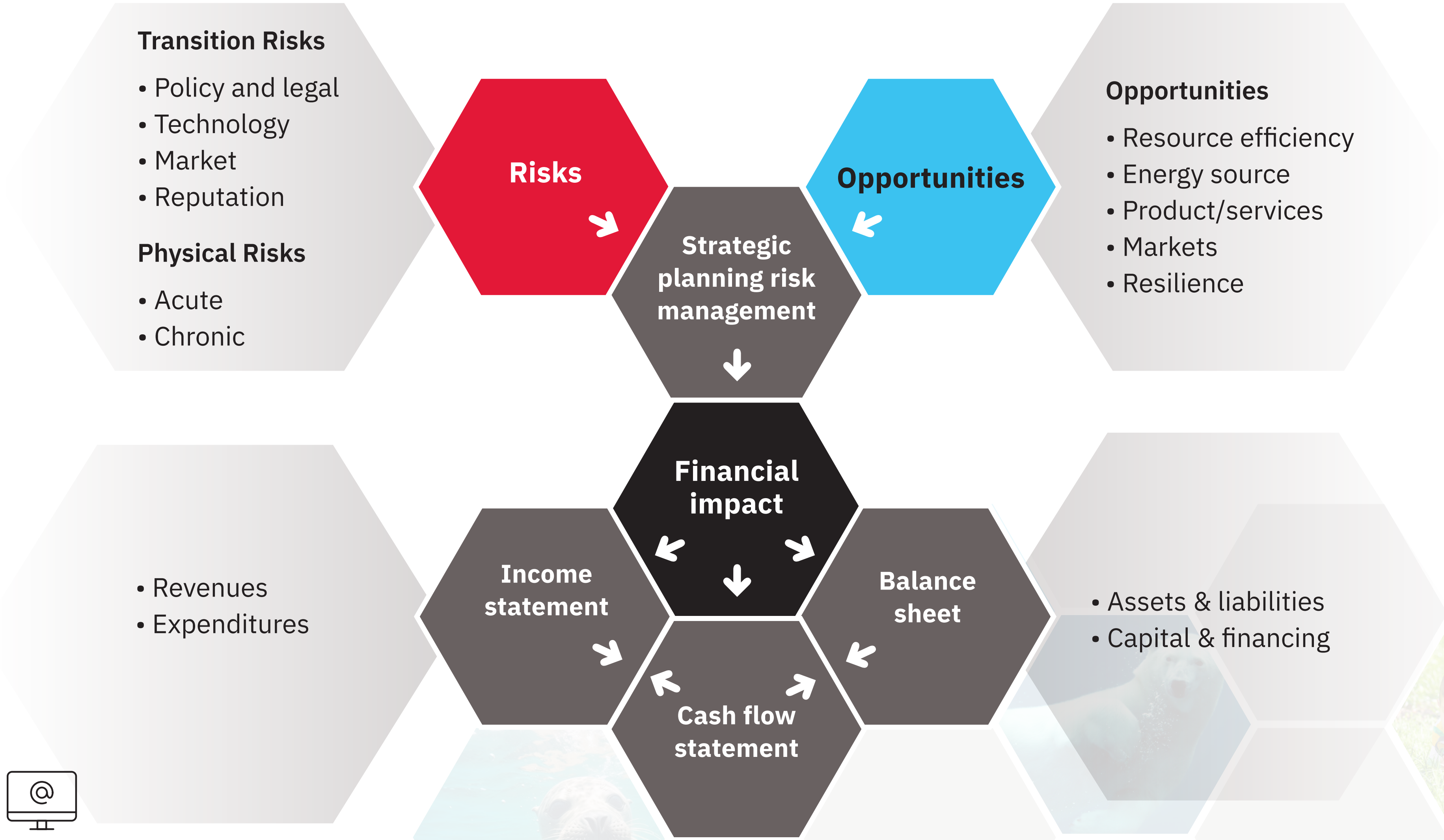



Diagram adapted from the Final Report:
Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017)
https://tinyurl.com/TCFDreport

# Our investment portfolios

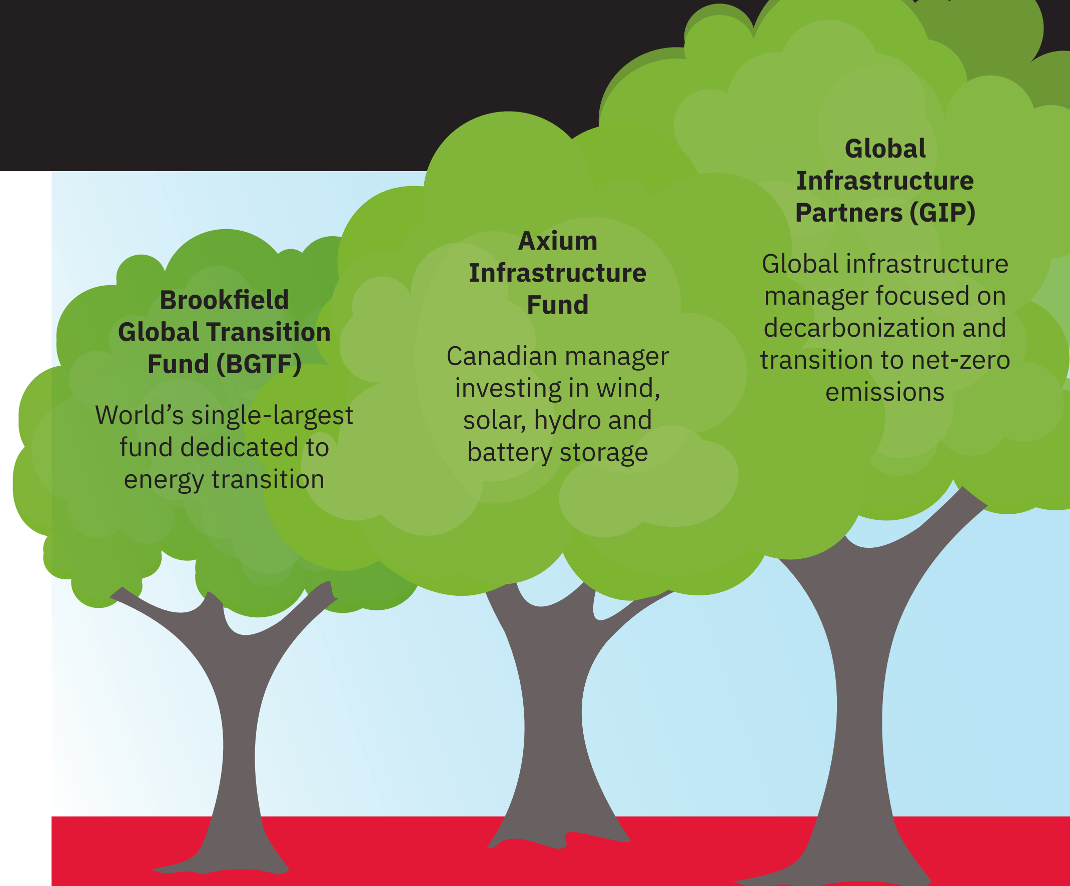
We take a holistic approach to sustainability, integrating ESG factors into our investment decision-making process and investing in sustainability-focused infrastructure mandates. Our commitment to sustainability is reflected through monitoring our investment managers, the use of ESG data sources, and a focus on ESG integration and engagement.

We continue to see a persistency in the results of our ESG data. For example, our equity portfolio and most of the underlying fund managers score quite high. Though there is room for improvement among our fixed income assets, we are continuing to take the appropriate steps to help ensure we have an appropriate balance between risk and reward.

Our focus on sustainability is evidenced by investments in impact investments such as approximately $26 million in Global Infrastructure Partners (GIP), $33 million in Axium Infrastructure Fund, and $43 million in Brookfield Infrastructure Funds.

**Note:** Figures shown in Canadian dollars.

- Global Infrastructure Partners
  http://tinyurl.com/GlobalinfraESG
- Axium Infrastructure Fund
  http://tinyurl.com/AxiumESG
- Brookfield Global Infrastructure Fund (*BGTF I*)
  https://tinyurl.com/BGIFinfrastucture




We have **INVESTED $132 MILLION** in sustainability-focused infrastructure funds

# Why this report is mainly focused on equities...

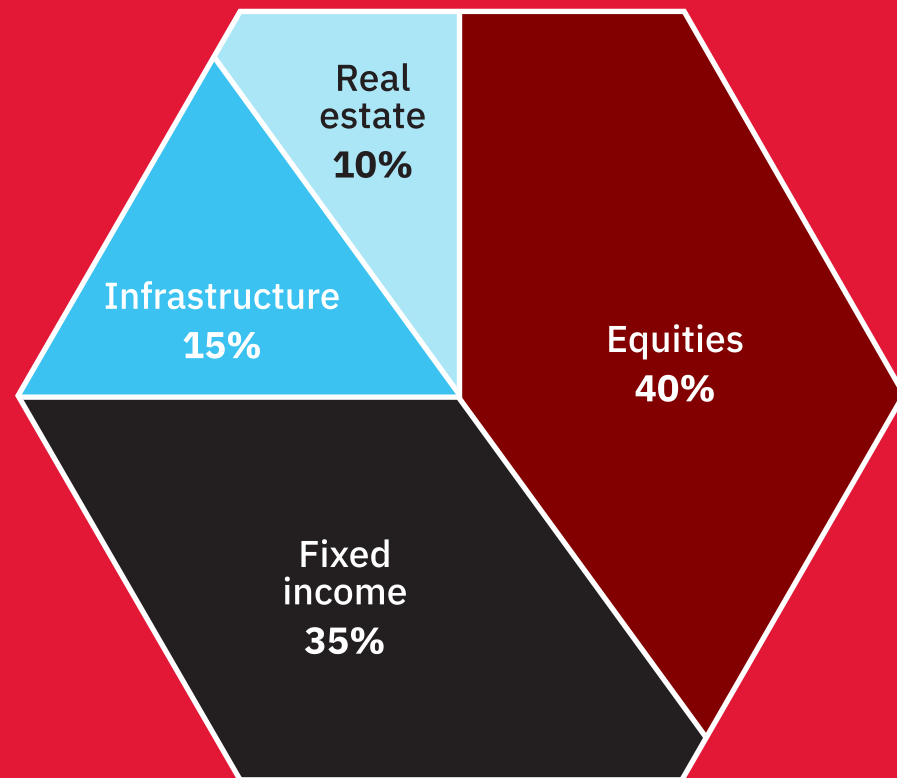
## Equity investments for long term growth

We are committed to sustainable investing throughout the pension fund. This report is primarily focused on equity investments (like stocks), which comprise 40% of the fund's asset mix.

The investment management industry is facing an "asset class data gap" when it comes to sustainable investing. Regulations, standards and disclosure requirements have been mainly focused on public equities due to their high level of active ownership. This has led to an increase in ESG data availability for public equities, which isn't the same for other asset classes. ESG data providers have been attempting to make their offerings relevant to other asset classes (such as bonds, infrastructure and private equity), but there are still some gaps.

Private assets are still under development but can be measured on a best-efforts basis. As sustainable investing grows, York University will evolve its requests for metrics from its investment managers.

## Asset mix




# University Network for Investor Engagement

York University is a signatory to the University Network for Investor Engagement (UNIE), which is a program for university pensions and pension plans, focusing on addressing climate change-related risks through meaningful investor action.

SHARE — the Shareholder Association for Research and Education — assists and supports UNIE clients to be successful in their engagement endeavours. SHARE engages with Canadian and U.S. companies in two focus areas: Climate Action Plans and Sustainable Finance.

The climate engagement program focuses on constructive, problem-solving dialogue with companies, designed around a mutual interest in ensuring healthy, long-term financial returns, while improving performance on important climate-related risks. Where additional leverage is needed in order to focus a company's attention or spur on action, we escalate our engagements by collaborating with other investors, filing shareholder proposals, and making recommendations on proxy voting matters, including the election of director nominees.

SHARE UNIE initiatives
https://share.ca/initiatives/unie



## Actions we are taking with certain investments

**NextEra:** SHARE and other allied investors met with NextEra in 2023, resulting in an elimination of materials used in the production of their solar panels sourced from the Xinjiang Uyghur Autonomous Region. Given NextEra's size and influence as one of the world's largest solar power generators, there is a need for the company to adopt a human rights policy to guide its approach to respecting human rights.

**Toronto Dominion Bank:** In 2023, SHARE met with the TD Bank to discuss progress on client climate engagement and disclosures, as well as emerging investor interest for banks to set targets related to their renewable energy finance ratios. The bank's target is at least 50% of its energy and utilities clients, and SHARE wants that number increased to 100% in the near future. The bank was receptive to feedback on improving its approach to client engagement, including disclosing its methodology for evaluating the credibility and feasibility of climate transition plans. The bank also indicated that, after setting financed emissions targets for the energy and utilities sectors, it would be focusing on agriculture next.

**Nutrien:** Nutrien is one of the largest providers of crop inputs and services and with a leading agricultural retail network that services growers. As part of the Climate Engagement Canada (CEC) team, SHARE met with Nutrien to address greenhouse gas emissions target setting and disclosure, Scope 3 emissions, capital expenditure, and climate governance. Nutrien is not reporting Scope 3 emissions and currently have carbon pilots they are testing that rely on carbon capture, storage, and sequestration methods. They also do not have net-zero targets. There is opportunity to engage Nutrien about Scope 3 metrics and measurement and we will continue to keep track of its progress and climate action timelines.

# What gets measured gets done

The original Paris Accord objective of 94.5 for a Weighted Average Carbon Intensity (WACI) score is one of several tangible metrics we measure.

Through thoughtful investing in a way that accounts for the risks of climate change on our returns over the long run, we have constructed a portfolio of fund managers that considers environmental change as a long-term risk metric.

We are pleased that this particular gauge of environmental risk, which we feel is consistent, transparent and measurable, has trended downward and is very strong compared to the broader index. We continue to monitor this, and other ESG metrics, for long-term trends that align with our sustainable investing beliefs.

We are proud of our progress, and remain committed to understanding and managing all the risk in the pension fund's portfolio to the best of our abilities.

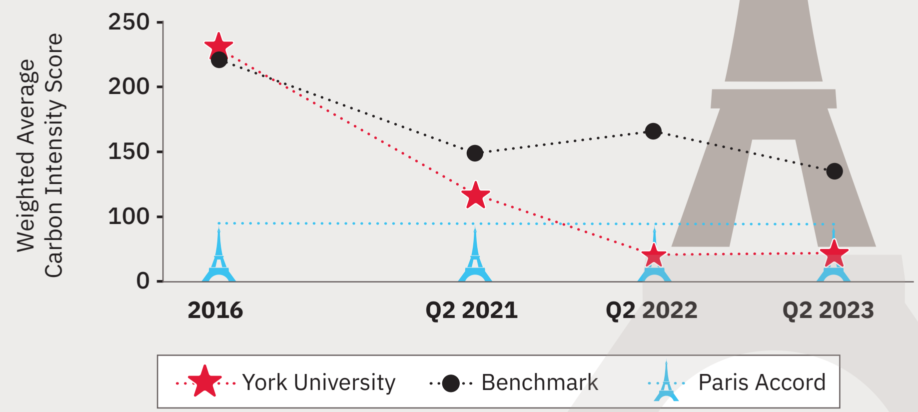
## Did you know?

The WACI Score (Weighted Average Carbon Intensity) measures a portfolio's carbon footprint by assessing the carbon intensity of individual investments and weighs it by $ USD million in sales. It helps investors evaluate the environmental impact of their investments and make more sustainable choices.

## We **EXCEED** international standards for equity investments

**Met Paris Accord objectives in 2022**

- Weighted Average Carbon Intensity (WACI) results – the international standard – is at record lows
- The fund met the Paris Accord standards (<94.5) in 2022 and continues to reduce emissions-based investments
- We are now **46% BELOW** the benchmark




- Pension Investments Website
  https://www.yorku.ca/finance/pension-investments

# Managing carbon intensity: equity investments

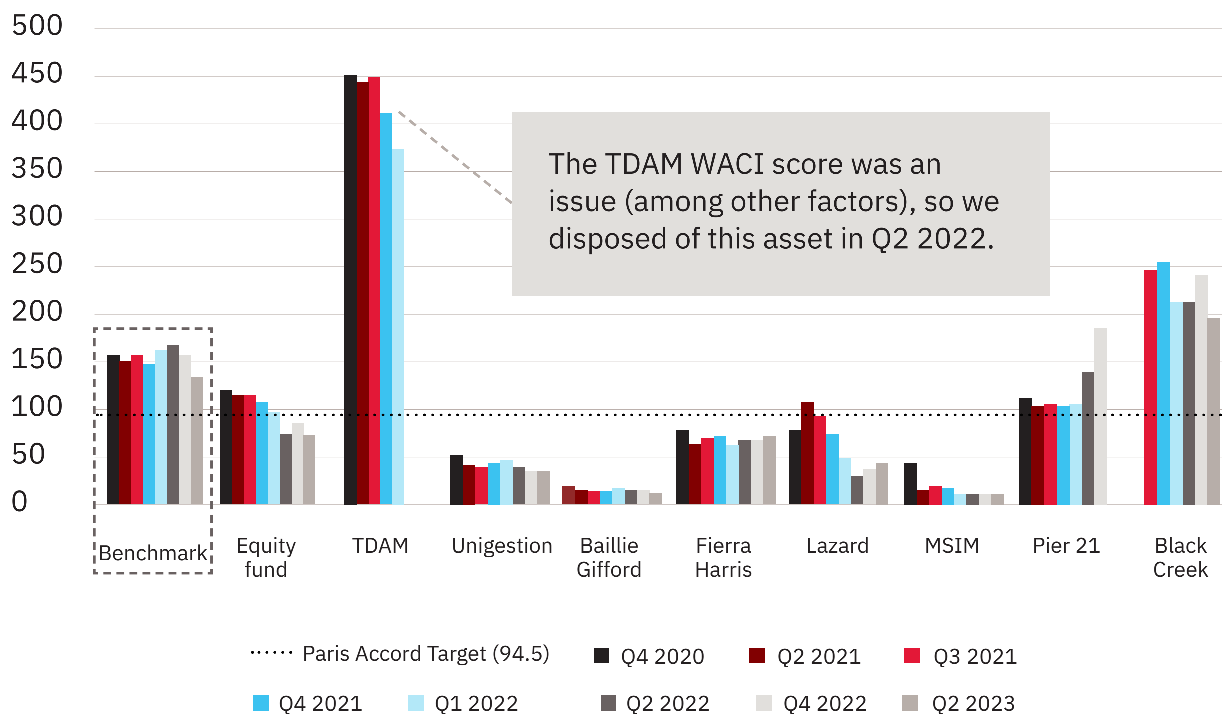
## Reducing the carbon footprint

Overall, the equity component of the pension fund remains better than the WACI benchmark based on the amount of carbon produced by the underlying investments, as measured by WACI. In 2023, the portfolio WACI beat the target of less than 94.5 to meet the Paris Accord.

As part of our governance process, we review the funds we are invested in and consider each one's WACI score (and the progress it is making toward decarbonizing over time). It is a critical metric for York as it encapsulates the environmental impact of the portfolio, but must be put in context.

Our investment managers have concentrated portfolios; therefore, the addition of a company with high carbon intensity in its operations can shift the WACI score upwards. This isn't always negative. For example, exposure to carbon-intensive sectors also entails an opportunity for companies to embrace energy transition through capital investments in energy-efficient products and low-carbon alternatives.

### Weighted Average Carbon Intensity (WACI) score: equities

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## Did you know?

In Q2 2022, we disposed of our investment in the TDAM low volatility fund, as it was not achieving the appropriate WACI score results, among other factors. We also work with fund managers with somewhat diverse investment philosophies. Typically, value-oriented managers will invest in capital-intensive companies that will have higher emissions, while growth-oriented managers will invest in asset-light companies that have lower emissions.

# Managing carbon intensity: fixed income investments

## Opportunities to improve our fixed income WACI results further

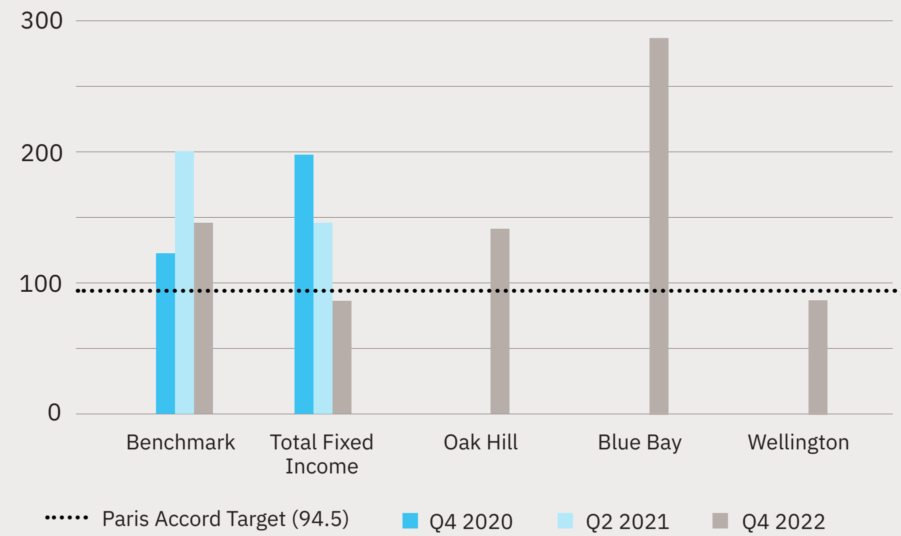
Fixed income investments, which represent 30% of our holdings, are more conservative in risk level and in long-term returns, compared to equities, which make up 50% of our assets.

In general, fixed income investments are more challenging to measure in terms of carbon footprint, for several reasons:

- Regulators have historically focused on equities as a first priority because equities are more readily tradeable to the public and allow investors to have an active ownership, thereby allowing investors more influence to effect change.
- Fixed income investments, such as bonds, do not typically involve company ownership, and therefore do not have voting rights. As a result, bondholders tend not to have as much influence on the company's strategic direction when it comes to decisions about sustainability (compared to stockholders).
- Fixed income portfolios often hold sovereign bonds, which provide capital to national governments. The emissions associated with sovereign bonds may be subject to double-counting from the country's private and household sectors.
- ESG data tends to be less accessible with some fixed income investments, compared to equities.

Despite the above challenges, we are applying a diligent approach to help ensure our fixed income fund managers recognize and respect our sustainable investment strategy. Our Fixed Income investment managers were changed in 2022; overall WACI scores for the portfolio continue to improve.

**Weighted Average Carbon Intensity (WACI) score: fixed income investments**




- **Principles for Responsible Investment (PRI):** Do ESG information providers meet the needs of fixed income investors? https://tinyurl.com/FixedIncomeESG

# Next steps

Environmental change will continue to have material adverse societal effects over the longer term. We are committed to doing our part to slow down the impact of change, not only from a societal perspective, but also through striving to protect the portfolio from the economic risks.

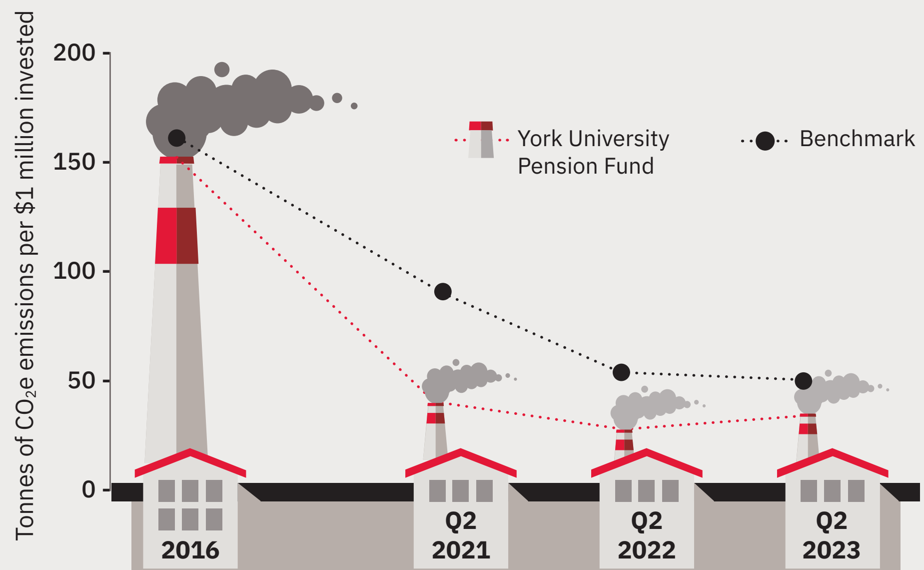
We recognize that some companies will thrive while others will struggle as the world transitions to a low carbon environment – and it is our duty to manage our investments accordingly.

It is important to understand that “net zero” emissions does not mean “absolute zero” emissions. We believe the best way to improve the fund’s risk and return balance while leading change more broadly from a societal point of view, is to continue to engage with company management to encourage behaviours that facilitate a transition to a lower-carbon world. We don’t believe selling investments in certain sectors will improve outcomes; instead, we recognize that by having a *seat at the table*, we can influence the future through positive and constructive discussions.

Going forward, we will continue to partner with our investment managers to achieve the following:

- understand how they are managing this important risk
- assess new managers and investment opportunities while considering the potential impact of climate change on their longer-term returns
- work with internal and external advisors to help us assess and choose investments that drive reduced emissions
- continue to report on key ESG metrics and stay abreast of new developments in this regard

We’re **REDUCING** our carbon footprint in our equity portfolio




## Did you know?

- We achieved a **73% reduction** in tonnes of $CO_2$e-emissions per $ million invested, since 2016
- Our WACI score is **down 68%** since 2016
- Equity investments make up **50%** of the fund’s assets
- We are now **27% BELOW** the benchmark

# Definitions and resources

| Topic | Definition | More information |
|---|---|---|
| **Carbon intensity** (also known as carbon footprint) | Carbon intensity refers to the amount of greenhouse emissions produced per dollar invested. | MSCI Carbon footprinting 101: https://tinyurl.com/MSCIfootprint |
| **ESG** | ESG investing considers environmental, social, and governance factors when making investment decisions to promote sustainability and responsible business practices. | Task force on Climate-related Financial Disclosures (ESG metrics): https://tinyurl.com/TCFDesg |
| **Greenhouse gas emissions** | Greenhouse gas emissions are the release of gases, such as carbon dioxide, methane, and nitrous oxide, into the atmosphere. These gases trap heat, leading to the greenhouse effect, and contribute to climate change. $CO_2e$ is the carbon dioxide equivalent of other greenhouse gas emissions. | Environment Canada environmental indicators: https://tinyurl.com/CanadaGreenhouse |
| **Net-Zero emissions** | Net-zero emissions means balancing the amount of greenhouse gases produced with an equivalent amount removed or offset. It allows for some emissions but overall aims for a carbon-neutral state. | Paris Accord signed by Canada: https://www.un.org/en/climatechange/net-zero-coalition<br>Canada's pledge to Net-Zero emissions: https://tinyurl.com/CanNetZero |
| **SHARE UNIE** | The University Network for Investor Engagement (UNIE) is a program for university pensions and pension plans, focusing on addressing climate change-related risks through meaningful investor action. | Share UNIE https://share.ca/initiatives/unie/ |
| **Paris Accord** | The Paris Accord is an international agreement that aims to combat climate change by setting targets for greenhouse gas emissions reductions, providing a framework for investors to support and engage in sustainable businesses and low-carbon technologies. | United Nations Paris Agreement on Climate Action: https://www.un.org/en/climatechange/paris-agreement |
| **Task force on climate-related financial disclosures (TCFD)** | The Final Report of the TCFD provides meaningful and practical recommendations on how to balance the needs of investors with the requirement for a sustainable future. | https://tinyurl.com/TCFDreport |
| **WACI score** | The WACI Score (Weighted Average Carbon Intensity) measures a portfolio's carbon footprint by assessing the carbon intensity of individual investments. It helps investors evaluate the environmental impact of their investments and make more sustainable choices. | Morgan Stanley Capital International (MSCI) report on the impact of ESG and climate on equity yield: https://tinyurl.com/ESGyield |

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The York Pension Sustainability Report contains a summary of our strategy, policies, governance procedures and results. Every effort has been taken to ensure accuracy of the information contained in this report, though errors and omissions may occur from time to time. This report is not intended to provide investment advice nor any other form of professional advice. The fund's past performance does not necessarily predict future results.

March 2024