Re: IB1.05

SUSTAINALYTICS

APPLICATION OF ESG AND CARBON RESEARCH

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Who We Are

» The largest pure-play investment research and ratings firm dedicated to responsible investment and ESG research

» Over 500 professional staff with more than half engaged in research.

» In excess of 550 clients

» Over 25 years experience in the fields of ESG and corporate governance research.

» Owned by: Senior management, Morningstar, PGGM, ABN AMRO MeesPierson, Renewal Partners.

Asset Owners

Asset Managers

Green and Social Bonds

Sustainalytics

What We Do

» We help clients turn vast quantities of environmental, social and governance information into insightful, value-added analysis to enable more informed investment and business decisions.

» Help investors integrate ESG and Corporate Governance factors into **investment processes**

» Provide **comprehensive ESG and Corporate Governance** ratings and research across more than 10,000 companies worldwide

» Drive sustainability impact …by **enabling the infrastructure of change**

Our Fields of Expertise

- Company ESG Research
- Corporate Governance Research
- Sector Research
- Thematic Research
- Country Research
- Controversial Weapons Research
- Carbon Research
- Global Compact Compliance
- Portfolio Reviews & Assessments
- Indexes
- Sustainability Bond Services
- Product Involvement
- PRI Advisory Services
- Responsible Investment Policy Development

Research Universe

HOLISTIC VIEW OF ESG

The Building Blocks of ESG

Material ESG issues (MEIs) are central to the ESG Ratings

Corporate Governance

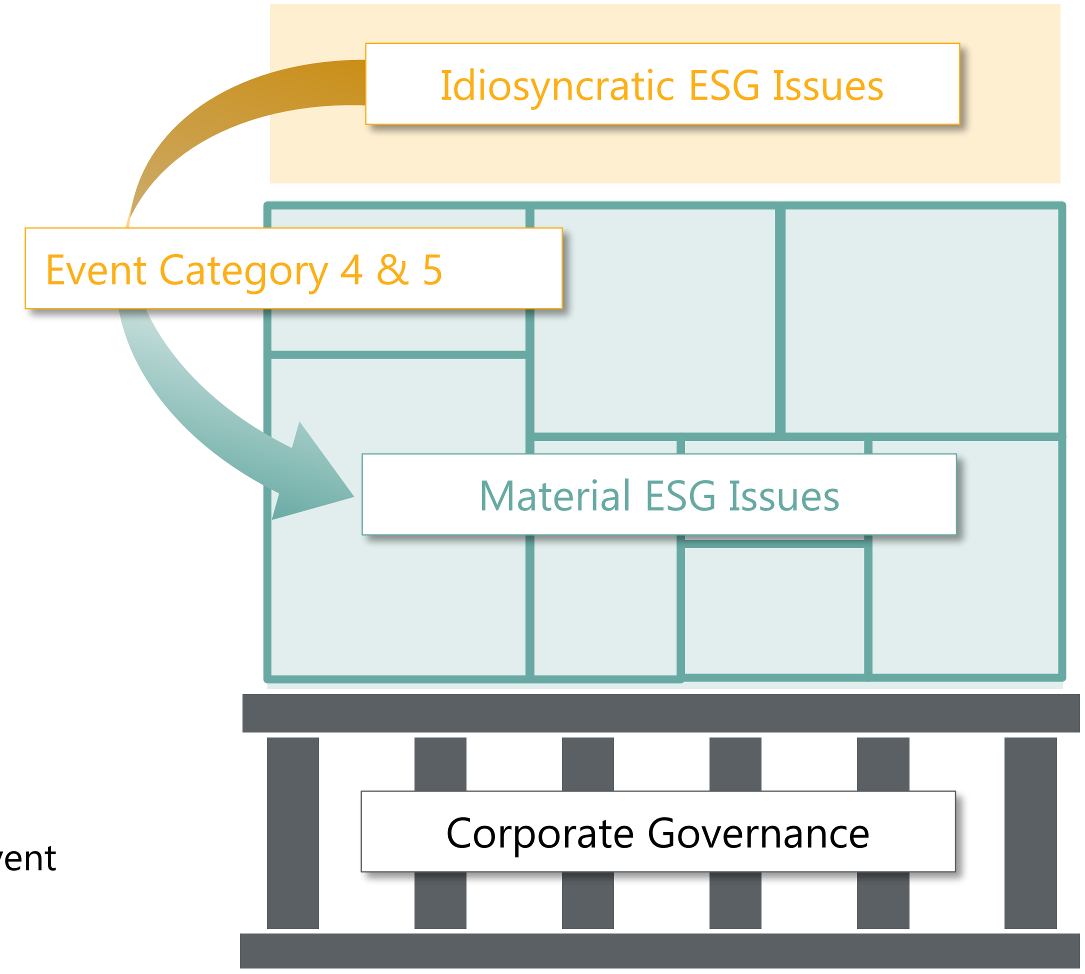
- Assesses Corporate Governance & Stakeholder Governance;
- All sub-industries have the same level of exposure; companies are differentiated based on severity of their controversies and their public listing status only;
- Regional weightings scheme for CG pillars and associated indicators.

Material ESG Issues

- Issue selection and exposure assessment at subindustry level;
- Exposure adjustment at company level via beta factors;
- Determination of overall exposure.

Idiosyncratic ESG issues

- Includes issues that are not covered under the material ESG issues;
- Weight of zero until a highly significant, but inherently unpredictable event happens.



Integration of ESG Ratings Into Investment and Compliance Decisions

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Investors Can Use the ESG Ratings in a Variety of Ways

ESG Integration	✓ Multi-dimensional ESG risk scores can be incorporated into equity or bond valuation models and aggregated at the portfolio-level – often done at Investment Manager level based on Asset Owner guidelines
Best-in-Class Investment Analysis	✓ Comparable company scores support flexible applications for best-in-class analysis, including sub-industry, sector or regional approaches
Screening and Benchmarking	✓ Overall ESG Ratings and material ESG issue scores support risk-based ESG screens and enable robust benchmarking across and within sectors and sub-industries
Thematic Investing	✓ Material ESG issues scores support thematic investment themes and provide meaningful new input for fund or index creation
Engagement and Voting	✓ Material ESG issue framework effectively supports engagement with companies on priority ESG issues and informs voting decisions on E&S shareholder resolutions

Thoughts for the Committee

- ✓ Who sets the ESG criteria and what are they? You currently allow each investment manager to set the criteria so you, in fact do not have any criteria. A different approach would be to have criteria which you use to select, evaluate and monitor investment managers. Without this, you allow the managers to dictate the policy but you are then forced to defend their investment selections.

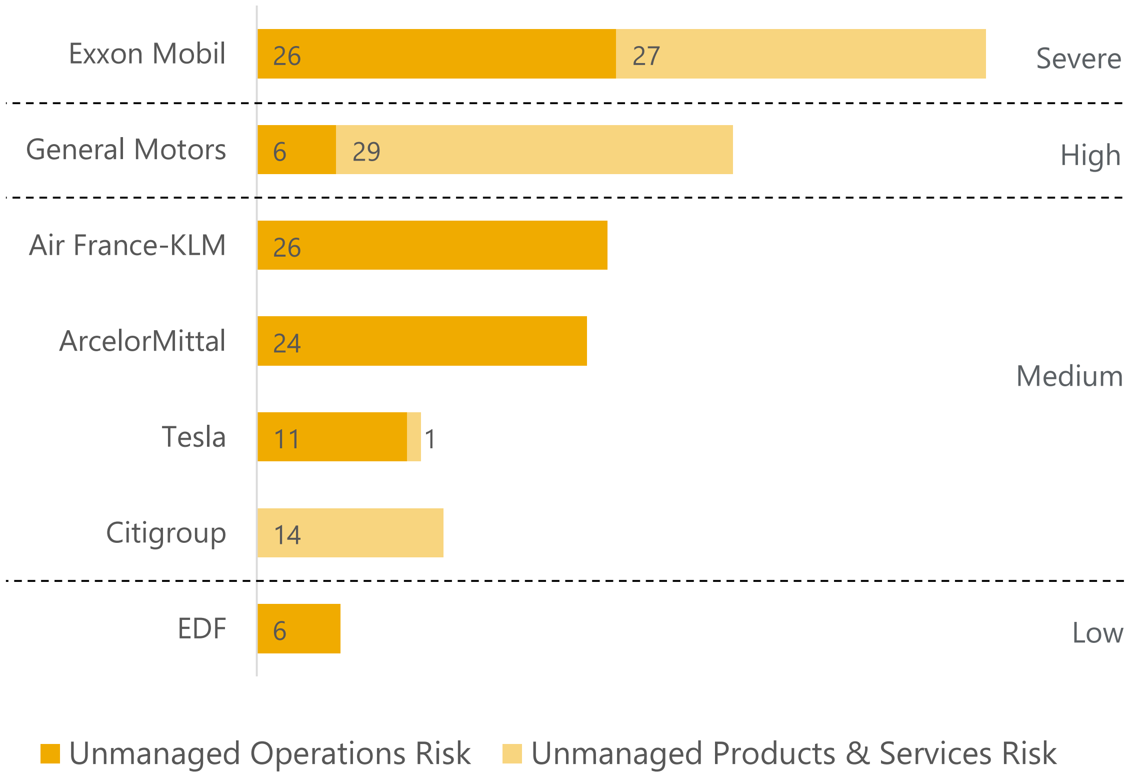
- ✓ You have favoured Environmental issues over Social or Governance issues. This approach is more typically seen in a mission-based organization where the mission statement is one that focusses on an issue that is the whole of or a subset of E, S or G. Multi-dimensional organizations tend to have a more blended approach at the top level but may support or fund other organizations that focus on underlying issues.

- ✓ What are your ESG compliance checks and monitoring process? You likely benchmark and evaluate financial performance, what are your plans for ESG monitoring and compliance?

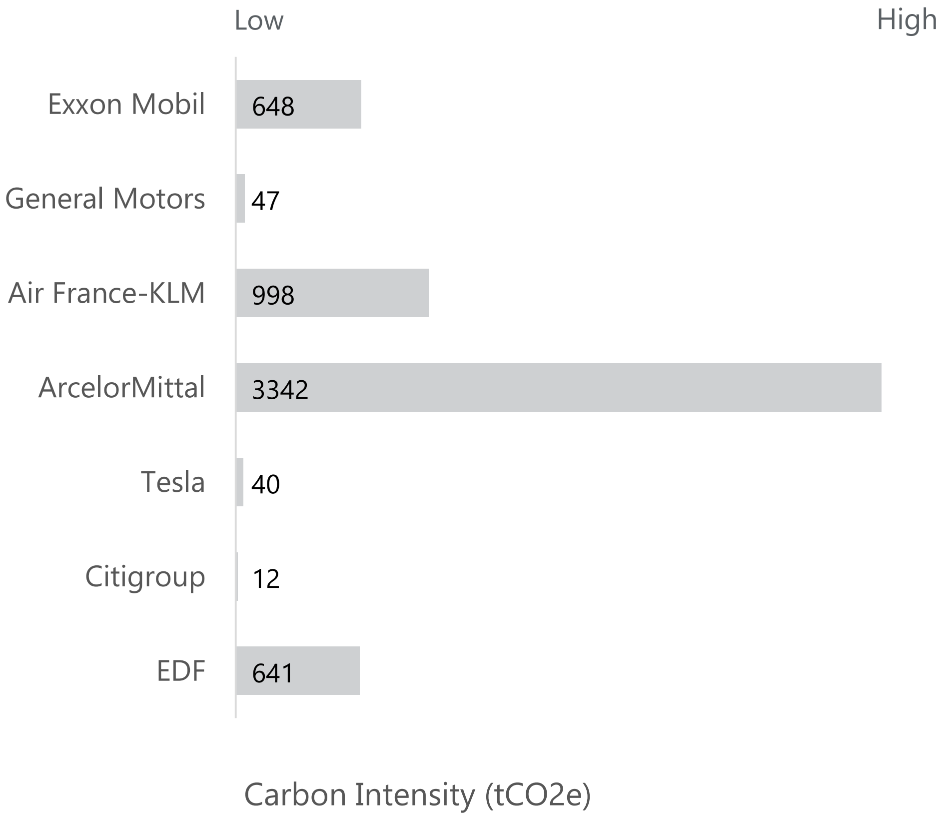
Carbon/Climate Action

Carbon Risk Rating focuses on material carbon risk on companies

Carbon Risk Rating



Traditional Carbon Footprinting



Source: Company Reports, Sustainalytics

Sample Range of Exposure and Management Indicators

Exposure Indicators	
Own Operations	**Products and Services**
Carbon Intensity	Fleet Emissions
Stranded Carbon Assets	Stranded Carbon Assets
Negative Product Involvement (e.g., fossil fuels involvement)	Carbon Challenges
Carbon Intensity Trend	Carbon Solutions
Positive Product Involvement (e.g. renewable energy)	Responsible Asset Management

Management Indicators
Carbon Intensity
CDP Participation
EMS Certification
Environmental Management System
GHG Risk Management
Scope of GHG Reporting
Environmental Policy
GHG Reduction Programme

Thoughts for the Committee

- ✓ Is Carbon Footprinting the correct measure or should you be looking for positive impact products to add to your portfolio or a blend of these? Is the City of Toronto the correct organization to do so or should another organization be the recipient and steward of these investment dollars by way of a passthrough?

- ✓ Targeted local investments seem outside of the scope of this committee but may still be a valid investment asset class.

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