

UNIVERSITY  
of VIRGINIAINVESTMENT  
MANAGEMENT  
COMPANY

# Investor Responsibility Report

## 2023

## 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 long-term, inflation-adjusted returns commensurate with the risk tolerance of the University. UVIMCO manages approximately \$13.4 billion on behalf of the University and associated organizations and has consistently outperformed our passive policy portfolio and our median peer benchmark, represented by the TUCS All Master Trust Universe, over the past 5, 10, and 20 years.

For more information about UVIMCO's investment performance and philosophy, please refer to our [2022 Annual Report](#).

All data referenced in the 2023 Investor Responsibility Report is for the 2022 calendar year (1/1/2022 through 12/31/2022), unless otherwise noted.



# Leadership Message

The [Investor Responsibility Framework](#) and inaugural [Investor Responsibility Report](#) released by UVIMCO in 2022 rest on the assumption that the deliberate integration of environmental, social, and governance (ESG) considerations leads to better investment processes and enhances long-term, risk-adjusted investment returns. Our implementation of the Framework will evolve over time as we continue to gather information and improve our understanding of emerging best practices in investor responsibility.

We are pleased to share this 2023 Investor Responsibility Report, which outlines the significant progress made in the last year toward the goals laid out in both the Framework and 2022 report. Over the last year, we:

- Gathered more in-depth insights on our managers' ESG policies
- Deepened engagement with external managers on overall ESG integration and, specifically, climate change
- Undertook extensive efforts to measure and assess the carbon footprint of our portfolio
- Continued investing in climate solutions across multiple asset classes

We have also enhanced the sustainability of our own operations by measuring our operational emissions footprint, upholding robust governance practices, and continuing to prioritize our people above all else.

Looking ahead, we will continue to focus on advancing our investor responsibility efforts and reporting our progress. As always, we thank our external investment partners, the University and associated organizations, and UVIMCO's Advisory Committee on Investor Responsibility for their continued partnership on these important initiatives.

Sincerely,



*Robert Durden*  
**Robert Durden**  
 Chief Executive Officer  
 Chief Investment Officer



*Kristina Alimard*  
**Kristina Alimard**  
 Chief Operating Officer





# Risk Management

UVIMCO seeks to generate exceptional long-term returns for the University and associated organizations, which cannot be achieved without bearing myriad risks. Our team diligently measures and monitors the evolving risk landscape to better understand these perils versus the prospective rewards when making investment allocation decisions.

In our view, investor responsibility is intertwined with risk management. Current societal and environmental challenges impact the growth and profitability prospects of potential investments, and investments with poor ESG practices are simply riskier than those with excellent practices.

We partner with experienced investors who invest in specific companies on our behalf. We engage with each of these investment managers to ensure they implement responsible investing by carefully measuring and weighing financial and ESG risks in their underlying holdings.

At the overall Long Term Pool (LTP) level, we consider global, societal, and environmental challenges within the context of three general risk categories: market risk, manager risk, and liquidity risk. We rigorously manage:

- **Market risk** by setting a policy portfolio that represents the University's risk tolerance and managing the LTP to that level of market risk
- **Manager risk** through diversification and due diligence, as well as limiting our investment in any single manager
- **Liquidity risk** by balancing liquidity "sources" versus "uses" and setting targets for minimum liquidity, private investments, and unfunded commitments

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## DAILY RISK MANAGEMENT

**Partner** with well-established, respected managers who demonstrate a high level of ethics and integrity

**Travel** frequently to meet with our managers and gain firsthand experience in countries where we invest

**Measure and Monitor** top holdings and associated risks

**Discuss** all aspects of investment risk at Investment Committee and Board meetings

**Mitigate** risks when necessary or prudent

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## GLOBAL RISKS

- **Economic** – Critical infrastructure or supply chain failures, deflation, energy price shocks, and unmanageable inflation
- **Environmental** – Biodiversity loss, climate action failure, extreme weather, human-made environmental disaster, and natural disasters
- **Geopolitical** – Global governance failure, interstate conflict, national governance failure, state collapse, terrorist attacks, and weapons of mass destruction
- **Societal** – Failure of urban planning, food crises, human rights violations, infectious diseases, involuntary migration, social instability, and water crises
- **Technological** – Adverse technological advances, cyberattacks, data fraud or theft, and information infrastructure breakdown



# Responsible Investing

## ESG Integration

UVIMCO uses ESG integration as our primary tool in implementing our responsible investment process. Rather than thematic, impact, or exclusionary investing, ESG integration allows us to invest with the explicit inclusion of ESG risks and opportunities in the investment analysis process. As we invest indirectly through external managers around the globe, we evaluate relevant ESG considerations at all stages of the manager selection and retention process, from sourcing managers to reviewing recommended managers to monitoring active managers.



## Prospective Managers

As one part of the mosaic in our investment decision process, we formally consider a prospective manager’s ability to incorporate ESG into their investment practices. This evaluation process includes a review of whether a manager has an ESG policy and how it is applied at both the firm and portfolio level, an assessment of the most material ESG risks and opportunities in their investment set, and if the manager is aligning with a net-zero by 2050 goal. The relevance of ESG to a manager’s investment process can vary greatly depending on the underlying strategy. As such, we tailor the rigor of our approach to evaluating a manager’s ESG integration capabilities based on the nature of the strategy, taking into account aspects such as asset class, style, and time horizon for alpha generation.

## Manager ESG Policies

ENVIRONMENTAL	SOCIAL	GOVERNANCE
<p><b>KEY TOPICS COVERED</b></p> <ul style="list-style-type: none"> <li>Affordable and Clean Energy</li> <li>Climate Resilience</li> <li>Ecological Impacts</li> <li>Energy Transition</li> <li>Groundwater Contamination</li> <li>Greenhouse Gas Emissions</li> <li>Renovation Waste</li> </ul>	<ul style="list-style-type: none"> <li>Arms Trade</li> <li>Child Labor</li> <li>Community Engagement</li> <li>Diversity and Inclusion</li> <li>Health and Safety</li> <li>Labor Laws/Practices</li> <li>Major Accident Prevention</li> <li>Safe and Fair Employment Practices</li> <li>Use of Harmful Materials</li> <li>Workers’ Protection</li> </ul>	<ul style="list-style-type: none"> <li>Board Governance</li> <li>Key Policies</li> <li>Legal and Regulatory Compliance</li> <li>Management Alignment with Shareholder Concerns</li> <li>Proper Disclosure of Material Matters and Audits</li> <li>Reporting Alignment</li> <li>Risk Management and Reporting</li> </ul>

## Active Managers

We believe that having strong partnerships with our investment managers enables us to better understand their integration of ESG risks and opportunities in underlying investments and, ultimately, drives stronger value for the University and associated organizations.

As such, we continuously monitor portfolio performance through calls and meetings. We also instituted a process whereby the investment team now reviews managers’ ESG policies and annual reports and regularly evaluates the alignment of a manager’s strategy with our Investor Responsibility Framework. This allows us to engage with our managers on best practices, advance our stewardship efforts, identify opportunities for progress, and discuss specific material issues as they arise.

To aid in this engagement, we issued an Investor Responsibility Survey to better understand our managers’ approaches to ESG issues and gather important quantitative data about their operations and investment practices.

Looking ahead, we will continue to hold robust conversations with our managers on relevant ESG risks and opportunities. We expect there to be a wide range of relevance based on the manager, asset class, and investment sector. As an extension of our team, our managers are trusted partners with whom we work to advance their approach to ESG—as it ultimately benefits our long-term returns for the University.

### ADVISORY COMMITTEE ON INVESTOR RESPONSIBILITY

We established the Advisory Committee on Investor Responsibility (ACIR) to serve as a formal channel between UVIMCO and University students, alumni, and faculty. The ACIR advises UVIMCO leadership on appropriate action regarding ESG within our investment strategy. Since its creation, the ACIR has addressed topics such as divestment versus engagement, the measurement of the endowment’s emissions footprint, the use of carbon offsets, and the review of investments in sensitive geopolitical areas. The ACIR meets quarterly or as needed when topics arise, and key findings are reported back to the UVIMCO team and Board.



“The ACIR is an integral part of ensuring UVIMCO can continue to play a critical role in the rapidly developing landscape of investor responsibility. A focus on prioritizing interdisciplinary perspectives from across the University community is not only generative but itself a responsible approach to community engagement.”

**Gregory Perryman**  
ACIR Student Representative

The ACIR guided the creation of UVIMCO’s [Investor Responsibility Framework](#), which outlines our approach to responsible investing and helps us better align with the [University’s 2030 Sustainability Plan](#).

We also regularly communicate with the University and associated organizations that are invested in the LTP, as well as with other stakeholders, including students, alumni, and faculty, through meetings, emails, and one-on-one conversations.

# Climate Change

UVIMCO holistically evaluates material environmental issues that are relevant to a manager’s underlying investments. We place a heightened focus on climate change due to its materiality to our stakeholders and the growing climate risk to the financial system and a wide array of investments.

We strongly believe that:

- Our portfolio and underlying investments should align with decarbonization efforts in the real world.
- Our active engagement with managers who invest in high-emitting and carbon-heavy industries can accelerate real-world decarbonization and result in improved long-term financial performance.
- There is a growing opportunity to invest in climate solutions, which will positively impact long-term performance.

As our understanding of this evolving landscape grows, we will adjust how we approach climate risks and opportunities accordingly.

## Net-Zero by 2050

In 2021, UVIMCO committed to transitioning the University endowment to net-zero by 2050, which requires reducing our portfolio’s emissions while increasing investments in sustainable projects that can generate long-term value and returns. Over the last year, we considerably deepened our understanding of how to best achieve net-zero through emissions reduction, manager engagement, and investments in climate solutions. Looking ahead, we will continue to review and consider improvements in data quality and availability, advocate for enhanced emissions disclosure by managers and companies, analyze our public equity carbon footprint for benchmarking, and reassess our ability to set interim portfolio emissions targets in spring 2024.

## Resources Investments

We believe there continues to be an opportunity to generate strong risk-adjusted returns with our managers who selectively invest in companies that are involved in the production and distribution of conventional and nonconventional energy. These managers have demonstrated a proven ability to drive substantial long-term value for the portfolio over the last two decades through their investment selection.

However, we recognize that the production and consumption of fossil fuels (oil, natural gas, and coal) have an outsized impact on global emissions, and therefore, our portfolio’s footprint. We address these issues in the following ways:

- We use **Fossil Fuels Investment Principles** (FFIP) to screen our direct investments for climate risks and opportunities.
- We engage with our resources managers on our FFIP and seek to better understand their approach to environmental and climate risk.
- We review our indirect investment exposure against the Carbon Underground 200 list to better understand the potential risk of stranded assets.
- We continue to invest in an activist investor who unlocks financial value in fossil fuel companies by advancing corporate climate plans and reducing emissions.

## Climate Solutions Investments

There is a significant opportunity to invest in climate solutions in the coming decade as the world continues to transition to a low-carbon economy. Government policies, such as the Inflation Reduction Act, will encourage private capital to flow into the clean energy supply chain, presenting investment opportunities that are supported by various tax credits. With the right managers, investments in climate solutions that help to mitigate the systemic risks of climate change will generate long-term returns for UVIMCO.

### BY THE NUMBERS

**\$1.5 BILLION+** invested in public companies with science-based, net-zero targets

**\$215 MILLION+** committed to climate solutions investments in the past two years, including renewable power, innovative climate technologies, reforestation, and carbon markets

**\$135 MILLION+** of additional exposure to climate solutions, including clean technologies, sustainable waste management, renewable power, and electric vehicle batteries

## Net-Zero Progress

### PORTFOLIO EMISSIONS

- Measured and reviewed our Public Equity portfolio emissions footprint
- Analyzed the available methodologies for calculating our Private Equity portfolio emissions footprint
- Assessed data quality issues and our inability to set a 2030 interim goal at this time
- Screened direct fossil fuel investments using our FFIP
- Worked with the ACIR, University faculty members, peers, and sustainability initiatives regarding net-zero best practices

### MANAGER ENGAGEMENT

- Identified managers for increased engagement to enhance returns and reduce emissions in the real world
- Launched our annual Investor Responsibility Survey with questions on ESG and climate
- Reviewed resources managers’ approach to ESG and climate risks

### CLIMATE SOLUTIONS

- Continued investing in climate solutions across asset classes—including renewable energy, innovative climate technologies, and carbon markets
- Identified prospective managers with investment opportunities in climate solutions most likely to generate alpha

### INVESTMENT HIGHLIGHTS



Chestnut is a nature-based carbon offset developer focused on conserving land and developing carbon projects. Their goal is to reforest 500,000 acres of land throughout the United States to sequester carbon, increase biodiversity, and restore lands to their natural habitat.



The market-leading provider of outsourced services to drive the circular economy includes waste and resource management, recycling services, and environmental compliance.



Investment partner with SolRiver who invests in distributed generation solar projects across the United States that are typically acquired in late-stage development or preconstruction. These solar facilities require less land than utility scale solar and wind, are easily connected to the grid, and incorporate biodiversity plans within project sites when possible.



Zap Energy is building a seriously cheap, compact, scalable nuclear fusion core with potentially the shortest path to commercially viable fusion and orders of magnitude less capital than traditional approaches.



# Sustainable Operations

At UVIMCO, we are committed to sustainability in our operations, including measuring and managing our environmental footprint; advancing diversity, equity, and inclusion (DE&I) on our team; and upholding robust governance practices to help oversee the investment process.

## Our Environmental Footprint

In 2022, UVIMCO partnered with [Green Project Technologies](#) to measure our emissions footprint. Green Project focused on our leased assets and business travel to measure and monitor our operational carbon footprint. Due to the findings of their work, we have opted to present Scope 1-2 emissions alongside Scope 3.8 to characterize the emissions footprint of our facilities collectively, as our central Charlottesville location is landlord managed and sits outside UVIMCO's operational control.

**Scope 1, 2, and Scope 3, Cat. 8**  
(Upstream Leased Assets)

**109**  
MT CO<sub>2e</sub>

Including emissions from electricity use within the Charlottesville and Bay Area offices

**Scope 3, Cat. 6**  
(Business Travel)

**108**  
MT CO<sub>2e</sub>

Including emissions from business travel

We will examine ways to reduce our emissions footprint, as well as identify options for potentially offsetting our operational emissions—with the understanding that carbon offsets need to meet stringent quality thresholds and are not a permanent, long-term solution.

## Our Governance

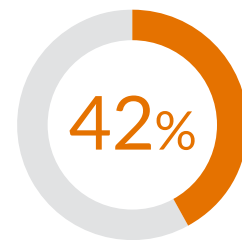
As an independent nonprofit corporation, UVIMCO is led by a distinguished and diverse group of industry leaders via our [Board](#) and [leadership team](#). These seasoned financial and business professionals provide essential guidance around investment strategy and are dedicated to achieving excellence in investment management. The Board meets quarterly and has four standing committees—Executive, Compensation, Audit, and Governance—to help lead our approach to those topics. UVIMCO manages invested assets using Investment Policy Statements for the Long Term Pool and Short Term Pool, as set by the Board.

## Our People

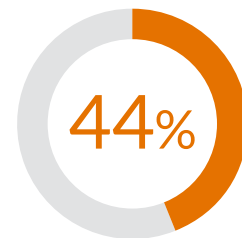
We believe that our people make UVIMCO what it is today—a top-notch institutional investor supporting one of the best public universities in the nation. We strive to create a workplace in which employees feel valued and have ample opportunities to grow professionally. As a result, our Human Resources team is focused on talent acquisition and talent management, including compensation, benefits, and wellness, to ensure that UVIMCO remains competitive with other top organizations and a great place to work.

Diversity and inclusion are a key part of ensuring sustainable operations because having a diverse Board and team promotes different perspectives, insights, and, ultimately, stronger and more productive outcomes. As such, we have a heightened focus on attracting talent from a diverse pool of candidates and celebrating different cultures and backgrounds.

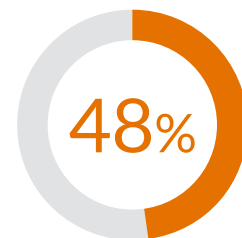
## BOARD AND TEAM DIVERSITY



42% of our Board are either women or minority



44% of our leadership team are women



48% of our team are women

