YORK UNIVERSITY ENDOWMENT FUND

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Sustainable Investing 2022 Progress Report

45%
Lower than the Paris Accord WACI target on equity portfolio

82%
Reduction in our carbon emissions of equity funds

80%
Reduction in our WACI score for equities since 2016

8.1%
Overall investment return in fiscal 2022-23

$100M+
Committed to sustainability-focused infrastructure

37%
Below the equity portfolio emissions benchmark

Measure and conserve – Decarbonize – Innovate

Message from the Vice President, Finance and Administration and Investment Committee Chair

As an institution of higher learning, York University has a responsibility to act on global challenges, including ecological degradation, climate change and growing socio-economic inequality. Allocating time and resources to integrate environmental, social and good governance (ESG) factors into the York University Endowment Fund portfolio is one of the ways York is contributing to a more sustainable future.

Guided by a strategy to measure and conserve, decarbonize, and innovate, our fund has outperformed national sector and international sustainability benchmarks while generating positive returns.

At York, we seek to embed sustainability in all aspects of decision-making to create positive change for the future. With this in mind, we have prioritized investments through business transformation, clean energy, sustainable solutions, greenfield investments and carbon removal. 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.

This report is a representation of our commitment to reporting and transparency, and a mechanism to hold ourselves accountable to continuously evolve our approach as the connection between ESG factors and risk and return becomes better understood. It also represents the most comprehensive compilation of data on sustainable investments in our endowment fund to date. It is our hope that you will find it to be informative, educational and accessible.

Sincerely,

Carol McAulay, Vice President Finance and Administration
Mary Traversy, Chair, Investment Committee

Measure and conserve – Decarbonize – Innovate

Welcome to the 2022 York University Endowment Fund Annual Sustainable Investing Progress Report.

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

Here's how:

- **Measure and conserve:** Continuous improvement is a key driver of our sustainable investing strategy. Our Investment Committee oversees 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 2022, we've reduced the carbon emissions held within our endowment fund equity assets by 82% since 2016. Decarbonatization is not a destination; it is a journey – and we are making great progress!
- **Innovate:** We have committed more than $100 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 Endowment 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 Endowment 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. By the end of 2022, 18.7% of the endowment fund's investments had been committed to 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 endowment 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 endowment 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_2e-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

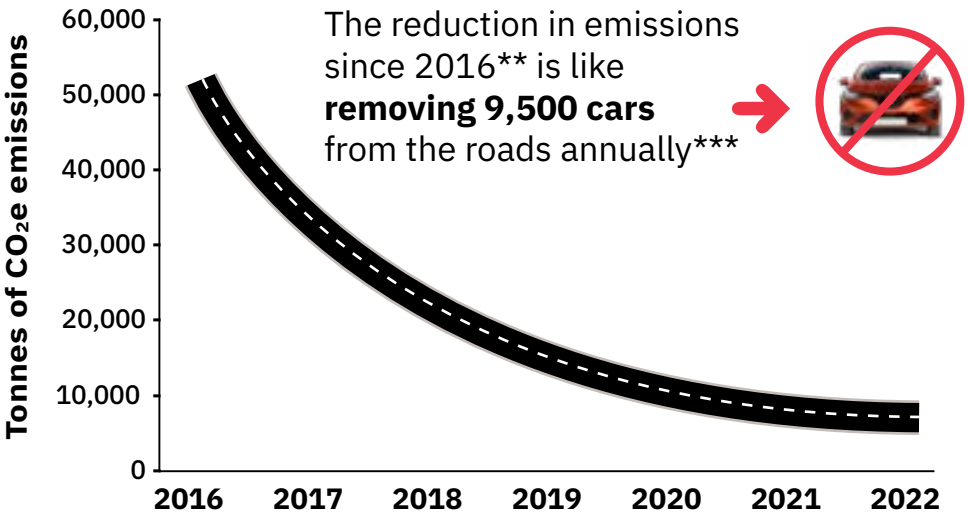
Decarbonize hard-to-abate sectors using technologies such as Power-to-X, carbon capture utilization and storage (CCUS), and advanced biofuels.

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 82% since 2016*



* 78% drop from 179 tonnes of CO_2e per million dollars invested in Q4 2016 to 39 in Q4 2022
** 82% drop from 53,093 tonnes of CO_2e in Q4 2016 to 9,586 in Q4 2022
*** 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

2016
First assessed the fund's carbon footprint

2018
Updated our Statement of Investment Principles to reflect sustainable investing

2020
Developed our sustainable investing framework

2021
First assessed fund managers' ESG metrics

2022
Improved our sustainability credentials

Key benchmarks and results

Equity investments

Metric	Unit	Benchmark (Q4 2022)	2022 Results	Change since 2016
Total carbon emissions	tCO_2e	14,350	9,586	**Down 82%**
Carbon footprint	tCO_2e/$million invested	59	39	**Down 78%**
WACI (Weighted Average Carbon Intensity)	tCO_2e/$million in revenue	155*	86	**Down 80%**

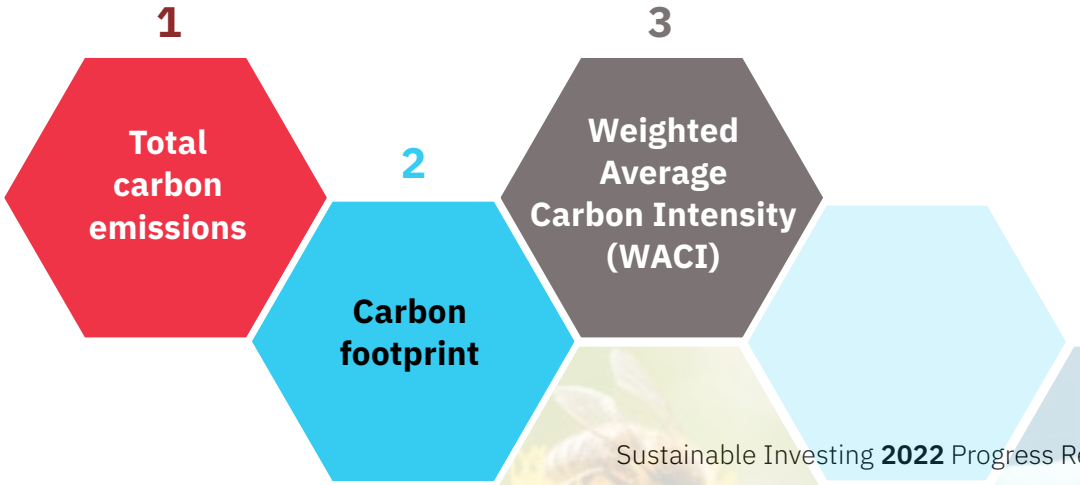
* Paris Accord goal is <94.5

Fixed income investments

Metric	Unit	2021 Results	2022 Results	Change since 2021
Total carbon emissions	tCO_2e	30,644	8,946	**Down 71%**
Carbon footprint	tCO_2e/$million invested	273.5	105.0	**Down 62%**
WACI (Weighted Average Carbon Intensity)	tCO_2e/$million in revenue	332.7	299.0	**Down 10%**

Did you know?

As of this report's publication date, the York University Endowment Fund 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

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

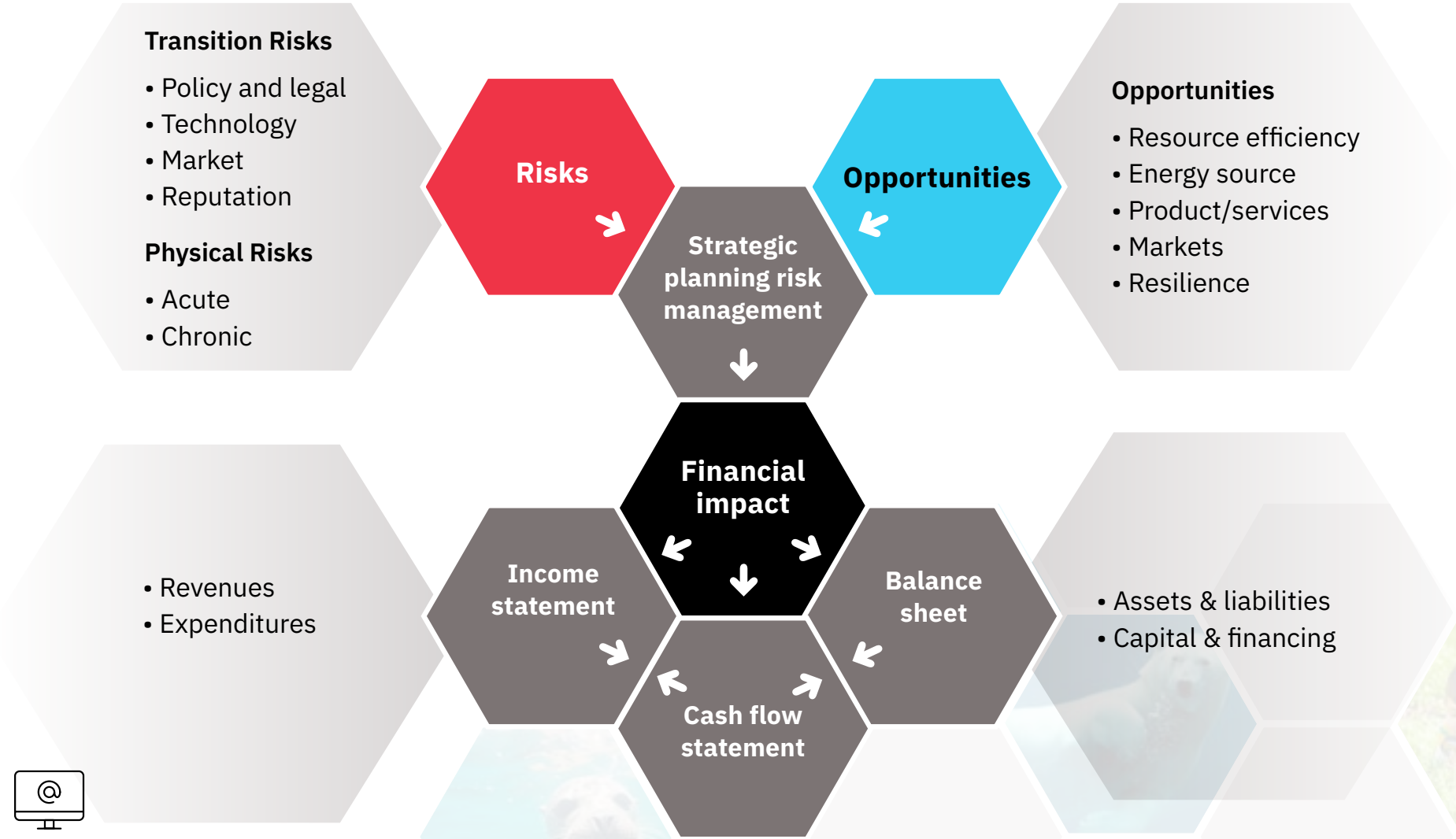


Diagram adapted from the Final Report:
Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017)
https://tinyurl.com/TCFDreport

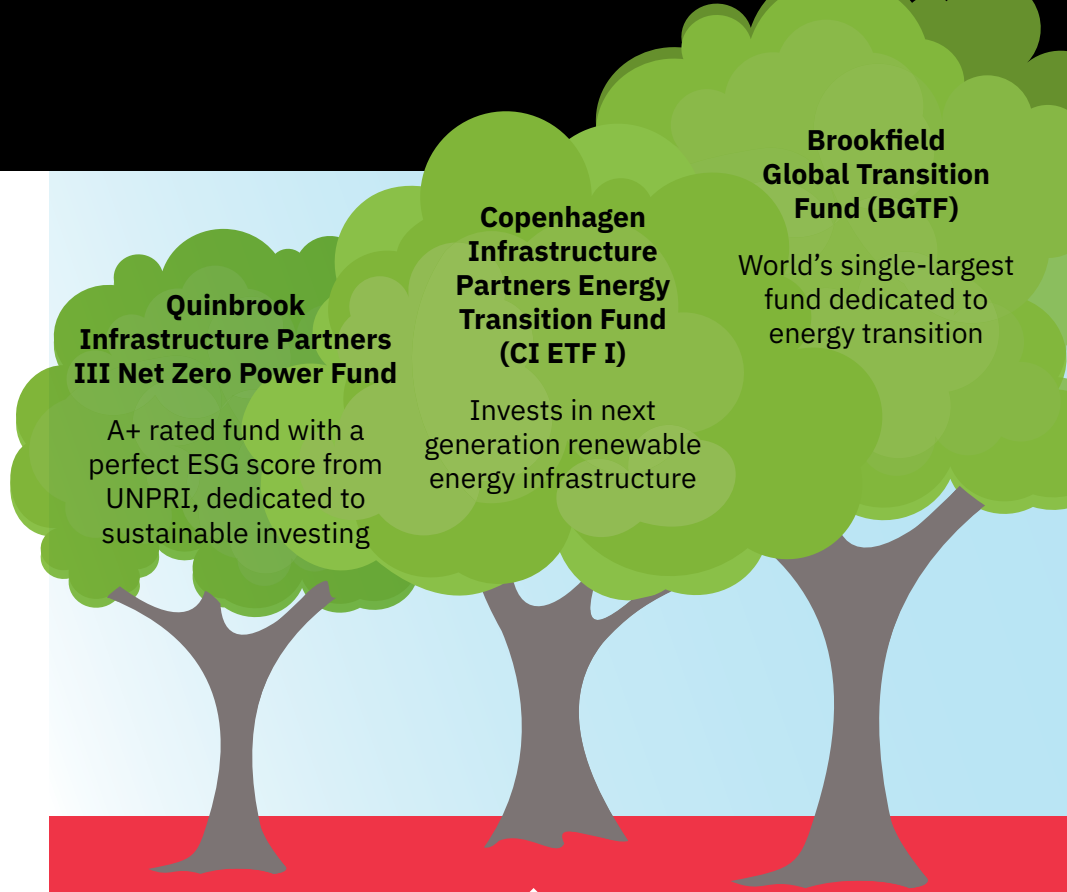
Our investment portfolios

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 $29 million in Quinbrook Infrastructure Partners, $31 million in Copenhagen Infrastructure Partners Energy Transition Fund (CI ETF I), and $42 million in Brookfield Global Infrastructure Fund ("BGTF I").

Note: Figures shown in Canadian dollars.



We have **COMMITTED $103 MILLION** (18.7%) to sustainability-focused infrastructure funds

- Quinbrook Infrastructure Partners
  https://tinyurl.com/QuinbrookESG
- Copenhagen Infrastructure Partners Energy Transition Fund:
  https://tinyurl.com/CIPenergy
- Brookfield Global Infrastructure Fund (*BGTF I*)
  https://tinyurl.com/BGIFinfrastucture

Principles for Responsible Investing (PRI)

The PRI is a leading advocate for responsible investment, emphasizing the integration of ESG factors into investment decisions. It operates independently, urging investors to enhance returns and manage risks through responsible practices.

The six principles for responsible investment, developed by investors, guide signatories to embed ESG concerns in analysis, ownership policies, and industry promotion.

The PRI's mission centres on fostering a sustainable global financial system by promoting these principles, encouraging good governance, and addressing systemic barriers. Ultimately, the PRI's efforts aim to create lasting value, benefitting both financial stakeholders and society at large through responsible investing.

- UNPRI signatory directory
  www.unpri.org/signatories

Did you know?

Our investment managers have all signed the United Nations Principles for Responsible Investing (UNPRI). Signatories take an active role in incorporating ESG factors into their investment decisions.

Investment Manager	Date Signed
Equity Managers	
1. Baillie Gifford	26 June 2007
2. Black Creek Investment Management Inc.	15 January 2021
3. C Worldwide	21 December 2011
4. Harris Associates LP	12 February 2019
5. Lazard Asset Management LLC	11 December 2014
6. Morgan Stanley Investment Management	26 July 2018
7. Unigestion	25 March 2013
Fixed Income Managers	
1. RBC Global Asset Management	26 August 2015
2. Manulife Asset Management	1 December 2015
3. Stone Harbor Investment Partners LP	21 June 2012
Real Estate Managers	
1. BentallGreenOak	13 March 2008
2. Landmark Partners	10 October 2016
Infrastructure Managers	
1. Brookfield Asset Management .	25 April 2020
2. Copenhagen Infrastructure Partners	18 April 2021
3. Quinbrook Infrastructure Partners	14 April 2016

Why this report is mainly focused on equities...

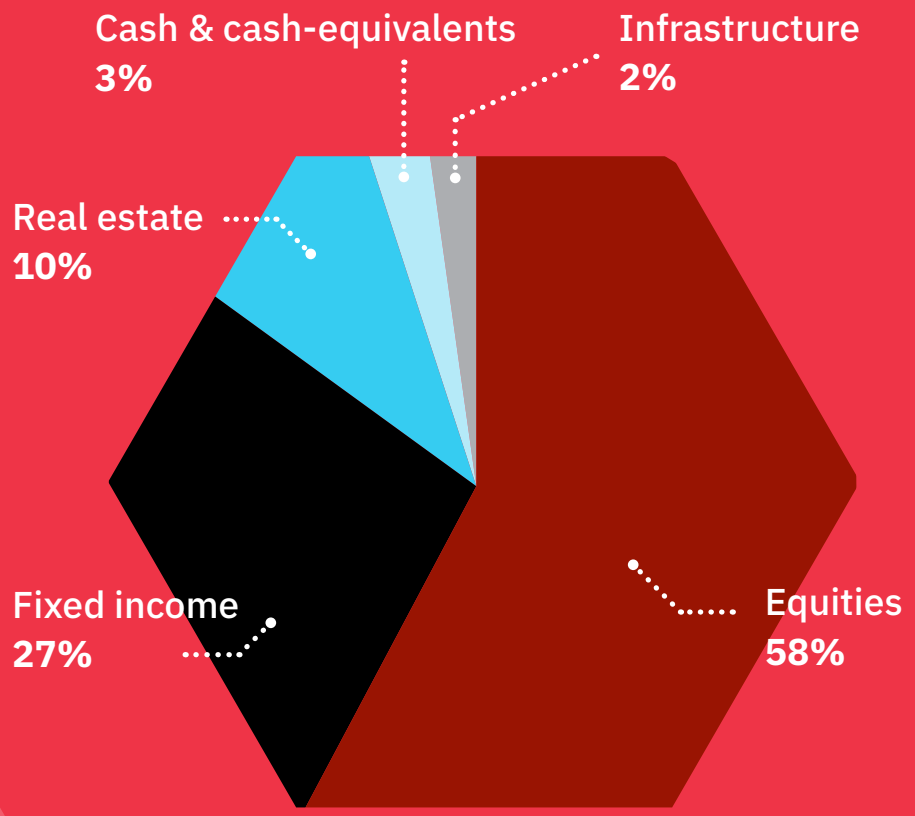
Equity investments for long term growth

We are committed to sustainable investing throughout the endowment fund. This report is primarily focused on equity investments (like stocks), which comprise 58% 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.

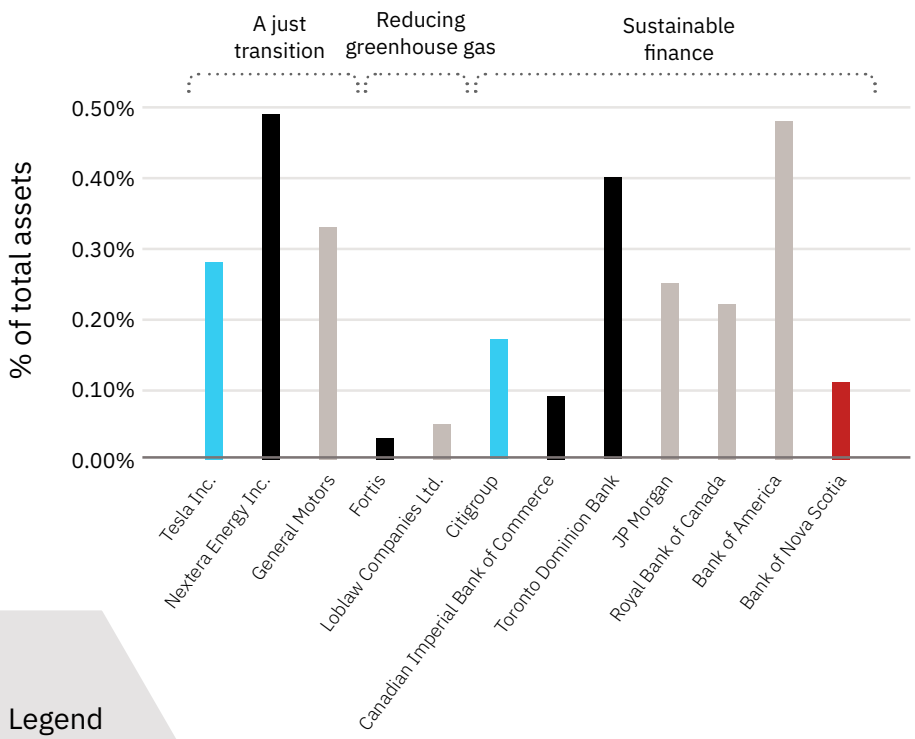
Asset mix



University Network for Investor Engagement

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

SHARE — the Shareholder Association for Research and Education — helps address ways to make UNIE successful in its endeavours. It classifies organizations based on the level of progress they make toward responsible investing in three key areas: a just transition, reducing greenhouse gas, and sustainable finance.



Legend

- Company has made significant progress against one or more engagement outcomes
- Company is engaging in positive dialogue on engagement outcomes
- Engagement with company is ongoing / response pending
- Company has experienced a significant negative event related to the engagement topic

Actions we are taking with certain investments

NextEra: SHARE and other allied investors met with NextEra in 2022, 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: SHARE proposed that the bank express its expectations to lending clients regarding what constitutes a credible net zero plan.

Bank of Nova Scotia: SHARE filed a shareholder proposal, asking the bank to develop a comprehensive strategy to evaluate its clients' climate action plans and alignment with a Net Zero pathway. We are currently assessing the methodology and approach it will use to evaluate the climate action plans of high-emitting clients.

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

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 endowment fund's portfolio to the best of our abilities.

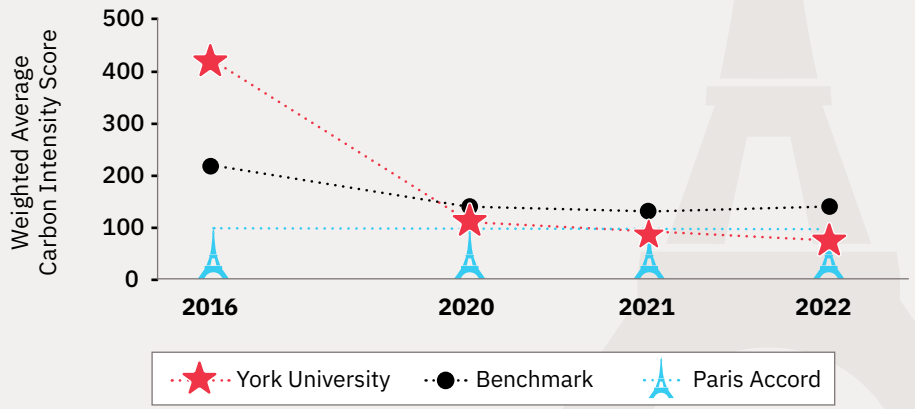
Did you know?

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 **45% BELOW** the benchmark



- 2022 Sustainable Investing Report
  https://tinyurl.com/YorkSIR
- York University Financial Statements 2021-2022
  https://tinyurl.com/2122statement

Managing carbon intensity: equity investments

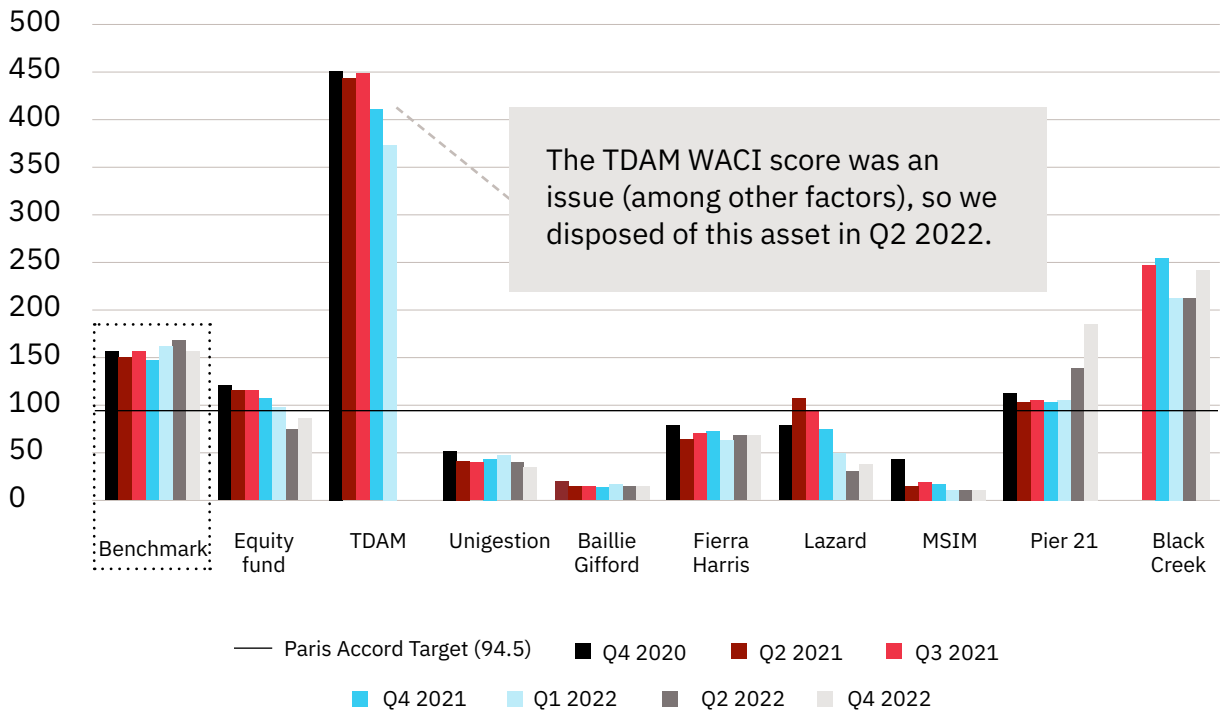
Reducing the carbon footprint

Overall, the equity component of the endowment fund remains better than the WACI benchmark based on the amount of carbon produced by the underlying investments, as measured by WACI. In 2022, 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



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

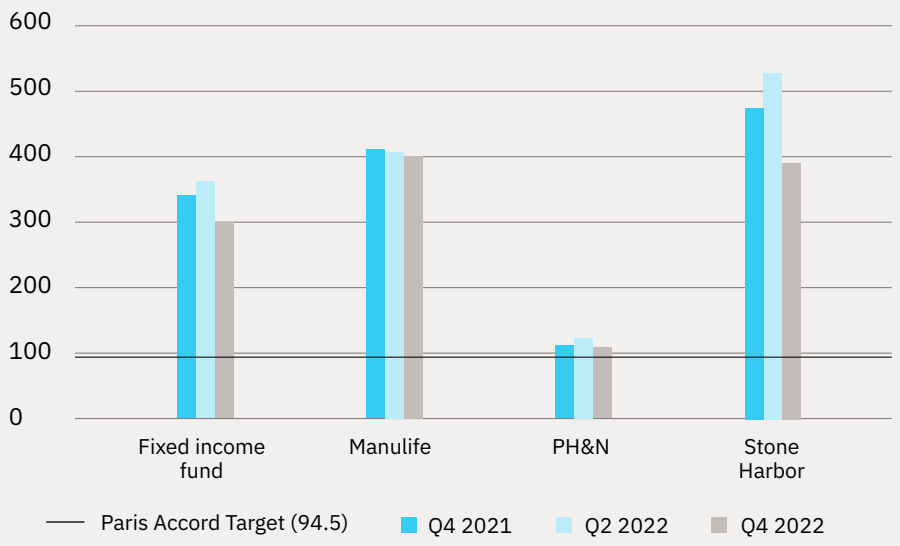
We diversify our portfolio among various asset classes to help balance the risk-to-return ratio for long-term growth and sustainability. Fixed income investments, which represent about a quarter of our holdings, are more conservative in risk level and in long-term returns, compared to equities, which make up 58% 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 fund managers (as indicated in the graph to the right) have each shown improvement since 2021, when WACI scores first became available.

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.

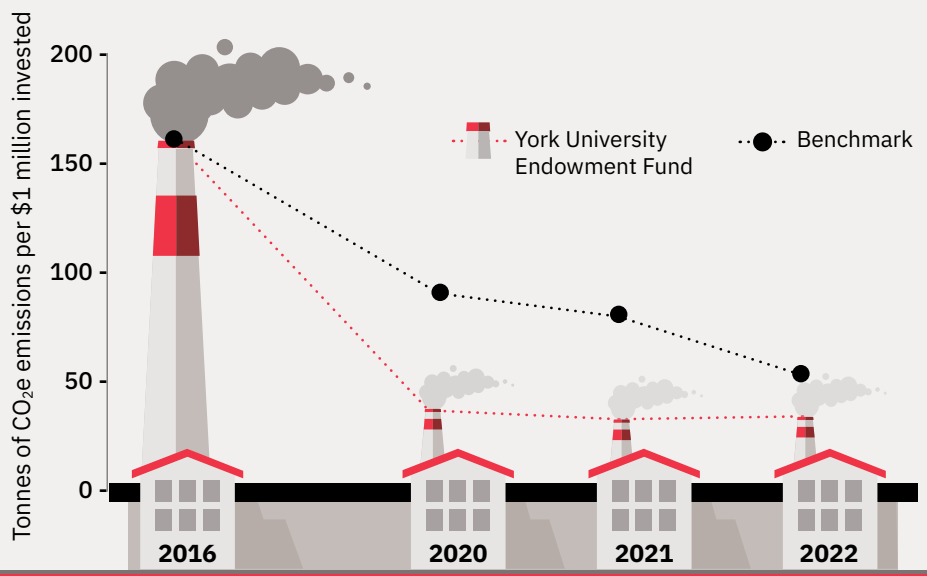
We recognize that some companies will thrive while others will struggle as the world transitions to a low carbon environment – and it is our duty to manage our investments accordingly.

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 **78% reduction** in tonnes of CO_2e-emissions per $ million invested, since 2016
- Our WACI score is **down 80%** since 2016
- Equity investments make up **58%** of the fund's assets
- We are now **34% 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 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 endowments 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 Endowment 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.

November 2023