UNIVERSITY of VIRGINIA | INVESTMENT MANAGEMENT COMPANY

2024
Investor Responsibility Report

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 (UVA) 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 $14 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 2023 Annual Report

Approach to Responsible Investing

At UVIMCO, we believe that the proactive management of environmental, social, and governance (ESG) factors is not just compatible with our mission, but in fact enhances our ability to deliver strong, risk-adjusted returns for the University of Virginia. Especially over longer time horizons, research has repeatedly found that strong management of responsible investment considerations provides better downside protection, improves risk management, and drives stronger financial performance for companies. Some of our most successful, long-standing external investment managers are those with robust ESG integration strategies, including one manager whose investment thesis is predicated on addressing climate risk and opportunities, and who has delivered a 15.1% return on investment over the last ten years.[1] UVIMCO's Investor Responsibility Framework further outlines our commitment to considering material ESG factors throughout the investment lifecycle. In this year's Investor Responsibility Report, we highlight two important components where we've made progress over the last year: ESG Integration and Climate Change.

INVESTMENT PROCESS: ESG INTEGRATION

UVIMCO primarily invests through external investment managers who are carefully selected by our investment team for their ability to appropriately manage risk while pursuing financial returns above our passive policy benchmark. Our ESG integration approach allows us to invest with the explicit inclusion of ESG risks and opportunities in the investment diligence and 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.

ESG Integration

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 the firm and portfolio level, an assessment of the most material ESG risks and opportunities in their investment set, and a determination of whether the manager is aligned with a net-zero by 2050 goal. The relevance of different ESG topics to a manager's investment process can vary greatly depending on the underlying strategy, with some examples noted in the table below. As such, we tailor our evaluation of a manager's ESG integration capabilities, accounting for factors such as strategy, asset class, and time horizon for alpha generation.

For example, we spent a significant amount of time reviewing a new investment commitment with a resources manager that focuses on upstream energy assets. During our review, we assessed their ESG policy, which draws from the United Nations Principles of Responsible Investment (UNPRI) and The American Investment Council Guidelines for Responsible Investment. Pre-investment, the firm seeks to actively consider material environmental factors, working with responsible partners who adhere to environmental protection practices and focus on reducing their environmental footprint. As an example of their ESG integration efforts, one of their largest operating partners cut methane emissions by over 60% and decreased safety incidents by 26% in one year. Based on our belief that they can generate exemplary returns for the University of Virginia and their thoughtful assessment of climate and environmental risks in underlying assets, we moved forward with the investment.

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 of Virginia and associated organizations. Post-investment, we look for opportunities to engage with our managers to receive updates on their ongoing progress on material issues. Beyond assessing their approach to ESG by reviewing the same factors as in the initial due diligence period, we also assess climate risks using the MSCI ESG Manager platform. This platform provides scores and benchmarks of companies' ESG performance to help us better understand risks faced by our Public Equity investments. While we rely on our managers to address these risks, this data provides us with directional information and helps to guide our conversations with managers. Additionally, this information allows us to prioritize which managers to engage in the short term to address current risks.

For example, one of our established Public Equity managers is invested in a high-emitting cement company in China. During our conversations, we discussed in detail their approach to climate risk. This manager collects and analyzes climate metrics annually, including portfolio company carbon emissions and emissions intensity, and engages in stewardship activities with its portfolio through proxy voting and direct engagement. When discussing the specific holding, UVIMCO found that the manager was aware of the investment's footprint and had engaged with the company on decarbonization activities, demonstrating the valuable insights these conversations can yield.

Manager ESG Policies

ENVIRONMENTAL	SOCIAL	GOVERNANCE
KEY TOPICS COVERED		
• Affordable and Clean Energy • Climate Resilience • Ecological Impacts • Energy Transition • Groundwater Contamination • Greenhouse Gas Emissions • Renovation Waste	• Arms Trade • Child Labor • Community Engagement • Diversity and Inclusion • Health and Safety • Labor Laws/Practices • Major Accident Prevention • Safe and Fair Employment Practices • Use of Harmful Materials • Workers' Protection	• Board Governance • Key Policies • Legal and Regulatory Compliance • Management Alignment with Shareholder Concerns • Proper Disclosure of Material Matters and Audits • Reporting Alignment • Risk Management and Reporting

Climate Change

Climate change stands out as an area of focus for UVIMCO's responsible investment efforts. Promoting actions to slow emissions and contribute to the energy transition is a priority among University of Virginia stakeholders and is important to our ESG integration strategy. Climate change presents financially material risks to our investments, and we believe that companies that proactively prepare for the regulatory, technological, and market changes associated with the energy transition will be more resilient in the long term. Furthermore, there is significant opportunity to capture financial value through investments in companies that are contributing to the energy transition. For instance, estimates of investment catalyzed by the Inflation Reduction Act (IRA) range from $110M in the first year of the legislation to over $3 trillion in the next decade.[2] The U.S. government estimates that investments in clean energy and manufacturing have exceeded $500B since 2021, creating significant opportunity for investors.

Since announcing our net-zero goal in 2022, UVIMCO has gradually evolved our climate approach with the aim of proactively evaluating managers with high-emitting assets. By considering climate risks and opportunities in our investments, UVIMCO will be better positioned to decrease volatility and capture long-term financial gains across our portfolio.

Investment in climate solutions investments is an important part of UVIMCO's net-zero strategy. Customer demand for low carbon alternatives coupled with policy incentives for clean energy and innovative climate technology drives significant opportunity to realize financial returns while supporting the growth of multifaceted solutions needed to solve pressing climate challenges. UVIMCO expects to continue increasing the amount of capital allocated to climate solutions and managers who focus on climate investing.

Since January 2023, UVIMCO has added:

$107M+

in new commitments to climate solutions investments, including carbon credit markets, renewable natural gas projects, and climate solutions technologies

$468M+

of additional exposure to climate solutions, including carbon credits, direct air capture facilities, renewable energy, climate solutions technologies, circular economy companies, and energy transition metals

CASE STUDIES

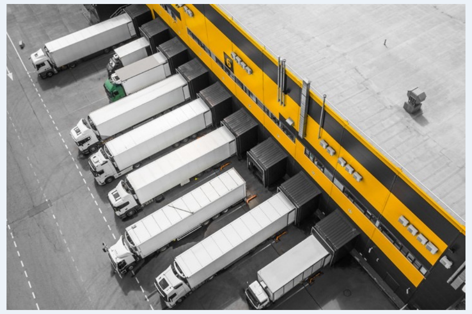
UVIMCO partners with external investment managers with deep expertise in climate solutions. Recent examples include:

Elanco Animal Health

Elanco Animal Health is a leading producer of pet and livestock pharmaceuticals that maintains a robust ESG strategy embedded across company operations. Elanco has developed multiple products that, when incorporated into animal feed, can reduce livestock methane and ammonia gas emissions. Methane, a potent greenhouse gas, has 27-30 times the warming potential of carbon dioxide, with over a quarter of U.S. methane emissions estimated to come from enteric emissions in ruminant livestock.

Elanco has multiple product offerings for reducing cow emissions, including Experior, which reduces ammonia gas produced from beef cattle, and Rumensin, which reduces enteric emissions of dairy and beef cattle by 5.4% and decreases feed volume needed for cattle by up to 10%. Building on this success, Elanco partnered with Royal DSM (now dsm-firmenich) on Bovaer, a methane-reducing feed additive for cattle approved in the U.S. in May 2024.[3] Research and commercial trials show that feeding one tablespoon of Bovaer to dairy cows can reduce their annual methane emissions by about 30% or 1.2 metric tons of carbon dioxide equivalent (CO2e).[4] Additionally, Elanco was instrumental in creating Athian (athian.ai), an exchange where dairy farmers can sell their methane credits to large corporations. Incorporating Bovaer in the diets of one million cows for a year could reduce methane emissions equivalent to removing up to 230,000 cars from the road annually or planting up to 16 million trees.[5] Bovaer has the potential to be an important revenue stream for Elanco while significantly reducing livestock emissions for farmers.

Redtail Renewables



Redtail Renewables is a leading developer and operator of renewable natural gas (RNG) facilities, dispensing fuel downstream to end customers. RNG is a chemically equivalent substitute for geologic natural gas that is derived from biogas emitted from waste sources, primarily from landfills, agricultural waste from cattle/hog farms, wastewater plants, and food processing facilities. Once processed, RNG can be used as a substitute vehicle fuel and an electricity source.

By capturing methane that would otherwise have been released to the environment at its source, RNG has a lower carbon intensity than geologic natural gas due to avoided methane emissions. As a result, RNG vehicles are estimated to reduce emissions by up to 75% compared to diesel or gasoline vehicles.[6] Redtail utilizes innovative technologies to collect, process, transport, and dispense RNG that can be used as part of a decarbonization strategy for the transportation and utility industries. The federal Renewable Fuel Standard and state tax incentives for lower carbon vehicle fuels have increased RNG demand, and Redtail is well positioned for continued growth by selling to these markets.

Impact Investments

Many of our external investment managers invest in products and services with positive impacts that include tackling climate change, creating better healthcare, increasing access to financial services, and preserving the Earth for future generations. Our impact-focused managers select investments that align financial returns with positive impact. Allocating capital to these funds allows UVIMCO to further promote responsible investing practices that drive positive social and environmental change and foster a more sustainable future.

$308M+

in environmental impact focused funds with investments in climate technology, nature- and regulatory carbon offsets/credits, renewable natural gas, and renewable energy

$1.5B+

in social impact focused funds with investments in affordable housing, healthcare, biotechnology, and financial services technologies

Looking Ahead

In the coming year, UVIMCO will continue to build on the progress made since the launch of our Investor Responsibility Framework. While our commitments are complex and global in scope, we are determined to take incremental steps to make meaningful progress over time. Coming up, we are working to finalize UVIMCO's Proxy Voting Guidelines, which we plan to share with our external investment managers in the coming months as one way to advance our engagement efforts. More broadly, we will continue to measure and track data, analyze findings, engage with our external investment managers, and hear from our University stakeholders on the most pressing issues related to investor responsibility.

Endnotes:

[1] All data referenced in this report is for the 2023 calendar year (1/1/2023 through 12/31/2023), unless otherwise noted.

[2] Sources: https://www.whitehouse.gov/briefing-room/statements-releases/2023/08/16/fact-sheet-one-year-in-president-bidens-inflation-reduction-act-is-driving-historic-climate-action-and-investing-in-america-to-create-good-paying-jobs-and-reduce-costs/, https://www.goldmansachs.com/intelligence/pages/the-us-is-poised-for-an-energy-revolution.html

[3] Source: https://www.elanco.com/en-us/news/elanco-announces-fda-has-completed-review-of-bovaer-first-in-class-methane-reducing-feed-ingredient-for-u-s-dairy-industry

[4] Source: https://www.dsm.com/content/dam/dsm/corporate/en_US/documents/summary-scientific-papers-3nop-booklet.pdf

[5] Methane reduction calculated based on 35% reduction in methane from an average of 220 pounds of methane emitted per cow per year (https://www.ucdavis.edu/food/news/making-cattle-more-sustainable), converted using EPA's GHG Equivalencies Calculator

[6] Source: https://www.epa.gov/system/files/documents/2024-01/lmop_rng_document.pdf