

## **POLICY 2.32 – Responsible Investing**

<b>Policy Category:</b>	Financial
<b>Subject:</b>	Investment Policies
<b>Sections:</b>	<a href="#">Purpose</a> ; <a href="#">Definitions</a> ; <a href="#">Policy</a>
<b>Approving Authority:</b>	Board of Governors
<b>Responsible Officer:</b>	Vice-President (Operations & Finance)
<b>Responsible Office:</b>	Financial Services
<b>Related Procedures:</b>	*
<b>Related University Policies</b>	<a href="#">Policy 2.26 – Investment</a> <a href="#">Policy 2.14 – Disclosure of Information on Western Investments</a>
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### **I. PURPOSE**

The University is a long-term investor, responsible for making prudent investments that generate financial results in support of the University’s mission. This policy establishes the University’s Responsible Investing (“RI”) principles as they relate to University investment practices.

University investments are subject to MAPP Policy 2.26 (Investment Policy), which outlines the Portfolio, principles, objectives and governance practices.

### **II. DEFINITIONS**

**Administration:** The administrative staff of the University responsible for day-to-day management of the Portfolio.

**Board:** The Board of Governors of the University.

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<b>Endowed Portfolio:</b>	Endowed assets invested to generate income to fund endowed chairs, scholarships, bursaries, research, etc.
<b>Engagement:</b>	The practice of inquiry, interaction and dialogue between parties along an investment value chain, such as Administration, Managers, collaborators, policymakers and companies. Engagement typically relates to investment risk/return, ESG issues, and other investment responsibilities and issues and its goals include influencing practices, improving disclosure and enhancing long-term value.
<b>ESG:</b>	<p>“Environmental, social, and governance,” and refers to a strategy that evaluates companies based on these non-financial criteria to inform investment decisions. The following definitions are based on the Principles for Responsible Investment.</p> <p>Environmental issues relate to the quality and functioning of the natural environment and natural systems, identified or assessed in responsible investing processes. These include but are not limited to risks related to greenhouse gas emissions, climate change, natural resources, and waste.</p> <p>Social issues relate to the rights, well-being, and interests of workers, communities, customers / end-users for corporate entities, and citizens/populations for sovereign entities, identified or assessed in responsible investing processes. These include but are not limited to risks related to human rights, labour rights, child and slave labour, diversity, equity and inclusion, and indigenous rights.</p> <p>Governance issues relate to the rules followed and actions taken by companies and other investee entities, identified or assessed in responsible investing processes. These include but are not limited to board oversight and structure, independence, company disclosures, shareholder rights, accountability, operational strategies, executive pay and performance evaluation.</p>
<b>Fiduciary Duty:</b>	The duty of members of the Board and Investment Committee to act honestly, carefully, in good faith, and in the best interests of the University as a whole. In the investment context, this means that members of the Board and Investment Committee must exercise the care, skill, diligence and judgment that a prudent investor would exercise in making investments,

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with a long-term view to maximize returns at an acceptable level of risk to support the University's mission.

<b>Fund:</b>	The combined Operating Portfolio and Endowment Portfolio of the University.
<b>Investment Committee:</b>	A sub-committee of the PF Committee with expertise in investments and investment management.
<b>Managers:</b>	The external investment managers who invest portions of the Portfolio.
<b>MTP:</b>	The mid-term investment portfolio of the University.
<b>Operating Portfolio:</b>	The long-term portion of non-endowed funds not included in the MTP and STP.
<b>PF Committee:</b>	The Property and Finance Committee of the Board.
<b>Policy:</b>	MAPP Policy 2.32 – Responsible Investing Policy
<b>Portfolio:</b>	Collectively, the STP, the MTP and the Fund.
<b>PRI</b>	Principles for Responsible Investment, a global investor initiative to advance responsible investing practices.
<b>RI:</b>	Responsible Investing, an approach which integrates ESG considerations into investment decisions.
<b>SDGs</b>	Sustainable Development Goals, a set of 17 global goals adopted by the United Nations in 2015 as a universal call to action.
<b>STP:</b>	The short-term investment portfolio of the University.
<b>University:</b>	The University of Western Ontario operating as Western University.

### III. POLICY

#### 1.0 Roles and Responsibilities

The PF Committee is responsible for periodic review of this Policy and, on the advice of the Investment Committee, recommends any changes to the Board for approval.

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The Investment Committee is responsible for the establishment, oversight and periodic review of this Policy. The Investment Committee provides oversight of the Administration in carrying out its Policy responsibilities.

The Administration is responsible for integrating the Policy with the Investment Policy and reporting on RI activities.

Managers, as investment experts, are hired by the University to carry out investment mandates, incorporate ESG factors into their decision making, and report RI activities to Administration for monitoring purposes.

Pension assets are not subject to this policy.

### 2.0 Responsible Investing Principles

The University is committed to integrating ESG considerations throughout investment decision-making processes of the Portfolio. Integration of ESG factors allows for the inclusion of relevant and material risks as part of the overall investment process, including Portfolio decision making, monitoring and active ownership. RI and ESG issues will vary in their degree of relevance and materiality by asset class, strategy, sector, and time horizons, but ultimately, they provide a broader lens for understanding emerging and long-term systemic issues that may impact Portfolio financial returns.

The Board has a Fiduciary Duty. Investment decisions must be made by investment professionals and guided by financial risk and return assessments. Incorporating RI and ESG factors into investment financial risk assessment is in keeping with this duty.

To guide integration of RI into its investment approach, the University is a signatory to the PRI, a global investor initiative to which the University committed in 2023. In becoming a signatory, the University has committed to integrating the PRI global principles into our investment processes. The six principles, and the University integration thereof, are as follows:

University Integration	
<b>Principle 1 - Incorporation</b> We will incorporate ESG issues into investment analysis and decision-making processes.	<ul style="list-style-type: none"><li>• In the Portfolio and their strategic asset classes</li><li>• Into the selection, evaluation, and monitoring of Managers</li><li>• Into University decarbonization priorities, and using industry standards to measure, monitor, and plan for strategic needs</li><li>• Implement an ESG questionnaire for Managers, and monitor their integration capabilities</li></ul>

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	<ul style="list-style-type: none"> <li>• Provide training opportunities for Administration and the Investment Committee to increase and maintain ESG industry knowledge and practices</li> </ul>
<p><b>Principle 2 - Active Ownership</b></p> <p>We will be active owners and incorporate ESG issues into our ownership policies and practices.</p>	<ul style="list-style-type: none"> <li>• Develop proxy voting guidelines that integrate ESG factors, and communicate the guidelines to Managers</li> <li>• Monitor Manager voting activity and include results as part of regular Manager reviews</li> <li>• Engage with Managers on results of questionnaires, carbon metrics, information quality and other emerging issues</li> <li>• In addition to Manager engagements, employ a collaborative engagement program that leverages scale across the sector</li> </ul>
<p><b>Principle 3 - Appropriate disclosure</b></p> <p>We will seek appropriate disclosure on ESG issues by entities in which we invest.</p>	<ul style="list-style-type: none"> <li>• Obtain Manager reporting on ESG related engagement with companies, and discuss with the Manager</li> <li>• Discuss Manager views on ESG issues, their engagement activity, and investment response</li> <li>• Support, through collaborative engagements, initiatives that improve ESG reporting</li> </ul>
<p><b>Principle 4 - Promote acceptance</b></p> <p>We will promote acceptance and implementation of the principles within the investment industry.</p>	<ul style="list-style-type: none"> <li>• Collaborate with other institutions, to share integration best practices and knowledge</li> <li>• Support collaborative initiatives that develop sector expertise in implementing the principles</li> <li>• Take leadership roles within collaborative initiatives to promote acceptance</li> <li>• Communicate our ESG expectations with Managers through selection, evaluation, and monitoring (e.g. ongoing questionnaires, reviews and RFPs)</li> </ul>
<p><b>Principle 5 - Work together</b></p> <p>We will work together to enhance our effectiveness in implementing the principles.</p>	<ul style="list-style-type: none"> <li>• Actively participate in learning networks, such as the PRI, to develop internal capabilities with respect to integration.</li> <li>• Learn from peers, Managers and service providers. Seek knowledge and learn about opportunities that may enhance integration</li> <li>• Support collaborative engagements to build collective scale and influence on matters of engagement</li> </ul>

<p><b>Principle 6 - Report activities</b></p> <p>We will report on our activities and progress towards implementing the principles.</p>	<ul style="list-style-type: none"> <li>• Report on our RI activities to the Board</li> <li>• Disclose how ESG issues are integrated within our investment process</li> <li>• Publish our annual PRI reports</li> <li>• Publish annually, our RI report, including progress, challenges and climate-related financial disclosures</li> </ul>
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**3.0 Integration and Stewardship**

**3.1 Training and Education**

The University recognizes the importance of being up to date on RI issues and peer institutional best practices, requiring an adaptive approach and ongoing learning and improvement. In our experience, ESG issues can vary from being more developed and quantifiable, to developing, to more subjective and less quantifiable. Integration is more practical and less subjective when ESG issues have been more developed by industry and can be incorporated into financial risk management processes.

The University will incorporate training and education opportunities, to advance learning for integration of material and relevant ESG issues into risk management processes.

**3.2 Sustainable Investment Opportunities**

The University takes a broad and dynamic approach to sustainable investing and believes having a commitment to this area presents new opportunities for investors and could enhance the University’s long-term investment returns.

The University has committed a capital allocation in the Fund of at least 15% to sustainable investments, intended for strategies with the intention to achieve positive, measurable social and environmental outcomes alongside competitive financial returns. The sustainable investments should align with the SDGs, and their social and environmental outcomes should be verified through an external label or certification issued by an independent third-party industry organization, or an entity authorized to issue such labels on behalf of an independent organization.

Administration shall seek sustainable investments within the Fund’s strategic asset classes, meaning that the allocation is an overlay to the existing strategic asset mix, and not an asset class itself.

Recognizing the interconnected nature of the SDGs, the University would evaluate these investment opportunities through systematic assessments of ESG criteria to ensure alignment with different SDGs.

### **3.3 Climate Change**

The University has committed to net zero by 2050, or sooner. As a systemic risk, periodic analysis of the Portfolio in relation to climate change (i.e., scenario analysis), and annual measurements of emissions will be undertaken.

As a medium-term target towards net zero, the University has committed to a 45% reduction in carbon intensity by 2030, using 2020 as a baseline measurement.

The University measures its metrics annually, which include Scope 1 & Scope 2 greenhouse gas emissions. Scope 3 greenhouse gas emissions will be considered as part of the assessment once accurate measurement and reporting standards are available and readily adopted.

### **3.4 Selecting and Monitoring Managers**

As part of its due diligence process when selecting Managers, the University assesses the extent to which they incorporate ESG factors into their investment approach, including in the evaluation of portfolio companies, portfolio construction, and stewardship and engagement activities.

Following the appointment of Managers, the University conducts ongoing monitoring of their ESG-related practices. The Portfolio holds pooled funds which in turn hold a high number of smaller-sized investments in underlying securities. It is impractical for the University to directly engage with these underlying securities.

The University relies on the Managers to undertake engagement activities, as outlined in Section 3.5.

The cornerstone of the process by which the University monitors its Managers is an annual ESG due diligence questionnaire. The ESG questionnaire should cover the following areas:

- Description of policies, core beliefs and initiatives supported;
- Commitment of resources both financial and personnel;
- Transparency of process, including individual company;
- Evolution and advancement of Manager expertise in ESG consideration;
- Appropriate Manager marketing to the public;
- Policies and initiatives specific to climate change and social issues;
- Policies and practices around the Managers' shareholder engagement activities, as part of an overall RI strategy. Managers are to assess companies' management practices in contributing to the long-term health of each investee company.

### **3.5 Engagement**

Engagement occurs along the investment value chain. Typically, the University engages with Managers, and Managers engage with companies.

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Company engagement activities, such as dialogue with management, proxy voting or shareholder resolution filing are delegated to the Managers. Managers are expected to report to the University on a regular basis on their engagement work and provide a rationale for their decision to alter a Portfolio position based on ESG factors.

The University provides proxy voting guidelines to Managers that incorporate ESG considerations, as indicated in Appendix A.

The University engages on ESG matters through routine Manager reviews, targeted Manager discussions on emerging issues, collaborative initiatives with peers, and through engagement service providers.

The University will evaluate the outcomes of engagement efforts to determine Managers' effectiveness in driving meaningful improvements.

The University may also participate in collective engagement services, where a collaborative engagement strategy is desirable and may lead to positive change on specific ESG related topics with a company. The University's participation in collective engagement services provides opportunities to participate in collaborative letter-writing with other shareholders in the program. The Administration will conduct research on the issues presented in investor letters and evaluate their materiality. The research and recommendations will be submitted to the Chair of the Investment Committee for review and final decision regarding participation.

When specific issues arise with Managers or within certain markets or sectors, the Administration may cooperate with peer asset owners for informal discussions, group meetings, or collaborative campaigns to engage with Managers as deemed appropriate.

### **3.6 Advocacy and Collaboration**

The University endeavours to remain up to date on RI and the impact of ESG factors on its investments. To maintain its knowledge of the field of RI and to contribute to its development, the University will liaise with other institutional investors and industry associations to share information and discuss key issues.

### **3.7 Divestment**

The University leaves the decision to exclude a security to the Managers hired to manage a portion of the Portfolio, as they possess the necessary expertise and information to make the decision that is in the best interest of the Portfolio.

The University believes that, in most situations, engagement is a superior approach to divestment in effecting changes on ESG-related issues. Engagement allows investors to retain their voice in terms of voting on shareholder resolutions and maintaining or escalating, as needed, a dialogue with portfolio company management.

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If a Manager's stance on ESG factors is not compatible with the University's goals in those matters, demonstrated through persistent, systemic misalignment, the Investment Committee will consider replacing the Manager, but such a decision will be guided by the Investment Committee's Fiduciary Duty.

### **3.8 Transparency and reporting**

As a member of the PRI, the University will publicly report its progress on the principles.

RI activities and metrics will be reported to the University community on an annual basis through the [University Investments website](#). The University is committed to reporting along the lines of investment industry standards, as they develop, such as climate-related financial disclosures.

The University will make available to the University community, the most recent list of Portfolio investments, subject to blackout periods imposed by the underlying Managers. Requests need to comply with [MAPP Policy 2.14 - Disclosure of Information on Western Investments](#).

### **4.0 Review**

This Policy will be reviewed at least every five years.

**Appendix A: Proxy Voting Guidelines**

- 1.0 As a fund shareholder, the University holds units of the fund and maintains economic exposure to stocks (and other securities) held within the fund. The University does not directly hold portfolio company shares or exercise voting rights for those shares. Managers cast proxy votes on behalf of the University.
- 2.0 The purpose of the guideline is to establish expectations for Managers when they vote proxies for a commingled vehicle in which the University invests.
- 3.0 While the University acknowledges each Manager's independent proxy voting policies, the University shall encourage Managers to align their voting practices with the principles outlined in these guidelines, where possible.
- 4.0 The guidelines are not exhaustive. For issues not explicitly addressed herein, voting decisions are expected to be guided by the Statement of Investment Committee Beliefs appended as Appendix A to the Investment Policy (MAPP 2.26) from time to time.
- 5.0 The University may conduct proxy voting audits and Manager policy reviews to monitor and evaluate Managers' voting practices, the outcomes from which may inform the engagement of the University with its Managers.
- 6.0 The University takes the following positions as they relate to the following matters:

6.1 Audit

The University believes auditors should provide an independent assessment and assurance that financial reports reflect the company's performance.

The proxy voting position of the University on issues related to audit include:

*Auditor independence*

Do not support the reappointment of an audit firm if its non-audit fees are excessive compared to its audit fees.

6.2 Board of Directors

The University believes that effective governance requires appointing directors with relevant skills and experience with a corporate culture that encourages meaningful contributions to boardroom discussion.

The proxy voting position of the University on issues related to the board of directors include:

*Director accountability for ESG issues oversight*

When voting proxies, the position of the University is to not support the election of the chair or returning members of the relevant board committee where material failures of governance, stewardship, or risk oversight (including assessment and management of material ESG risks) have occurred, or where corporate ESG performance, including climate change performance, has been unsatisfactory.

*Board diversity*

When voting proxies, the position of the University is to not support the election of the chair of the nominating committee if a board lacks adequate diversity of thought, which may be delivered by factors such as diversity of gender, race, culture, economic background and experience.

*Board and key committee independence*

When voting proxies, the position of the University is to not support the election of non-independent nominees serving on the audit committee and compensation committee.

When voting proxies, the position of the University is to not support the re-election of the chair of the nominating committee if the audit committee and compensation committee are not fully independent.

**6.3 Compensation**

The University believes compensation should align management interests with shareholder interests. It should balance the need to attract, retain, and motivate qualified talent while avoiding excessive detriment to investor interests.

The proxy voting position of the University on issues related to compensation include:

*Pay Equity*

Support conducting pay equity analysis, including gender and/or race pay gap assessments, on a case-by-case basis.

Support proposals calling for a pay disparity disclosure on a case-by-case basis.

*Incentive compensation linked to ESG targets*

Support linking executive incentive compensation to clearly defined and measurable ESG targets on a case-by-case basis.

*Incentive compensation linked to long-term performance*

Do not support incentive compensation that misaligns with long-term value creation and/or incentivizes excessive risk-taking.

*Excessive compensation*

Do not support excessive compensation or structures that exacerbate income inequality.

**6.4 Mergers, Acquisitions and Reorganizations**

The University believes mergers, acquisitions, reorganizations and the corporate structure should align with long-term value creation and shareholders' interests.

When voting proxies, the position of the University is to support corporate transaction proposals that foster sustainable long-term growth while appropriately considering ESG factors.

**6.5 Shareholder Proposals**

The University believes that incorporating appropriate ESG factors can mitigate risks and create long-term shareholder value. The University supports analyzing proposals on a case-by-case basis, considering the specific facts and circumstances of both the issuer and the proposal.

When voting proxies, the position of the University is to generally support ESG proposals that demonstrate materiality and align with sustainable, long-term value. This includes proposals related to enhanced disclosure, board composition and compensation considerations, and company initiatives such as target-setting and policy development. The University does not support proposals that are overly prescriptive, excessively costly, or redundant with existing company disclosures or measures.

**Environmental Risks**

The proxy voting position of the University on issues related to environmental risks include:

*Biodiversity*

Support proposals contributing to biodiversity conservation and sustainable use of natural resources on a case-by-case basis.

*Climate change*

Support proposals contributing to meeting the goals of the Paris Agreement, reducing carbon intensity, and achieving net-zero absolute carbon emissions by 2050, on a case-by-case basis.

*Water preservation*

Support proposals contributing to water preservation and promoting efficient water use to reduce unnecessary consumption.

**Social Risks**

The proxy voting position of the University on issues related to social risks include:

*Child labour*

Support proposals that contribute to prohibiting child labour.

*Conflict-Affected and High-Risk Areas*

Support proposals conducting heightened due diligence for companies or assets with potential geographic, operational, or relational exposure to conflict-affected and high-risk areas (regions experiencing or at high risk of experiencing armed conflict, widespread violence, or similar forms of instability).

*Forced labour and modern slavery*

Support proposals that contribute to prohibiting forced labour and modern slavery.

*Indigenous rights*

The University is located on the traditional territories of the Anishinaabek (Ah-nish-in-a-bek), Haudenosaunee (Ho-den-no-show-nee), and Lūnaapéewak (Len-ahpay-wuk) Nations, on lands connected with the London Township and Sombra Treaties of 1796 and the Dish with One Spoon Covenant Wampum. This land continues to be home to diverse Indigenous Peoples (First Nations, Métis and Inuit) whom we recognize as contemporary stewards of the land and vital contributors of our society.

As part of its ongoing commitment to reconciliation, the University is dedicated to establishing and upholding responsibility and accountability to Indigenous Peoples.

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Support proposals that strengthen and build relationships with Indigenous communities on a case-by-case basis.

Support proposals that establish formal policies and processes to obtain informed consent sufficiently in advance and without coercion, intimidation or manipulation, through due diligence, consultation, participation in decision-making, and remediation where business activities may cause, contribute to, or be directly linked to adverse impacts on Indigenous peoples' rights, on a case-by-case basis.

Support proposals for implementing culturally relevant education and training on Indigenous rights.

### 6.6 Shareholder Rights

The proxy voting position of the University on issues related to shareholder rights include:

#### *Dual Class Share Structures*

In dual class share structures, one class of shares has more votes per share than other shares. These structures give a group of shareholders, usually the founding investors, voting control for a relatively low level of equity ownership and can have a negative performance impact over time.

When voting proxies, the position of the University is to support proposals that align with the principle of one-share, one-vote.

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**Last Reviewed:**