

Responsible Investing Annual Report

2024



Queen's
UNIVERSITY

FINANCE AND
ADMINISTRATION



Working Toward a Better Future

Our 2024 Responsible Investing Annual Report, which reflects our approach to managing Queen's \$2.1 billion portfolio of assets in our Pooled Endowment Fund and Pooled Investment Fund, follows our inaugural 2023 report and includes data as of December 31, 2023. This report details the university's progress in fulfilling our responsible investing commitments that stemmed from the work of the **Climate Change Action Task Force**, aligned with our commitments under the University Climate Charter (**Investing to Address Climate Change: A Charter for Canadian Universities**).



Our responsible investing commitments, aligned with the Board’s fiduciary responsibilities, include ambitious carbon reduction targets, as well an energy-transition allocation within the endowment called the Queen’s Climate Action Allocation (QCAA). As outlined in this report, our Investment Committee approved a new allocation to the QCAA in the past year.

In keeping with our pledge as a United Nations-supported Principles for Responsible Investment (UNPRI) signatory, Queen’s will continue to improve its approach to responsible investing, and is currently reviewing the Responsible Investing Policy through a UNPRI lens. The university’s first UNPRI report will be available later this year, further enhancing the sector-leading level of transparency we have demonstrated with the public posting of investment holdings and detailed investment manager environmental, social, and governance (ESG) annual reports.

We are committed to continuing to make progress on our ambitious 2030 targets. We will do so using a long-term focus, acknowledging that results from year to year will not move in a straight line. We are learning a great deal along the way and will continue to update our community as we move forward on our responsible investing journey.



Donna Janiec (FCPA, FCA)
Vice-Principal, Finance and Administration

A handwritten signature in black ink that reads "Janiec".



Todd Mattina (PhD)
Chair, Investment Committee

A handwritten signature in black ink that reads "T. Mattina".



What is Responsible Investing?

Queen's defines **responsible investing** as investment approaches that take environmental, social, and governance (ESG) factors into consideration. Queen's believes that ESG factors can be material to shareholder value across industries and through time.

Queen's **Responsible Investing Policy**, approved by the Board of Trustees in May 2017, formally recognizes that awareness and the effective management of ESG-related risks and opportunities may improve the long-term performance of its investments. Decisions pertaining to responsible investing are guided by the fiduciary responsibilities of the Board of Trustees to ensure the prudent investment of the university's assets. This is critical for meeting the objectives of Queen's Endowment and other investment pools, ensuring meaningful funding for vital supports including scholarships, student aid programs, academic chairs, and research.

TIMELINE



2009	Board of Trustees approves Statement on Responsible Investing, establishing guidelines Investment holdings are made available to stakeholders upon request
2010	Formal integration of ESG awareness in Statement of Investment Policies and Procedures
2015	Release of report from Principal's Advisory Committee on Divestment: Fossil Fuels
2017	Responsible Investing Policy is established Disclosure of investment holdings on the Investment Services website
2020	Board of Trustees approves recommendations of the Climate Change Action Task Force (March 6, 2020) Queen's becomes founding signatory to <u>Climate Charter</u> <i>(Investing to Address Climate Change: A Charter for Canadian Universities)</i> Expansion of Responsible Investing information on the Investment Services website Public disclosure of external investment manager responses to annual ESG Questionnaire
2022	Board of Trustees approves the following: <ul style="list-style-type: none">• Carbon reduction targets for the Pooled Endowment Fund and the Pooled Investment Fund• Establishment of the Queen's Climate Action Allocation (QCAA) within the Pooled Endowment Fund• Becoming a signatory to the United Nations-supported Principles for Responsible Investment (UNPRI)
2023	Launch of inaugural Responsible Investing Annual Report
2023+	Reviewing and updating Responsible Investing Policy through UNPRI lens (currently underway)
2024	Launch of first UNPRI report
2030	Target date for Board-approved carbon reduction and QCAA commitments



Our Commitment

In June 2020, Queen's University became a founding signatory on a charter that commits Canadian universities to responsible investing for the environment. This charter, entitled Investing to Address Climate Change: A Charter for Canadian Universities, outlines commitments to promote sustainability through investments.

The charter was reviewed and endorsed by Queen's Climate Change Action Task Force (CCATF) and the Investment Committee of the Board of Trustees. The Charter, which aligns with Queen's Responsible Investing Policy, reflects a commitment to principles for reducing the carbon footprint of investment portfolios. Critically, these commitments are set in a risk-return context in line with the Board of Trustees' fiduciary responsibilities. The strategy protects against negative carbon impacts while positioning Queen's for continued financial success in the long-term.

CHARTER COMMITMENTS

1. Adopt a responsible investing framework to guide investment decision-making, in line with recognized standards such as the UN-supported Principles for Responsible Investment (UNPRI).
 - Queen's became a UNPRI signatory in 2022.
2. Regularly measure the carbon intensity of investment portfolios and set meaningful targets for their reduction over time.
 - Decarbonization commitments, as outlined on [page 12](#) of this report, were approved by the Board of Trustees in March 2022.
3. Evaluate progress towards these objectives on a regular basis and share the results of such assessments publicly.
 - This report includes details on our progress, beginning on [page 14](#).
4. Ensure that the performance evaluation of investment managers takes into account their success in achieving such objectives, alongside the other criteria for assessing their performance.
 - Each quarter, the Investment Committee reviews detailed carbon reporting for each external investment manager as part of its overall monitoring and due diligence.
 - Each external investment manager responds to an annual ESG questionnaire for the Investment Committee's review.

WORKING TOGETHER

Collaboration with peer institutions is a critical component of establishing best practices and constantly striving to improve our understanding of how to tackle the challenges we face. As part of our commitment, Queen's Director, Investments participates as a member of the Climate Charter Technical Committee, comprised of representatives from each of the university signatories to the charter. This committee compares approaches and shares experiences related to the implementation of charter commitments. The Investment Committee has also engaged with various stakeholders at Queen's, including the student group Queen's Backing Action on the Climate Crisis (QBACC), and the Institute for Sustainable Finance (ISF) at Smith School of Business.





UNPRI

In 2022, Queen's became a signatory to the United Nations-supported Principles for Responsible Investment (UNPRI), which are the world's leading standards of responsible investing. As a signatory, we are committed to ensuring ESG factors are fully incorporated into our investment process.

Signatory of:



Implementation

Queen's first UNPRI report will be released later this year. In the meantime, the Investment Committee is reviewing the Responsible Investing Policy through a UNPRI lens.

Alignment with Queen's Sustainability Goals

These principles are aligned with the university's broader sustainability goals, as outlined in the following reports:

- [Advancing Social Impact – SDG Report](#)
- [EDII Annual Progress Reports](#)
- [Annual Carbon Footprint Report](#)
- [Climate Action Plan Progress Report](#)
- [TRC five-year Implementation Report](#)

The Six Principles for Responsible Investment

Principle 1

We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2

We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4

We will promote acceptance and implementation of the principles within the investment industry.

Principle 5

We will work together to enhance our effectiveness in implementing the principles.

Principle 6

We will each report on our activities and progress towards implementing the principles.



HOW QUEEN'S INVESTMENTS ARE MANAGED

Queen's manages nearly \$1.5 billion in its Pooled Endowment Fund and over \$600 million in its Pooled Investment Fund.

The university, acting through its Board of Trustees, has overall fiduciary responsibility for Queen's investments. The Board of Trustees has approved a [Statement of Investment Policies and Procedures](#) and established an [Investment Committee](#) to help ensure these responsibilities are met. To achieve the funds' objectives and diversify risk, the committee employs a variety of external investment managers with different areas of specialization, with a careful emphasis on risk management, as well as a long-term strategic focus.

The Department of Investment Services at Queen's manages the day-to-day investment activities of the funds in accordance with policies approved by the Board of Trustees. Further details on the endowment asset mix and external investment managers can be found on the departmental [website](#).

Partnering with responsible investing leaders

In managing our endowment, we partner with [exceptional external investment managers](#). A thoughtful and robust ESG strategy is a critical imperative for today's world-class investment manager. Before hiring new managers, our comprehensive assessment of their investment strategy includes ensuring their approach to responsible investing is compatible with our goals and beliefs.

Holding our external investment managers accountable

As part of its fiduciary responsibilities, Queen's requires that all external investment managers consider ESG issues when making investment decisions. Queen's also believes corporate engagement activities (such as letters to management and proxy voting) can be effective when dealing with ESG issues. Each external investment manager is asked to engage where appropriate and to regularly provide detailed reporting on their own ESG activities in support of our ongoing due diligence.

Every year we require each of our external investment managers to respond to a detailed ESG questionnaire to help with our assessment of their investment strategy. We also require prospective managers to fill out this questionnaire as part of our due diligence during the manager selection process.

Leadership in Transparency

As a demonstration of our commitment to ESG transparency, Queen's has made the decision to publicly share our external investment managers' responses to the annual ESG questionnaire. These, along with detailed reports of the university's holdings, can be found on the [Investment Services website](#).



QUEEN'S CLIMATE ACTION ALLOCATION (QCAA)

Stemming from the recommendations that arose from the work of the Climate Change Action Task Force, Queen's Board of Trustees approved the establishment of an energy-transition allocation within the Pooled Endowment Fund to be named the Queen's Climate Action Allocation (QCAA). The QCAA will be comprised of investments across asset classes that are expected to outperform with the transition to a lower carbon economy and target a minimum of **15%** of endowment assets by the end of 2030.

The QCAA includes investments with low carbon emissions and/or have a credible plan for achieving net zero emissions in accordance with timelines set out by the Government of Canada (e.g. the Paris Agreement). These investments can be found in any asset class and may include, but are not limited to, renewable energy; low-carbon funds; carbon capture and other sustainability-driven technologies; and sustainable real estate.

We are pleased to report we have already established three such investments, totaling approximately 8% of the endowment (including commitments) as of December 31, 2023. These investments will help us achieve our carbon reduction commitments while also positioning our portfolio to take advantage of attractive investment opportunities arising from the ongoing energy transition. As such, the allocation is anticipated to enhance the long-term risk-return profile of the endowment, as it will include investments that are expected to outperform with the transition to a lower-carbon economy.

Pattern Energy

In December 2020, the Investment Committee made a US\$30 million allocation to Pattern Energy, a renewable energy company with extensive wind and solar investments in North America and Japan. A follow-on investment of US\$8 million was made in 2022. This investment was made as part of a syndicate group in partnership with the Canada Pension Plan Investment Board (CPPIB). More information on Pattern Energy can be found on the company website.

TD Emerald Low Carbon Global Equity

In February 2022, Queen's partnered with TD Asset Management to seed a new passively managed pooled fund which mirrors the performance and holdings characteristics of the MSCI World Low Carbon Target Index. Queen's first contribution of \$50 million was made in July 2022. The MSCI World Low Carbon Target Index is a benchmark for investors who wish to manage potential risks associated with the transition to a low carbon economy. The index aims to closely track the performance of the MSCI World Index while minimizing the carbon exposure.

Brookfield Global Transition Fund II

In November 2023, Queen's Investment Committee approved a US\$20 million allocation to Brookfield Global Transition Fund II (BGTF II). BGTF II is established as one of the largest funds focused on contributing to the global transition to a net-zero economy. The Fund will build on Brookfield's leadership in renewable power and deep operating capabilities to scale clean energy, sustainable solutions, and invest to accelerate the transformation of carbon-intensive businesses in alignment with the goals of the Paris Agreement.



Reducing our Carbon Footprint

In line with its fiduciary responsibilities, Queen's believes effective management of climate-related risks and opportunities may improve long-term performance. The university has made a commitment to lower the carbon footprint of the Pooled Endowment Fund and Pooled Investment Fund, as approved and endorsed by Queen's Board of Trustees on March 4, 2022.

Queen's Carbon Reduction Target

To measure and significantly reduce the carbon footprint (tons CO₂e per million dollars invested) of the Pooled Endowment Fund and Pooled Investment Fund, with the objective to sustain, by the end of calendar 2030, a public equity portfolio (also including private equity and real assets where data are available) with at least **25% lower carbon emissions than the equities benchmark** (currently the MSCI All Country World Index), using Scope 1 and Scope 2 CO₂e emissions.

We selected this approach because it is both meaningful and consistent with the board's fiduciary responsibilities. The premise is simple: as the world moves toward net zero, this will be reflected in the aggregate emissions of the companies represented in the global market index (in our case, the MSCI All Country World Index). Queen's has pledged to be a leader in this transition by committing to decarbonize at a rate that is *significantly faster* than the broader global market. With a target of at least 25% below the global market index's emissions, the university will decarbonize its portfolios ahead of the market. This policy does not target a single industry, rather focusing on the economy as a whole and creating incentives for efficient decarbonization. The approach balances Queen's desire to meaningfully decarbonize with the requirement to maintain a sound, risk-managed portfolio structure adaptable to changes in market pricing. Meanwhile, if everyone does their part like Queen's, the emissions of the broader market will gradually fall toward net zero.

The commitments were made after a thorough process whereby the Investment Committee conducted an extensive environmental scan, engaged with the **Institute for Sustainable Finance** (ISF) at Queen's, and, similar to many university peers, subscribed to a carbon data service provided by MSCI.

Actions Taken

Our plan is for carbon reduction in the endowment to be achieved through QCAA commitments (as described previously), fund and manager mandate selection, and through external investment manager engagement with portfolio companies to reduce their carbon output.

The following actions have already resulted in carbon footprint reductions:

- Significant emission reductions have been achieved through the QCAA investments in Pattern Energy and TD Emerald Low Carbon Equity. *(Note: the initial US\$30 million Pattern Energy investment is already reflected in the data as of December 31, 2021, which is used as the starting point in the accompanying charts.)*
- In 2022, the Investment Committee hired a new active emerging markets equity manager whose portfolio has significantly lower emissions than its benchmark.
- The mandate for a U.S. Small Cap manager was changed in 2022, resulting in a lower carbon footprint for that allocation.

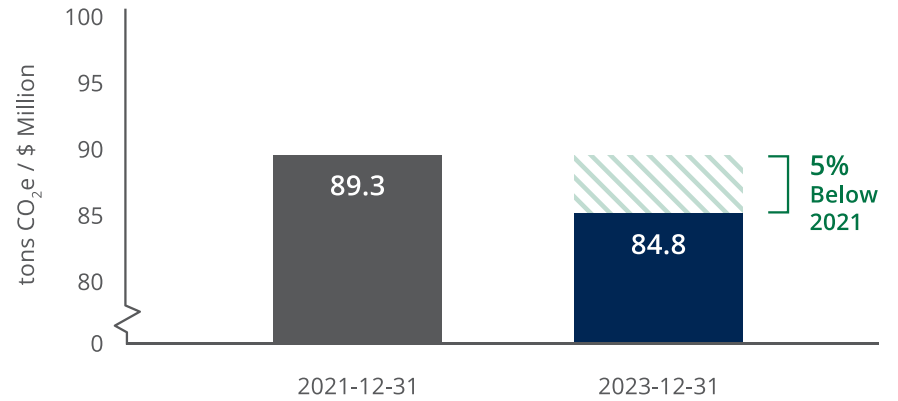
QUEEN'S ENDOWMENT CARBON FOOTPRINT

Queen's carbon reduction strategy has already shown encouraging results. As of December 31, 2021 our endowment's carbon footprint (across all public equities plus Pattern Energy) was 89.3 tons CO₂e per million dollars invested. Two years later, as of December 31, 2023, the carbon footprint dropped to 84.8 tons CO₂e per million dollars invested, which amounts to a **5% reduction** over the two years. (Please refer to the Appendix for the methodology.)

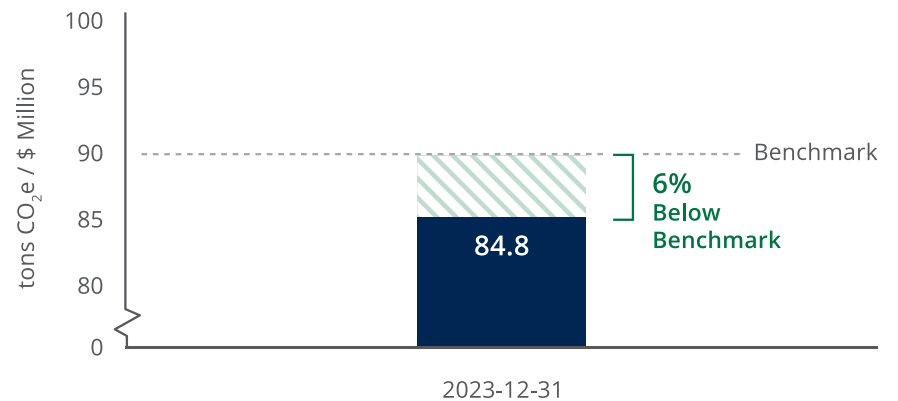
Our objective is to achieve, by 2030, a carbon footprint that is 25% below the MSCI All Country World Index.

We have made progress as of December 31, 2023, with a carbon footprint level that is **6% below the benchmark**. Although these results may rise or fall from year to year – over the past year, for example, the benchmark's carbon footprint fell faster than the endowment's carbon footprint – we are committed to the process, using a long-term focus. We are working diligently to source attractive investments that will help us achieve our ambitious 2030 target.

Carbon Footprint 2021 vs 2023

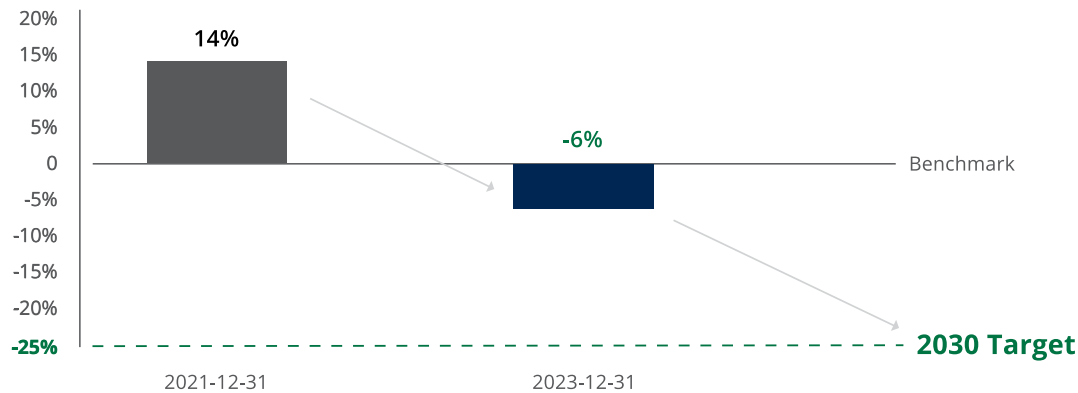


Carbon Footprint 2023 vs Benchmark



Two years ago, our endowment's carbon footprint was 14% *above* the benchmark index.

Carbon Footprint vs Benchmark Over Time



Pooled Investment Fund

We have also made progress with our Pooled Investment Fund. As of December 31, 2023 its carbon footprint was 78.2 tons CO₂e per million dollars invested, which was 13% below the benchmark.

LOOKING AHEAD

Much more work needs to be done. Results from year to year will not always be favourable because markets don't move in a straight line, but we are pointed in the right direction. We will continue to manage our investments using a long-term focus to meet our objectives. The process is challenging, and we have been learning lessons along the way.

The more the carbon footprint of the benchmark falls over time, the more aggressive our target becomes. The management of carbon-related risks in a responsibly crafted investment portfolio is both important and highly complex. The future will present countless unknown variables that will require us to adapt and evolve to ensure our endowment's objectives are met over time. What is certain is we will continue to work diligently as responsible stewards of Queen's Endowment, incorporating ESG principles at the heart of our investment process in support of the university's academic mission for generations to come.

APPENDIX

Definitions and Methodology

Carbon Footprint (or Normalized Carbon Footprint):
sum of emissions in the portfolio based on the investor's ownership share, expressed as tons CO₂e / \$M invested.

$$\frac{\sum^n \frac{\$ investment_i}{issuer's full mcap_i} * issuer's emissions_i}{\$M total investments}$$

Scope 1 Emissions:

Direct emissions from owned or controlled sources.

Scope 2 Emissions:

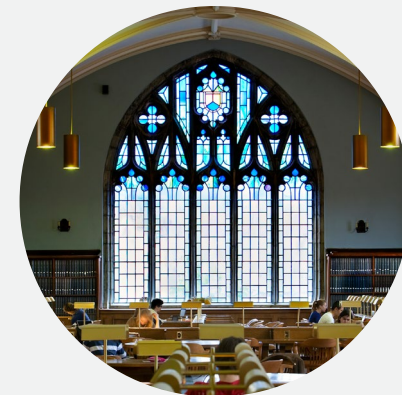
Indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company.

Assets Included in the calculations:

All public equities, plus Pattern Energy. The calculations do not include fixed income or non-public investments (aside from Pattern Energy).

Carbon Data Source:

MSCI



More information on Responsible Investing can be found on the **[Queen's Investment Services website](#)**



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