



UNIVERSITY
of
VIRGINIA

INVESTMENT
MANAGEMENT
COMPANY

Investor Responsibility Framework

Revised 2024

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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. UVIMCO is an independent organization with its own Board of Directors. UVIMCO strives to generate exemplary investment returns to further the University of Virginia's mission in perpetuity by providing support to current and future generations of students, faculty, staff, and patients.

UVIMCO is dedicated to investor responsibility. 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. 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 monitor best practices and recommend any future updates to UVIMCO.

Environmental, Social, and Governance Approach

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. 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 incorporates ESG considerations into the sourcing, evaluation, approval, and ongoing monitoring of all external investment managers. We 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 measures its investments using an ESG lens backed by quantitative and qualitative research to assess our current and prospective investments. We release an annual *Investor Responsibility Report* to provide updates on our progress to stakeholders on a regular basis.

Environmental, Social, and Governance Approach

Driving Engagement and Transparency

UVIMCO works to effect positive change on material issues related to underlying investments when practical. Engaging with external managers, participating in established sustainable investing initiatives, proxy voting on direct investments, and investing with activist managers, is the most direct way to have an impact on important environmental and social issues.

Sustainable Investing Initiatives

UVIMCO pursues positive change through participation in established sustainable investing initiatives. We work with the Intentional Endowments Network (IEN), Ceres Investor Network, ILPA, and the Asset Owners Society to collaborate with our peers, share best practices, and enact 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 utilizes a *Voting Policy* to establish our approach to voting with respect to the investments we hold. UVIMCO may occasionally have the opportunity to vote with respect to our limited direct investments in public companies, but the majority of voting will be done by our external investment managers. To help manage investor voting powers where possible to address material ESG risks and opportunities at the company level, we share our *Proxy Voting Guidelines for Public Securities* with external investment managers, which are modeled based on best practices and policies of peer endowments.

Activist Managers

UVIMCO invests with activist managers who promote positive change across many industries. These managers drive change across ESG issues, with a heightened focus on environmental stewardship and climate risk.

Pursuing Positive Change

UVIMCO partners with external investment managers who invest in products and services that solve some of the world's greatest social and environmental challenges. These investments support positive impact areas that include promoting good health and wellbeing, affordable and clean energy, sustainable cities and communities, and climate action. We report on specific progress publicly on UVIMCO's website and in our *Investor Responsibility Report*.

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.

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. We will publish any updates regarding our net-zero ambition in our annual *Investor Responsibility Report*.

Addressing Climate Change

Fossil Fuel Investment Principles

UVIMCO utilizes 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.