



UNIVERSITY
of
VIRGINIA

INVESTMENT
MANAGEMENT
COMPANY

Investor Responsibility Framework

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Investor Responsibility Overview

Overview

The University of Virginia Investment Management Company (UVIMCO) provides investment management services to the University of Virginia and associated organizations to serve the University's mission. UVIMCO is an independent organization with its own Board of Directors. UVIMCO's primary objective is to maximize the long-term, inflation-adjusted returns commensurate with the risk tolerance of the University. UVIMCO manages approximately \$15 billion on behalf of the University and associated organizations and has consistently outperformed the passive policy portfolio and its median peer, represented by the TUCS All Master Trust Universe, over the past five, ten, and twenty years.

UVIMCO is dedicated to investor responsibility as an organization and investors. Responsible investing is incorporated into UVIMCO's investment strategy by our leadership team and staff. We believe that investing in companies that have advanced environmental, social, and governance (ESG) policies and best practices creates long-term value. ESG factors are a subset of the risk and return characteristics that our team and external managers utilize as a part of the routine investment process.

To enhance our investor responsibility approach and increase transparency with the University community, we formed the Advisory Committee on Investor Responsibility (ACIR) in June 2021 to provide a channel to incorporate student, faculty, and alumni perspectives and advise UVIMCO's leadership on appropriate action regarding ESG investment issues and activities. The ACIR is comprised of seven committee members who are representative of the University community and understand its core values.

The ACIR created the *Investor Responsibility Framework* to guide UVIMCO's approach to ESG issues and address climate change specifically. This framework reflects a measured, thoughtful approach to investor responsibility based upon a long-term view that is congruent with UVA's mission and maintains UVIMCO's fiduciary duty to the University. It is deeply informed by stakeholder conversations, extensive research, and peer assessments.

It is important to note that this framework will evolve over time to ensure the inclusion of best practices and is reflective of the constantly evolving ESG landscape. The ACIR will continue to develop the *Investor Responsibility Framework* and supporting goals throughout 2022.

Environmental, Social, and Governance Approach

ESG Integration

UVIMCO will utilize ESG integration as a primary tool in implementing its responsible investment process. ESG integration enlarges the scope of ESG analysis beyond the focus of risk mitigation and is typically defined as investing with a systematic and explicit inclusion of ESG risks and opportunities in investment analysis.

We believe that a holistic approach to integrating ESG best practices is consistent with our fiduciary duty, as it can help to lower investment risk and increase long-term investment returns. This approach aligns with the University of Virginia's mission, values, and sustainability goals while providing a pathway for a more sustainable endowment for the University.

UVIMCO's Investment Policy Statement includes the following section on ESG:

Staff is committed to responsible investment, which includes the incorporation of environmental, social, and governance (ESG) risks and opportunities in its investment process. Relevant ESG factors vary by investment but generally include those which demonstrate the potential to directly or indirectly impact the performance of a given investment opportunity. External managers are also expected to consider relevant ESG factors that may have a material impact on their individual investments or portfolios and to engage with UVIMCO in ongoing dialogue regarding those factors and all other aspects of investor responsibility.

External Investment Partners

UVIMCO will incorporate ESG considerations into the sourcing, evaluation, approval, and ongoing monitoring of all external investment managers. We will assess each external manager's approach to ESG integration and promote best practices through initial and ongoing manager due diligence. Initial due diligence helps UVIMCO understand how an investment manager integrates ESG across its investment approach and process, including performance, security selection, portfolio construction decisions, and reporting. Ongoing due diligence through monitoring and reporting helps UVIMCO to understand any changes to this approach.

We believe that engagement with our external managers on ESG issues contributes positively to our long-term returns and promotes positive change in the investment industry. We expect our managers to consider relevant ESG issues and engage with our investment team on the role of sustainable investing.

Measuring and Reporting

UVIMCO will measure its investments using an ESG lens backed by quantitative and qualitative research to assess our current and prospective investments. We will release an inaugural annual ESG Report in 2022 and provide updates on progress to investors and other stakeholders on a regular basis.

Addressing Climate Change

Climate Change

UVIMCO acknowledges the significant threat of climate change and the need for ongoing collaboration and action across the global community, including from the investment management industry, to align with a decarbonized future. We are committed to being a part of the solution alongside the University of Virginia and our peers.

We are well-positioned to effect positive change through:

1. **Engaging managers and companies** on the importance of transitioning UVA's investments to net-zero by 2050.
2. **Avoiding direct investments** in fossil fuel companies that do not meet the specific sustainability criteria laid out in the Fossil Fuel Investment Principles.
3. **Driving increased transparency and actions** regarding companies' emissions and other climate factors through engagement with external managers, companies, and sustainable investing initiatives.
4. **Allocating capital** to climate solutions that reduce carbon emissions and support the transition to a net-zero economy.

Net-Zero by 2050

We are committed to transitioning the University's endowment and other investments in the portfolio to net-zero by 2050. This goal is consistent with the 2015 Paris Agreement and the *United Nations' Intergovernmental Panel on Climate Change (IPCC) Global Warming of 1.5°C Report*. Being a net-zero endowment requires reducing our portfolio's emissions while increasing investments in sustainable projects with long-term value and return. A net-zero commitment clearly aligns UVIMCO with the long-term direction of society and will position us for lasting success.

UVIMCO will release a more detailed net-zero plan, including a shorter-term interim goal, later in 2022. We will work with the ACIR, subject matter experts, sustainable investing initiatives, and our peers to establish a credible, actionable, and measurable goal that works for UVIMCO. We expect our plan to evolve, as best practices, technologies, and policies advance.

We have taken the important first step of pledging to align with a decarbonized future, but we also understand that a net-zero goal can be both nebulous and challenging to achieve. It is new to us, just as it is to many of our peers. Meeting net-zero by 2050 will require meaningful action by UVIMCO's investment managers and the companies in which they invest. The ability for society to reach its goals will also rely on policymakers and creating incentives for consumers to change behaviors, particularly around energy use and transportation. There are many obstacles before us, including the lack of accurate and universal carbon emissions data, specifically on the private market side, and the need for society writ large to also shift towards a decarbonized future.

Addressing Climate Change

Fossil Fuel Investment Principles

UVIMCO currently has no direct investments in thermal coal or tar/oil sands, and less than 0.05% of its Long Term Pool directly invested in fossil fuels. UVIMCO will utilize the following principles to guide its direct investments to ensure that we are only investing in fossil fuel producers¹ that meet certain sustainability criteria. We anticipate that these principles will evolve over time and that the application of them will be dynamic. Companies that do not meet the principles are not eligible for direct investment.

UVIMCO expects its external managers to review the Fossil Fuel Investment Principles and use them as a guiding document for their own investment programs.

UVIMCO expects fossil fuel producers to meet the following criteria:

Principle No. 1 – Be Transparent

Fossil fuel producers should engage with the appropriate stakeholders, including investors, and be accessible, open, and transparent about ESG business practices. Publicly owned companies should publish sustainability reports at least annually and report regularly on sustainability progress during shareholder meetings.

Principle No. 2 – Adopt Best Practices

Fossil fuel producers should publicly set targets for reducing GHG emissions (Scope 1 and 2) and articulate a strategy to reach those targets, including activities to mitigate upstream flaring emissions.² Producers should report publicly on progress towards these goals. As the measurement of Scope 3 emissions becomes more reliable, and disclosure required by regulators, UVIMCO and the ACIR will evaluate whether to include Scope 3 targets as part of these principles.

Principle No. 3 – Safeguard the Environment

Fossil fuel producers should operate responsibly to safeguard the environment, minimize their environmental footprint, and utilize best practices for reclamation on oil and gas lands when applicable. This includes having a plan to restore site stability and ecosystem functions, as well as returning disturbed lands to their original state, as required by local laws.

Principle No. 4 – Act with Integrity

Fossil fuel producers should not intentionally undermine the work of the global community to transition to cleaner energy by 2050. Fossil fuel producers should not spread misinformation, through public communications or lobbying, regarding their historically negative impact on climate change or their ongoing contribution to global emissions.

¹Fossil fuel producers are defined as exploration and production (E&P) companies that identify, extract, and produce raw materials.

²Mitigation of upstream flaring should be consistent with the activities and goals of initiatives such as the World Bank's Zero Flaring by 2030 initiative.

Addressing Climate Change

Driving Engagement and Transparency

UVIMCO will drive engagement and transparency around emissions and net-zero efforts to effect positive change in material industries through its investments. Engaging with external managers, participating in established sustainable investing initiatives, proxy voting on direct investments, and investing in activist managers, is the most direct way to have an impact on real-world decarbonization.

Sustainable Investing Initiatives

UVIMCO will pursue positive change through participation in established sustainable investing initiatives. We work with the Intentional Endowments Network (IEN) and Ceres Investor Network to collaborate with our peers, share best practices, and pursue positive change through collective engagement. UVIMCO also engages with its peers and other industry leaders frequently through conferences, roundtables, webinars, and meetings.

Proxy Voting

UVIMCO will further develop its proxy voting policies to use investor voting powers where possible to encourage direct investments to reduce their GHG emissions and other environmental impacts. These voting guidelines will be modeled after the guidelines issued by [Institutional Shareholder Services](#) and will be shared with stakeholders once finalized.

Activist Managers

UVIMCO will continue investing with activist managers who promote positive change in the oil and gas industry, as well as other high-emitting sectors of the global economy. These managers drive change across ESG issues, with a heightened focus on environmental stewardship, disclosure of emissions, emissions reductions targets, and low-carbon transition plans.

Pursuing Positive Change

UVIMCO will invest in climate solutions that reduce GHG emissions in the real world. UVIMCO is already invested in a variety of climate solutions, including wind, solar, and biomass renewable energy projects.

In 2021, UVIMCO committed \$150 million to managers dedicated to investing in markets, technologies, and services that support the transition to a net-zero economy and will continue to actively seek investment opportunities in climate solutions to support the reduction of global emissions.