



UNIVERSITY
of VIRGINIA

INVESTMENT
MANAGEMENT
COMPANY

INVESTOR RESPONSIBILITY REPORT



2022



TABLE OF CONTENTS

Message from Leadership	1
Our Priorities	2
Our Progress	3
Approach to Sustainable Investing	4
ESG Integration	4
Net-Zero by 2050	5
Fossil Fuel Investments	6
Investment Manager Engagement	8
Focus Areas for Investment	9

MESSAGE FROM LEADERSHIP

We are pleased to share UVIMCO's first Investor Responsibility Report with our investors and stakeholders across the University community. This report illustrates how we are challenging ourselves to rethink our approach to securing long-term returns for the University and expanding our horizons to invest in areas that create shared value for the University and society.

We have long believed that strong values drive better organizational outcomes and higher returns on our investments for the University of Virginia and associated organizations. Integrity, respect, and excellence have always guided our efforts to be and do better. While we have always reviewed our investments in relation to their impact on people and the planet, we are now formally integrating environmental, social, and governance considerations into our investment process to ensure that it is more central to our investment strategy.

Over the last year, our investor responsibility efforts have been guided by the Advisory Committee on Investor Responsibility and key University stakeholders, including student and alumni groups. In March, we released our Investor Responsibility Framework to steer our approach to ESG issues and address climate change specifically. The framework reflects the committee's recommendation for a measured, thoughtful, and long-term approach to investor responsibility that maintains our fiduciary duty to the University. It is also deeply informed by conversations with students, alumni, and faculty across University grounds.

UVA is one of the top public universities in the nation, with an endowment that ranks among the five largest for public universities. This status positions us well to drive positive global change through our external investment managers and their underlying investments. As one aspect of this, we committed to transitioning the endowment to net-zero by 2050. Alongside our peers and other industry leaders, we are part of an important global movement to decarbonize the economy and mitigate climate change.

We are also proud that our excellent investment performance has enhanced the University's sustainability efforts over the last few decades. Our expert management of the endowment and other long-term funds has supported initiatives like building oyster reefs in coastal Virginia and researching negative emissions strategies.

Even as the world changes rapidly around us, we will continue to serve the University and associated organizations as best as we can. With the Investor Responsibility Framework as our north star guiding these critical efforts, we have a clear path for the journey ahead.

Sincerely,



A handwritten signature in black ink that reads "Robert Durden".

ROBERT DURDEN

Chief Executive Officer
Chief Investment Officer



A handwritten signature in black ink that reads "Kristina Alimard".

KRISTINA ALIMARD

Chief Operating Officer



ABOUT UVIMCO

The University of Virginia Investment Management Company (UVIMCO) is an independent organization that is governed by a Board of Directors. We provide investment management services to the University of Virginia and associated organizations to serve the University's mission. Our 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.

AT A GLANCE

\$15 BILLION

in assets under management

OVER 40

investment and operations professionals

53%

represents both the percentage of women and percentage of UVA alumni on staff

10.6%

annualized return over the last twenty years compared to the 7.4% median of our peers according to TUCS All Master Trust Universe

OUR PRIORITIES

UVIMCO believes that investing in managers with strong environmental, social, and governance (ESG) policies is critical to securing robust long-term returns for the University. We are committed to utilizing ESG integration as our primary approach to investing responsibly and know that our investors will benefit from this commitment.

We also believe in creating shared value, investing in ways that benefit our investors and broader stakeholders. We are uniquely positioned to maximize long-term value for our investors by serving our greater community in driving real-world progress. We are focused on ESG initiatives that rank high in terms of materiality to our investors and our ability to make a difference in the real world.

OUR PRIORITIES INCLUDE:

- Utilizing ESG integration as the primary responsible investing tool
- Engaging with managers to drive change in the corporate world, including transparency around emissions and net-zero alignment
- Transitioning the University's endowment to net-zero by 2050 through increased investments in companies on a net-zero pathway and carbon offsets
- Allocating capital to climate solutions that will help the world transition to a lower-carbon future by 2050
- Investing in solutions to complex global problems that thematically align with key United Nations Sustainable Development Goals (SDGs)

OUR PROGRESS

In 2021, we enhanced our approach to responsible investing and accelerated our actions around ESG initiatives. In June, UVIMCO formally launched its Advisory Committee on Investor Responsibility (ACIR) to serve as a channel between UVIMCO and UVA and make recommendations to UVIMCO's leadership on investor responsibility. The ACIR focused its initial efforts on UVIMCO's approach to sustainable investing and addressing climate change as an institutional investor. In March, UVIMCO released its new Investor Responsibility Framework (IRF), which UVIMCO will use to guide its investor responsibility approach and align with UVA's broader sustainability and social responsibility objectives.

THOUGHT PARTNERS

We partner with thought leaders, collaborate with our peers, and engage with our investors and stakeholders to deepen our understanding of and advance sustainability goals.



Intentional Endowments Network (IEN) is a network of institutional investors who collaborate on the best approach to adopting long-term investment strategies that create an equitable, low-carbon, and regenerative economy. We currently serve on IEN's Net-Zero Steering Committee with other industry leaders.



Ceres Investor Network is a network of influential capital market leaders who are working together to solve the world's greatest sustainability challenges – including how to best build a just and sustainable future for people and the planet. We currently participate in Ceres' Paris Aligned Investment Working Group.



FFI Solutions provides clients with climate focused research, analytics, and advice. We work with FFI on climate issues and our approach to net-zero.

INVESTOR RESPONSIBILITY MILESTONES

JUNE 2021	JANUARY 2022	MARCH 2022	APRIL 2022	LOOKING AHEAD
<ul style="list-style-type: none"> Launch the Advisory Committee on Investor Responsibility Hire dedicated investor responsibility professional 	<ul style="list-style-type: none"> Include ESG language in Investment Policy Statement Join Intentional Endowments Network and Ceres Investor Network Partner with FFI Solutions on approach to climate issues 	<ul style="list-style-type: none"> Release of the Investor Responsibility Framework Commit to net-zero by 2050 Publish Fossil Fuel Investment Principles 	<ul style="list-style-type: none"> Implement ESG integration 	<ul style="list-style-type: none"> Publish short term goal for reaching net-zero by 2050 Measure the full portfolio's carbon footprint when accurate data becomes available

APPROACH TO SUSTAINABLE INVESTING

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 consider all risks that could impact the performance of UVIMCO's portfolio, including environmental, social, and governance risks. As UVIMCO invests the majority of its assets under management with external investment managers, our engagement with them is critical to our success. Their approach to ESG issues and responsible investing is a key part of the investment process. UVIMCO promotes ESG integration with recommended and current managers across its portfolio and is committed to aligning with a net-zero future by 2050.

ESG INTEGRATION

UVIMCO utilizes 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.

ESG POLICY

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.

ESG INTEGRATION IMPLEMENTATION

At the organizational level, ESG is:

- Regarded as everyone's job
- Driven by a dedicated professional
- Supported by UVIMCO's leadership and Board of Directors
- Monitored, tracked, and reported

In the investment process, ESG is:

- Discussed by the Investment Committee
- Reviewed consistently in the context of managers and investments

Across Asset Management and Portfolio Operations, there is:

- Sharing of ESG priorities and progress with managers
- Ongoing monitoring of portfolio investments



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*. A net-zero endowment requires reducing our portfolio's emissions while increasing investments in sustainable projects with long-term value and return.

UVIMCO is in the process of creating a short-term 2030 goal that will be shared with stakeholders once finalized. While UVIMCO will undertake various activities and make changes to its investment process to decarbonize its portfolio, the ability to achieve such targets should be viewed within the context of its return objectives and risk parameters. In addition, the ability to achieve its emissions goals will be impacted by factors that are outside of UVIMCO's control, including the ability of governments around the world to enact the appropriate policies that change the behaviors of consumers and companies in a way that accelerates decarbonization. Accordingly, UVIMCO will also compare its emissions reduction to the emissions reduction achieved by society and strive to achieve a reduction in emissions intensity that is better than the actual global emissions reduction as reported by the UNFCCC. UVIMCO views these targets as goals and objectives in the same way that risk and return objectives are established for the portfolio.

UVIMCO will take the following steps to achieve its 2050 goal:

Investment Policies and Governance

- Utilize Fossil Fuel Investment Principles
- Engage external experts on net-zero and climate issues

Selection and Monitoring of External Managers

- Incorporate climate considerations into manager due diligence and monitoring process
- Evaluate manager's shareholder engagement practices relating to climate change
- Evaluate allocations to specialist managers and strategies

Climate Solutions

- Continue to invest in climate solutions

Over
\$506 MILLION
invested in public companies with
science-based, net-zero targets

\$150 MILLION
in new investments in climate
solutions in 2021

ADDRESSING FOSSIL FUEL INVESTMENTS

UVIMCO invests by partnering with external investment managers, who in turn invest across a portfolio of public companies, private companies, real estate, and resources. We believe that engagement with these managers will help to reduce emissions across industries in the real world.

While we utilize ESG integration with all of our investments, we recognize that the production and consumption of fossil fuels have an outsized impact on climate change and global emissions. However, the solution is not as simple as stopping the production and consumption of fossil fuels. Billions of people around the world—particularly those in developing countries—rely heavily on fossil fuels for their daily lives as a reliable source of energy. Fossil fuels also play an important role in supporting the energy transition and building a sustainable energy system for the future.

We believe the best way to address both climate change and the world's energy demands is to:

- Avoid direct investments in companies that fail to meet our Fossil Fuel Investment Principles
- Engage with our external resources managers on their ESG policies and approach to their investments
- Invest with activist managers within the resources portfolio who are proven leaders in driving change in the fossil fuel industry

2021 FOSSIL FUEL INVESTMENTS

**No direct
investments**

in thermal coal and oil sands

Less than

0.05%

in oil and gas direct investments

RESOURCES MANAGERS

100%

have ESG
policies

75%

base their ESG policies on United Nations Principles
for Responsible Investment (UNPRI)

CASE STUDY: ACTIVIST ENERGY MANAGER

We partner with an investment manager whose activist approach to the energy sector is driving positive environmental, social, and governance change. This manager focuses on reducing GHG emissions by implementing industry best practices from the Climate and Clean Air Coalition (CCAC) Oil and Gas Methane Partnership, advocating for improved governance accountability within industry, minimizing community and land disturbance through community engagement, and reporting on greenhouse gas metrics, safety, operations, and employee diversity.

FOSSIL FUEL INVESTMENT PRINCIPLES

UVIMCO utilizes the following principles to avoid directly investing in fossil fuel producers that do not meet certain sustainability criteria. Companies that do not meet the principles are not eligible for direct investment. UVIMCO expects its external managers to review the principles and use them as a guiding document for their own investment programs.

UVIMCO expects fossil fuel producers to meet the following criteria:

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.

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.¹ 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.

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.

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.

¹ Mitigation of upstream flaring should be consistent with the activities and goals of initiatives such as the World Bank's Zero Flaring by 2030 initiative.



INVESTMENT MANAGER ENGAGEMENT

The majority of UVIMCO's investments are managed by external investment managers rather than through direct ownership of individual securities. We hand select these managers from around the globe to bring a diversity of thought, outstanding expertise, and innovation to their investment decisions—ultimately increasing the long-term value of the University's assets.

During the investment process, we review a recommended manager's ESG policy and approach to their underlying investments as one aspect of the investment review process. Once selected, we regularly assess, engage, and report internally on their policies, approach, and progress on an annual basis to better understand their view of ESG and climate issues.

While many of our managers engage directly with their portfolio companies on ESG issues, we also have over \$1.3 billion currently invested with activist managers across industries. Typically, activist managers have significant stakes in public companies in order to influence how companies are managed.

UVIMCO's activist managers include:

- A large, U.S.-based activist focused on driving value through event-driven situations in equities, credit, real estate, commodities, and more.
- A Japan-based activist focused on creating sustainable change in real estate and green energy.
- A U.S.-based owner-operator focused on activism in the fossil fuel industry, specifically the exploration and production (E&P) sector.
- A European positive engagement activist focused on emission reduction strategies for market-leading companies, including the fossil fuel industry.



FOCUS AREAS FOR INVESTMENT

Many of our external managers invest in technology, services, and products that solve the world's greatest challenges. These investments support the United Nations Sustainable Development Goals (SDGs), which are considered a blueprint for ending poverty and other deprivations while tackling climate change and preserving the earth for future generations.

With over \$3 billion in investments across the following five UN SDGs, our managers make a significant contribution to solving the world's problems.



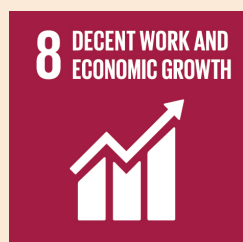
GOOD HEALTH & WELL-BEING

Investments harness the power of biotech to target genetic and molecular therapies for diseases including cancer and Alzheimer's. Companies are pioneering new classes of vaccines that will help eradicate disease on a global scale and developing abuse-deterrent treatments for chronic pain conditions. Investments are focused on scaling and incentivizing affordable drug production and equal access to treatment.



AFFORDABLE AND CLEAN ENERGY

Investments support unique solar projects to bring clean energy to local communities in the U.S., specifically smaller, less land-intensive solar infrastructure that more easily ties to the power grid, compensates landowners for land usage, and ensures biodiversity plans for each site. Investments also support companies that repurpose former coal mine reserve sites into solar array sites to produce renewable energy. Consumers benefit from greater cost controls as these types of independent projects don't rely on traditionally monopolistic customer bases to operate profitably.



DECENT WORK AND ECONOMIC GROWTH

Investments are focused on dismantling financial barriers for those who don't have access to traditional banking through fee-free investing services, free credit reporting sites, fee-free ATMs, round-up automatic savings plans, and specialized "teen" banking products to promote early financial literacy. Investments also support companies that provide low- or no-cost personal banking services to American adults who currently rely on payday lenders or other alternative financial services.



SUSTAINABLE CITIES AND COMMUNITIES

Investments support the acquisition and renovation of existing low-income properties to elevate the quality of the housing while maintaining affordability and a connection to the community. The majority of renters in these properties pay significantly less of their monthly income toward rent compared to 2018. In addition to supporting more affordable housing, building practices make properties resource-use efficient whenever possible.



CLIMATE ACTION

Investments include traditional climate solutions, like renewable energy, and carbon markets to help reduce global emissions. Investments in voluntary carbon markets can support small landowners to obtain carbon offset credits and earn income by planting, preserving, and sustainably managing woodlands on their properties. One investment includes the planting of over 500,000 trees across the U.S. and is expected to generate offsets for GHG emissions as much as three million metric tons of carbon dioxide over the next two years. It will also help to expand the market for high-quality carbon credits as corporations look to offset their emissions and transition to net-zero.



UNIVERSITY
of VIRGINIA

INVESTMENT
MANAGEMENT
COMPANY