Office of Finance

Inaugural Consolidated Endowment Fund
Environmental, Social and Governance Report, 2020-21

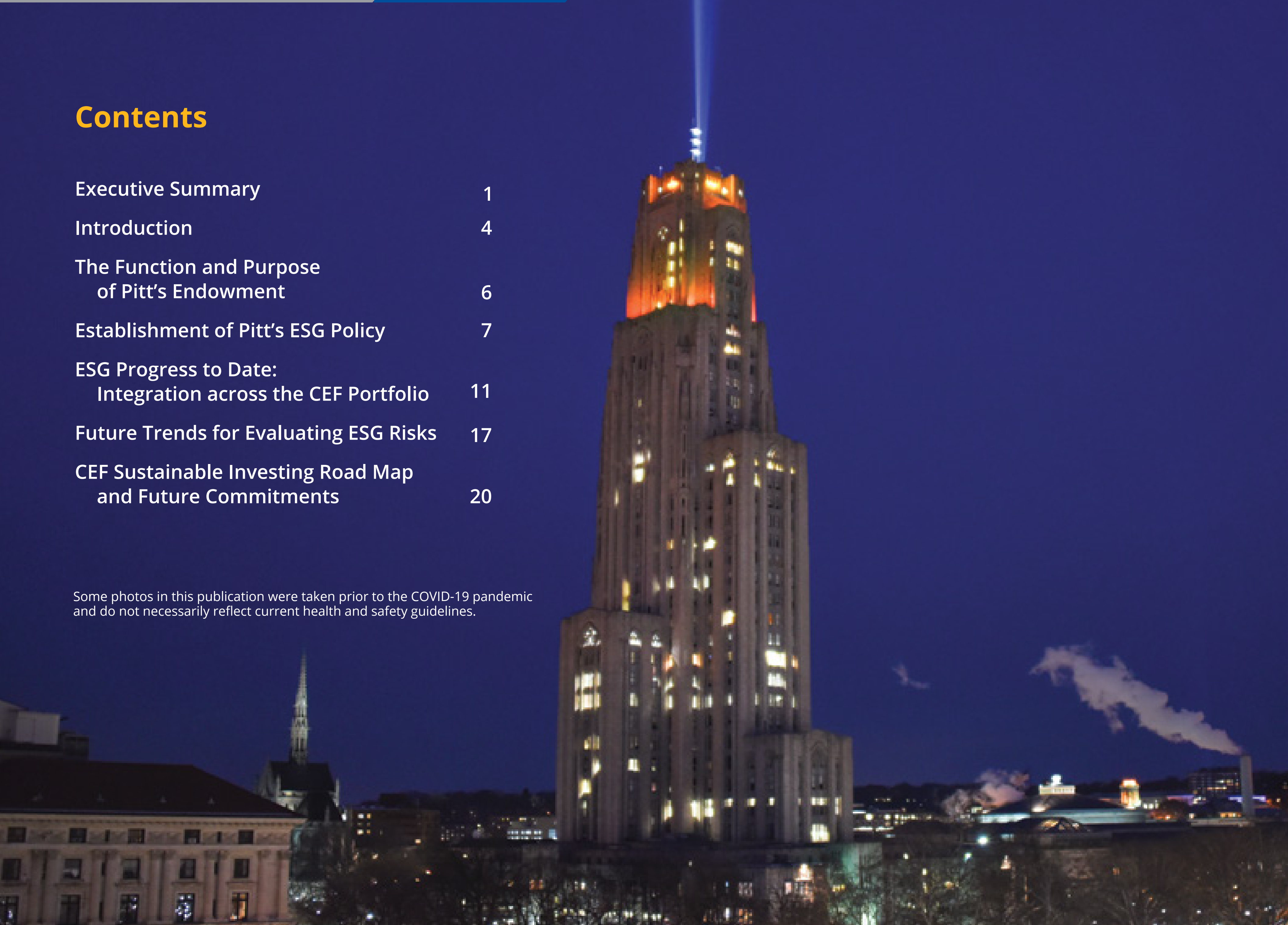
March 2022

University of Pittsburgh

Office of the Senior Vice Chancellor and Chief Financial Officer

Contents

Some photos in this publication were taken prior to the COVID-19 pandemic and do not necessarily reflect current health and safety guidelines.



Executive Summary

The University of Pittsburgh's largest financial asset is its Consolidated Endowment Fund (CEF), valued at $5.6 billion as of June 30, 2021. The CEF supports financial aid, scholarships, faculty positions, and research activities—and links past, current, and future generations of University stakeholders, including students, faculty, and staff.

The primary investment objective of the CEF is to earn a rate of return over an extended period while preserving its asset value. It is the University's core belief that supporting responsible business practices is integral to producing strong investment outcomes.

This is not a new concept at Pitt. In fact, the Office of Finance, which manages the CEF, has been incorporating many of the concepts now referred to as environmental, social, and governance (ESG) factors in its due diligence process on a case-by-case basis since 1990. In an effort to reaffirm that commitment and develop a more consistent and comprehensive approach, the ESG policy for the CEF was established in March 2020.

Furthermore, the Ad Hoc Committee on Fossil Fuels, convened by the University's Board of Trustees, strongly supported the current long-term strategy of the University's CEF, which is expected to continue to pursue strong risk-adjusted financial returns while reducing private holdings in fossil fuel exploration and production to zero by the end of 2035. The Ad Hoc Committee also directed the University to provide greater transparency regarding the fossil fuel trends of the CEF in an ESG report.

This inaugural report seeks to provide greater clarity regarding how ESG factors are applied in the investment decision-making process as well as report on fossil fuel trends as requested by the Ad Hoc Committee.

In addition to providing an introduction to the University's endowment, the report discusses several topics:

Pitt's ESG Policy Development:

The ESG policy considers a range of factors when evaluating investment risk. Those factors could include energy efficiency, hazardous materials management, climate change, water and land management, data protection and privacy, human rights, labor standards, product safety, accounting and audit standards, bribery and corruption, business ethics, and regulatory compliance. To develop this policy, the Office of Finance benchmarked the policies published by public and private peer universities, including those with similar endowment sizes.

Progress on ESG Policy Implementation:

Pitt's progress to date shows how ESG factors are being applied consistently across all asset classes, including the expansion of the standard, formal due diligence questionnaire, which is now answered by every potential investment manager. The Office of Finance also employs a sustainability materiality map that identifies key risk factors along the dimensions of environment, social capital, human capital, business model and integration, and leadership and governance. Additionally, the report features four case studies that illustrate the impact of applying ESG factors when considering specific investment opportunities. It is important to note that there is not currently an agreed-upon set of ESG standards or metrics in the investment industry. As a result, this report discusses more of a qualitative approach in applying ESG factors currently employed by the Office of Finance, and as shown in the case studies. As common standards are developed and quantitative metrics are agreed upon, we will look to broaden our reporting.

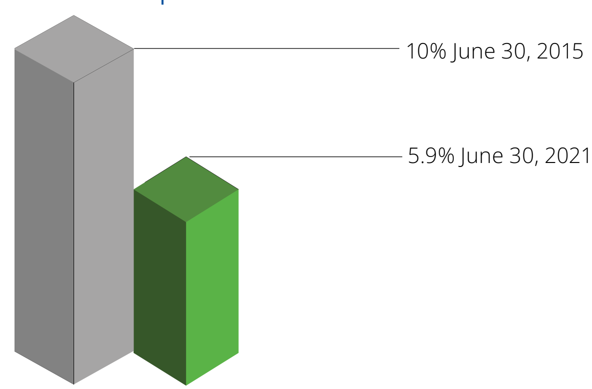
Future Trends:

The report looks to project some trends with regard to ESG factors. However, there are some challenges in providing comprehensive metrics on ESG factors. For example, information on ESG factors is consistently available only on public equity and corporate fixed-income investments that constitute approximately one-fifth of the CEF as of June 30, 2021. Furthermore, the investment industry and regulators are still in the process of developing a common set of standards and metrics with regard to ESG.

This inaugural report does include data and measurement of environmental factors, specifically fossil fuels. Portfolio exposure to fossil fuels decreased to 5.9% by June 30, 2021, compared to 10% on June 30, 2015. The University remains on track to meet the expectation of the Ad Hoc Committee on Fossil Fuels that private holdings in fossil fuels will decline to zero by the end of 2035.

While this report provides more information regarding the specifics of CEF investing than has ever been provided in the past, we recognize that there are some significant gaps, especially related to metrics. A major challenge is that the investment industry currently lacks established quantitative measurement standards to evaluate ESG factors.

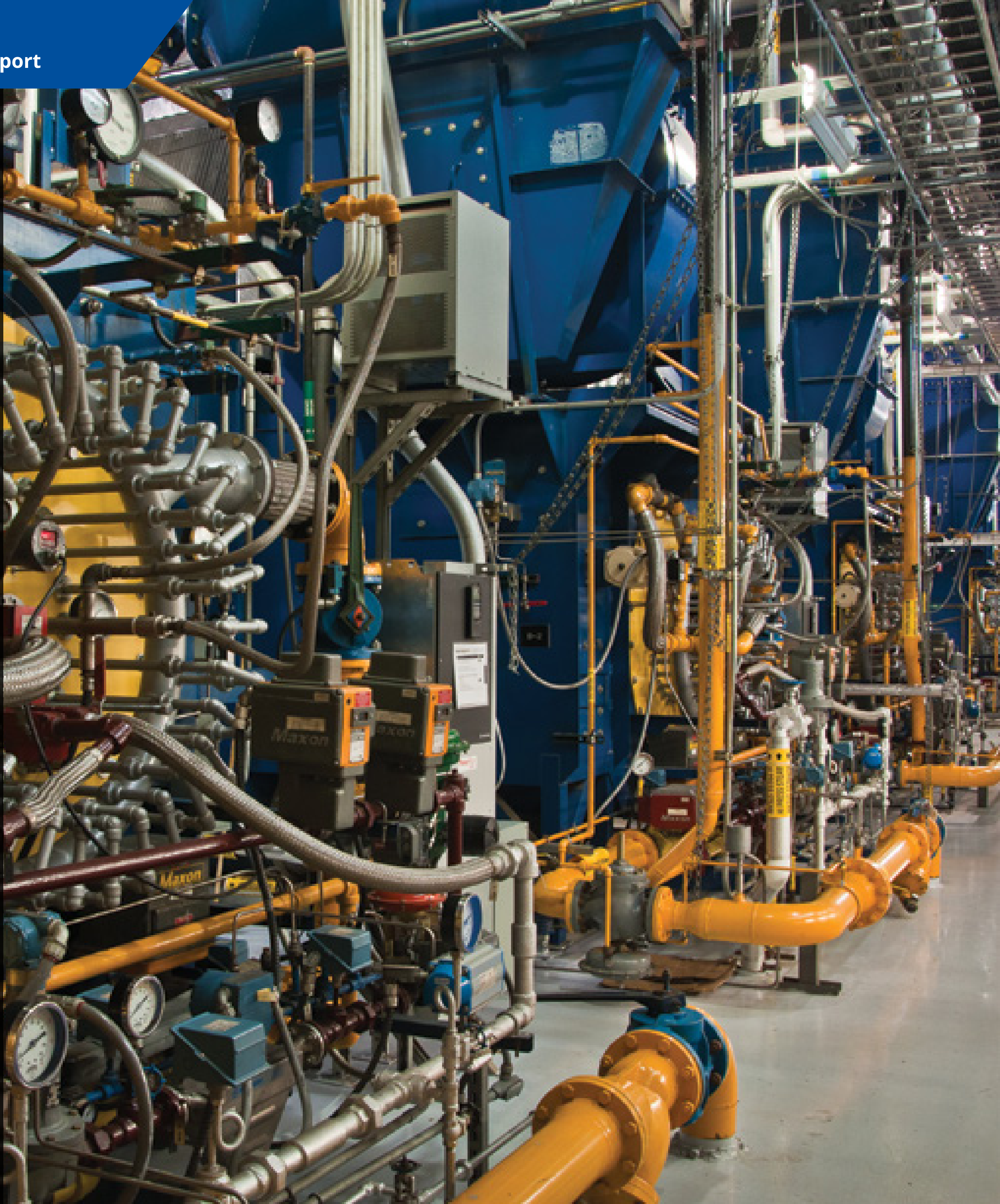
Portfolio exposure to fossil fuels



This report serves as a starting point as standard measurements continue to evolve. Our commitment to applying ESG factors to the CEF is steadfast, and the University has a more consistent and comprehensive approach to applying ESG factors than in the past. As consistent standards for ESG reporting are developed, the University will be able to report on them.

It is important to note that this report focuses only on the ESG policy as it relates to investing the CEF. The University of Pittsburgh has been actively involved much more broadly in sustainability initiatives for over 30 years, especially as it relates to its operations. This includes recently establishing a Pitt Sustainability Plan that incorporates equitable, environmental, and economic considerations and goals across the institution and its campuses. The University's integration of ESG factors into its decision-making process for the CEF aligns with the University's broader sustainability goals.

We hope that this inaugural ESG report supports a more robust dialogue within the Pitt community about the incorporation of ESG factors into the investment decision-making process.



The Carrillo Street Steam Plant is a significant part of the University's commitment to reducing its carbon footprint. The facility is one of the cleanest university heating plants in the United States. The full use of this facility by Pitt/UPMC is expected to reduce annual carbon dioxide emissions by approximately 48,000 metric tons, nearly half of the baseline steam-related CO2 emissions.

Introduction

Founded in 1787, the University of Pittsburgh has a mission to provide high-quality undergraduate and graduate programs in the arts and sciences and professional fields while supporting broader public interests contributing to the social, intellectual, and economic development of the Commonwealth of Pennsylvania, the nation, and the world. This mission is future oriented, perpetual in nature, and intrinsically supportive of positive societal and environmental developments beyond the University's campuses.

Pitt's Consolidated Endowment Fund (CEF) is the University's largest financial asset, valued at $5.6 billion as of June 30, 2021. The purpose of the CEF is to provide permanent and stable financial support for the benefit of current and future generations of University stakeholders in perpetuity by funding financial aid, scholarships, faculty positions, research activities, and more.

The CEF is governed by the Investment Committee of the Board of Trustees and has been prudently managed by University staff in the Office of Finance within the Office of the Senior Vice Chancellor and Chief Financial Officer. Over the course of the University's 235-year history, community concerns about CEF investment exposures have reached significant levels, prompting reflection and action by the board and Office of Finance staff. In recent years, investment considerations related to fossil fuels have grown in focus among the University's stakeholders, including the broader University community (undergraduate and graduate students, faculty, staff, and alumni), the neighborhood of Oakland, the city of Pittsburgh, and the greater Pittsburgh region.

The increased significance of these topics among community stakeholders has coincided and overlapped with a growing investment sector awareness of the potential benefits of considering ESG factors in investment decision making. As explained in Pitt's ESG Policy, ESG factors include considerations that improve the quality of investment decision making by presenting a deeper and more robust assessment of expected risks and returns. Environmental factors may relate to how a company manages waste or greenhouse gas emissions; social factors may relate to data protection and privacy concerns, human rights, labor standards and product safety; and governance factors may relate to how a company's senior management is compensated, succession planning, the compensation of its board of directors, and/or how shareholder rights are addressed. The University's Office of Finance has incorporated ESG factors into its investment due diligence process for many years; however, more recently, the Office of Finance staff has done so with a more structured process and an increased focus, diligence, and purpose, as has the institutional investment sector.

This inaugural University of Pittsburgh CEF ESG report is the next step in providing more transparency about CEF investments and ESG-related practices in a manner that increases University community and public understanding about the purpose and management of the CEF. As Pitt's first such report, this document provides a snapshot of the development and implementation of Pitt's ESG Policy. We hope that it will prove helpful for further University-wide dialogue about issues of importance. We expect our future ESG reporting to evolve and to include additional data and more robust analysis. This ESG report includes frequent and intentional use of the word "we" to refer to the Office of Finance.

We consulted with the sustainable investment team at Mercer Investments LLC (Mercer) on this report. Mercer is the largest investment consultant in the world, with more than $16 trillion in assets under advisement as of June 30, 2021.[1]

We hope that readers will find this report to be enlightening and educational, and we look forward to reporting on the ongoing incorporation of ESG factors into our investment decision-making process in the years ahead.

[1] Mercer's sustainable investment team was established in 2004 and served as consultant to the United Nations in constructing the Principles for Responsible Investment (PRI); as a result of this work, Mercer was a founding PRI signatory. Mercer recognizes that ESG issues can be material to investment performance and provides services that support the implementation of these principles.

The Function and Purpose of Pitt's Endowment

Prior to discussing how ESG factors are integrated into the investment decision-making process, it is important to understand the broader context of the CEF, including why it exists, who governs and manages it, and how it is structured.

What is an endowment?
An endowment is a gift of funds or property whose purpose is to provide the recipient with a source of revenue. Pitt's endowment is designed to keep the original gift principal intact while using some or all of the resulting investment returns as revenue that financially supports the University's operating budget, primarily in the form of financial aid for students. The two primary goals of general endowment management are:

1. to preserve the long-term "real" purchasing power of assets by generating net investment returns that match or exceed the endowment's annual spending and the eroding effects of inflation and

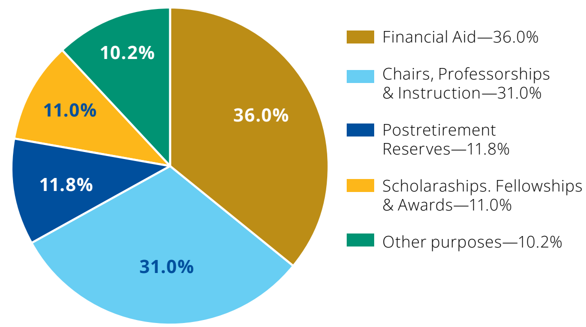
2. to provide a reliable stream of meaningful revenue[2] for the University.

There is an essential need for universities to invest an endowment's principal effectively in order to generate sufficient income to provide financial aid, support endowed chairs and professorships, and fund operations, among other uses.

What are Pitt's endowment characteristics?
The University of Pittsburgh Consolidated Endowment Fund is an investment pool composed of more than 2,900 individual endowment funds, all with designated purposes and restrictions, that are commingled[3] to facilitate more efficient investment. Each endowment fund that the University accepts has a clearly stated, legally binding purpose for the assets provided to which the University must adhere. Additionally, the legal documents accompanying CEF investments typically include confidentiality provisions that prevent the University from disclosing specific investments or investment managers. Confidentiality provisions are deemed necessary to avoid impairing long-term investment returns.

Among CEF objectives, the most critical to the University's mission is the long-term preservation of assets on a real (inflation-adjusted) basis, as they provide a steady, meaningful stream of income to University beneficiaries. Figure 1 indicates the defined purposes[4] for Pitt's CEF funds. These endowed gifts provide perpetual financial support for scholarships, fellowships, faculty chairs, instruction, and other University programs and services.[5]

Figure 1: CEF by Purpose, as of 6/30/21



[2]The terms "revenue" and "income" are used interchangeably throughout this report to refer to CEF investment returns.

[3]Pooled together, as opposed to maintained in separate investment accounts.

[4]"Other Purposes" include research, library and public service, general and undesignated funds, long-term reserve fund, and development and institutional support.

[5]The University provides postretirement medical and life insurance benefits to eligible employees and their spouses upon retirement through a contributory benefit plan. The University has elected to fund its postretirement liability via a designated endowment fund that is managed within CEF and referred to as postretirement reserves.

Establishment of Pitt's ESG Policy

This inaugural University of Pittsburgh CEF ESG report reviews the efforts that the Office of Finance has undertaken to formally incorporate and document consideration of ESG factors into its decision-making process for the fiscal year ending June 30, 2021.

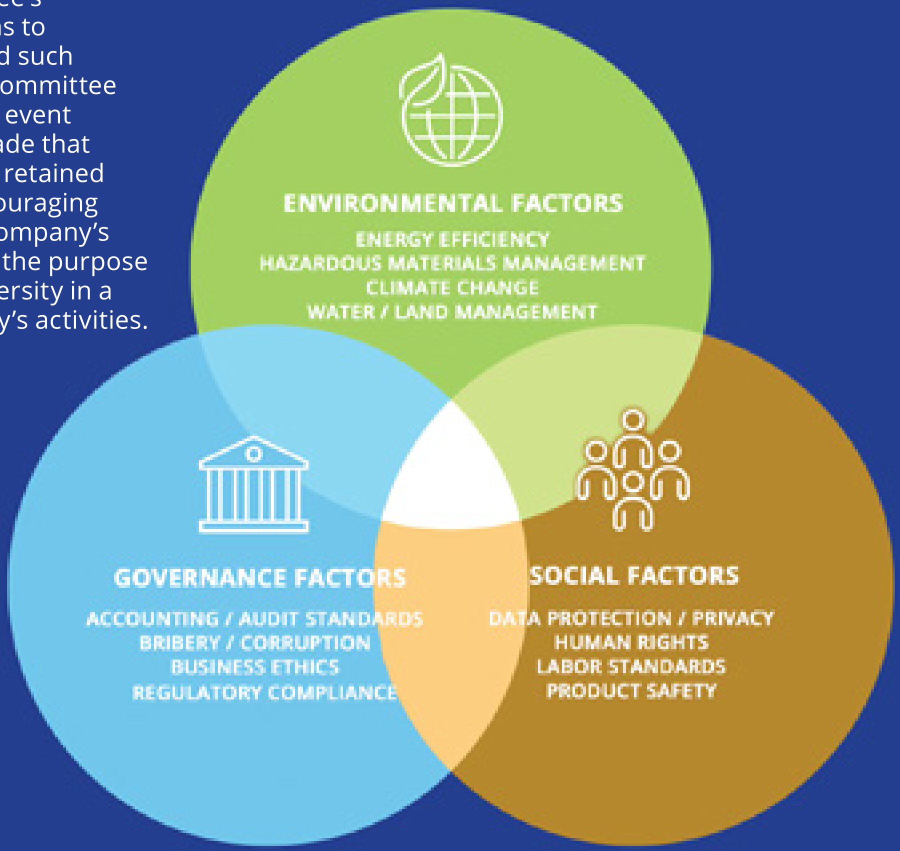
ESG Policy

Management of the CEF is guided by the University's Statement of Governance, Investment Objectives, and Policies, which was made effective September 17, 2012, and last amended and restated June 24, 2019, and September 12, 2019.[6] The CEF's Statement of Governance addresses "Social Responsibility" in **Section XIV:**

> To fulfill the University's stated mission and meet the expectations of the donors who have entrusted gifts to the University, the University must manage its CEF wisely. As stated previously, the primary investment objective established for the CEF is to maximize the financial return on such assets, taking into account risk and other considerations as more specifically set forth in this Statement, in order to provide a reliable stream of meaningful income while preserving the CEF's real asset value. Accordingly, the Committee shall not apply non-financial constraints pertaining to investment holdings of the CEF unless there is a situation of such magnitude that the Board specifically directs the Committee to consider such non-financial parameters.
>
> In evaluating any specific social responsibility concern as directed by the Board, the Committee may consider the gravity of the social impact, the University's need to maintain a sound financial investment policy, the potential effectiveness of the Committee's investment or voting decisions to influence positive change, and such other considerations as the Committee may deem appropriate. In no event will a recommendation be made that an investment be selected or retained solely for the purpose of encouraging or expressing approval of a company's activities or, alternatively, for the purpose of placing or leaving the University in a position to contest a company's activities.

[6]Available at

https://www.trustees.pitt.edu/sites/default/files/osec-docs/2019.0912.statement_of_governance_amended_and_restated_-_final.pdf



In March 2020, the Office of Finance established the ESG Policy for the CEF.[7] As shared with the Board of Trustees Investment Committee, the ESG Policy was designed to document considerations that have been essential to the University's investment strategy of evaluating risk-adjusted return potential for investment opportunities. The ESG Policy states the University's commitment to "fully integrating ESG factors into the University's decision-making processes, on the core belief that supporting responsible business practices also supports strong investment outcomes."

Though ESG factors vary based on the type, industry, and scope of an investment, the ESG Policy outlines how the Office of Finance considers a range of factors when evaluating investment risk. Those factors could include energy efficiency, hazardous materials management, climate change, water and land management, data protection and privacy, human rights, labor standards, product safety, accounting and audit standards, bribery and corruption, business ethics, and regulatory compliance.

ESG Policy Peer Comparison

To ensure Pitt's ESG Policy was at the leading edge of practice among university endowment peers, the Office of Finance engaged an outside sustainable investment consultancy to advise in the policy's development. As part of the ESG Policy development process, the Office of Finance reviewed ESG and/or socially responsible investment (SRI) policies published by a diverse group of 19 public and private peer universities, including those with similar endowment sizes.

This process identified a number of key elements that robust ESG policies contain, including a statement of core principles, roles and responsibilities, and reporting frameworks. The Office of Finance incorporated many of these elements in the ESG Policy presented to the Investment Committee of the Board of Trustees at its March 25, 2020, Information Meeting. The ESG Policy was adopted by the Office of Finance for implementation after the March 25, 2020, Information Meeting of the Investment Committee and posted to the University website in April 2020.

Ad Hoc Committee on Fossil Fuels

Following University community concerns relating to fossil fuel investments that reached a significant threshold, then board chair Thomas E. Richards stated at the board's annual meeting on June 26, 2020, that he would be appointing an ad hoc committee of the board to consider the matter of the University's investments in fossil fuels, as was contemplated in the board's February 2020 resolution adopting a socially responsible investment screening process.[8,9]

The Ad Hoc Committee on Fossil Fuels of the Board of Trustees first met in August 2020. At its February 26, 2021, meeting, the University's Board of Trustees accepted the committee's report, agreed with its findings, agreed to undertake all its proposed options, and dissolved the committee.

[7] Available at **https://www.cfo.pitt.edu/sites/default/files/esgpolicyfinal3-25-20.pdf**

[8] Jones, Susan. (2020). New Trustees' Chair Forming Ad Hoc Committee on Fossil Fuel Investments. University Times, June 26, 2020. **https://utimes.pitt.edu/news/new-trustees-chair**.

[9] University of Pittsburgh. (2020). Resolution Adopting a Socially Responsible Investing Screening Process. University of Pittsburgh Board of Trustees. **https://www.trustees.pitt.edu/sites/default/files/osec-docs/socially_responsible_investing_screening_process.pdf**.

The committee's findings and options presented in the accepted final report[10] are as follows:

1) Forgo applying a negative screen to the CEF with respect to fossil fuels.

2) Strongly support the implementation of the University's current ESG Policy and direct the University's chief investment officer and the Office of Finance to apply ESG considerations to every CEF investment decision.

3) Strongly support the current long-term strategy of CEF, which is expected to continue to pursue strong risk-adjusted financial returns while reducing private holdings in fossil fuel exploration and production to zero by the end of 2035, as monitored by the Investment Committee.

4) Direct the University's Investment Committee to oversee the development of a long-term strategy focused on seeking attractive investments that help to reduce, avoid, and eliminate greenhouse gas emissions.

5) Direct the University to provide greater transparency regarding the fossil fuel investment trends of CEF, which would support the University in its mission and goals while increasing University community understanding about the purpose and management of CEF. Specifically:

a) Support the commitment made by the Office of the Senior Vice Chancellor and Chief Financial Officer to publish a public ESG report for fiscal year 2021 to highlight the application of ESG considerations in ensuring that CEF provides strong financial returns in perpetuity and to fossil fuel investments specifically.

b) Support regular, clear, and accessible University communication, education, and engagement about CEF's aggregate status, trends, and current and future fossil fuel exposure (including the basis for any material changes in expectations), including periodic updates to the board and the University community.

This inaugural ESG report is intended to align with the Ad Hoc Committee's findings and options, particularly points 5, 5a, and 5b. The Office of Finance intends to continue to be responsive to the University community as expressed in the Ad Hoc Committee's report, with this ESG report kicking off future engagement with the University community.

Stakeholders

Pursuant to the bylaws of the University, the CEF is governed by the Investment Committee of the Board of Trustees, which provides oversight and guidance to the chief investment officer regarding the management of the University's endowment. As such, the Investment Committee and the board are key stakeholders in overseeing the University's commitment to the integration of ESG factors into the University's investment decision-making process.

Additional stakeholders involved in and considered by the University included the entire University community (undergraduate and graduate students, faculty, staff, and alumni), the neighborhood of Oakland, the city of Pittsburgh, and the Pittsburgh region. In 2020 and 2021, many University and local community members shared their views on fossil fuels, climate change, and other ESG-related topics as public comments to the Ad Hoc Committee on Fossil Fuels.[11] The Office of Finance has taken these perspectives into account in developing its approach and drafting this ESG report.

As noted previously, this document serves as the foundation for more robust and reciprocal conversations about the CEF's ESG approach with stakeholders. The Office of Finance welcomes and looks forward to the University community's continued engagement.

[10] Final report available at **https://www.trustees.pitt.edu/fossil-fuels**

[11] Public comments to the committee start on page 33 of the committee's final report.

University Operations and Academic Sustainability Objectives

It is important to note that this report focuses only on the ESG policy as it relates to investing the CEF. The University of Pittsburgh has been actively involved much more broadly in sustainability initiatives and practices since 1990, when then Chancellor Wesley W. Posvar was one of the original signatories of the Talloires Declaration, which supported the mobilization of the resources of higher education institutions to advance sustainability. More recently, the 2018 Pitt Sustainability Plan set a campuswide sustainability strategy that incorporates equitable, environmental, and economic considerations and goals across the institution and its campuses.

The University has been actively tracking its greenhouse gas (GHG) emissions since 2008, with six GHG inventories completed and GHG inventorying now an annual process. With incremental targets to reduce GHG emissions, energy use, water consumption, and transportation-related GHG emissions by 50% by 2030, the University strengthened and extended its commitments in February 2020 by committing to achieving carbon neutrality on the Pittsburgh campus by 2037.[12]

Reflecting higher education inventory practices, the carbon footprint of the CEF is not included in the University GHG inventory process. However, the University's integration of ESG factors into its decision-making process for the CEF broadly aligns with the University's broader sustainability goals.

[12]University of Pittsburgh. (2020). Resolution Committing to Carbon Neutrality for the Pittsburgh Campus by 2037. University of Pittsburgh Board of Trustees, **https://trustees.pitt.edu/sites/default/files/minutes_and_materials/2-28-2019_winter_meeting.pdf**.

ESG Progress to Date: Integration across the CEF Portfolio

This inaugural University of Pittsburgh ESG report provides new transparency into how the ESG Policy is being implemented. As this was the first year in implementing this policy, it was critical to formalize and document the process by which ESG factors are incorporated into investment decision making. Particular focus was placed on identifying both the positive impacts of investments (opportunities for attractive investment returns) and their negative impacts (full and robust consideration of investment risks).

It is important to note that there is not currently an agreed upon set of ESG standards or metrics in the investment industry. As a result, this report discusses the more qualitative approach in applying ESG factors currently employed by the Office of Finance, and as shown in the case studies. A recent article in the Harvard Business Review titled **"We Need Universal ESG Accounting Standards"** cited a lack of uniform criteria for the measurement and reporting on ESG progress similar to those used for financial performance. As common standards are developed and quantitative metrics are agreed upon, we will look to broaden our reporting.

ESG Incorporation by the Office of Finance

Following the adoption of the ESG Policy in March 2020, the Office of Finance formally integrated ESG factors into its operational and investment due diligence processes across all asset classes. Starting in fiscal year 2019, the Office of Finance began asking its external investment managers if they had an ESG policy. At that time, some external managers indicated that they had adopted ESG policies; however, many others indicated that they did not yet have a formal ESG policy in place. The Office of Finance held discussions with managers, encouraging them to evaluate relevant ESG-related issues and to develop policies to address them.

In fiscal year 2021, the Office of Finance expanded its standard formal due diligence questionnaire (DDQ)—which is answered by every potential investment manager to aid the Office of Finance in evaluating their capabilities and whether to invest with them or not—to include ESG questions suggested by the Institutional Limited Partners Association (ILPA), a leading organization of private market investors.[13] Reflecting the evolution of the investment sector, Pitt's now standard use of ESG questions emphasizes the University's commitment to these factors and has generated meaningful discussions both within the Office of Finance and with existing and prospective investment managers. These questions are included in the due diligence process to help in evaluating an investment's expected risk-adjusted financial return potential.

[13]Institutional Limited Partners Association (2021). "Due Diligence Questionnaire and Diversity Metrics Template." Available at **https://ilpa.org/due-diligence-questionnaire**.

In addition to including the ILPA questions in its DDQ, the Office of Finance developed a novel approach for evaluating investment managers with regard to ESG factors. The ESG Policy adopted in March 2020 stated that "The Office of Finance will consider material ESG-related risks for each investment and inquire of its external investment managers how they identify and, if possible, mitigate such risks."

In order to fulfill that commitment, the Office of Finance currently uses the Sustainability Accounting Standards Board (SASB) Materiality Map,[14] which identifies key material risk factors across 77 industries along five dimensions:

- Environment
- Social capital
- Human capital
- Business model and integration
- Leadership and governance

SASB is a leading global organization that collaborates and communicates with investors to identify the key ESG risks and opportunities that are most relevant to the financial performance of companies.[15] The Office of Finance considers SASB Materiality Map material risk factors in connection with its investment due diligence process. Consideration of these risk factors is not used as a negative screen but rather to identify areas requiring further due diligence, in alignment with leading global practices. This approach is expected to evolve as ESG data providers and other businesses supporting institutional investors' ESG initiatives evolve.

Private Investments Subject to ESG Factors in Fiscal Year 2021 (FY 21)

Pitt formally integrated ESG factors into its investment due diligence process in FY 21. To date, only a portion of the CEF as of June 30, 2021, has been subject to the ESG Policy adopted in March 2020. These commitments were in several asset classes, including private equity, venture capital, real assets, and private credit.

Case Studies

It is important to note that in this initial phase of ESG implementation, the thought processes and due diligence that support each CEF transaction are critical. Our expectation is that the incorporation of the ESG Policy through qualitative and quantitative assessments, over the long term, will positively impact investment returns. Currently, many of the elements considered are qualitative, but we expect to consider more quantitative elements in the future. Examples demonstrating how ESG factors are being incorporated into the due diligence process are presented on the following pages. We hope that these case studies provide readers with a more comprehensive view into how the Office of Finance takes ESG factors into account in evaluating investment opportunities.

[14] In June 2021, SASB and the International Integrated Reporting Council announced the completion of their merger, resulting in the formation of the Value Reporting Foundation. The Materiality Map can be accessed at https://www.sasb.org/standards/materiality-map/.

[15] Sustainability Accounting Standards Board (2021). "About Us." Available at **https://www.sasb.org/about/**.

Case Study:

Identifying and Addressing Risks to Employee Health and Well-being

During the due diligence process for a direct investment in a North American manufacturer of infrastructure products, the Office of Finance identified several deficiencies with regard to facility safety conditions, employee compensation, and working conditions. These social issues are consistent with risk factors identified in the SASB Materiality Map and also represent risks to the health and well-being of the company's employees and, therefore, the success of the investment. After identifying these concerns, the Office of Finance discussed them with the investment manager, who committed to making improvements in these areas, thus improving the return profile for the CEF while effecting meaningful change for the company's employees.

Case Study:

Supporting Healthier Communities

Pitt was presented with the opportunity to participate in a restructuring for a Latin American private equity fund that was near the end of the traditional fund life cycle of approximately 10-12 years. During the discussion of the portfolio's various assets, a municipal waste facility beginning to incinerate waste was identified. After investment team analysis and discussion, it was determined that the asset presented air pollution risks that could endanger the local population's health and thus adversely impacted the investment's long-term risk-adjusted return potential. As a result, the University did not make the considered investment.

Case Study:

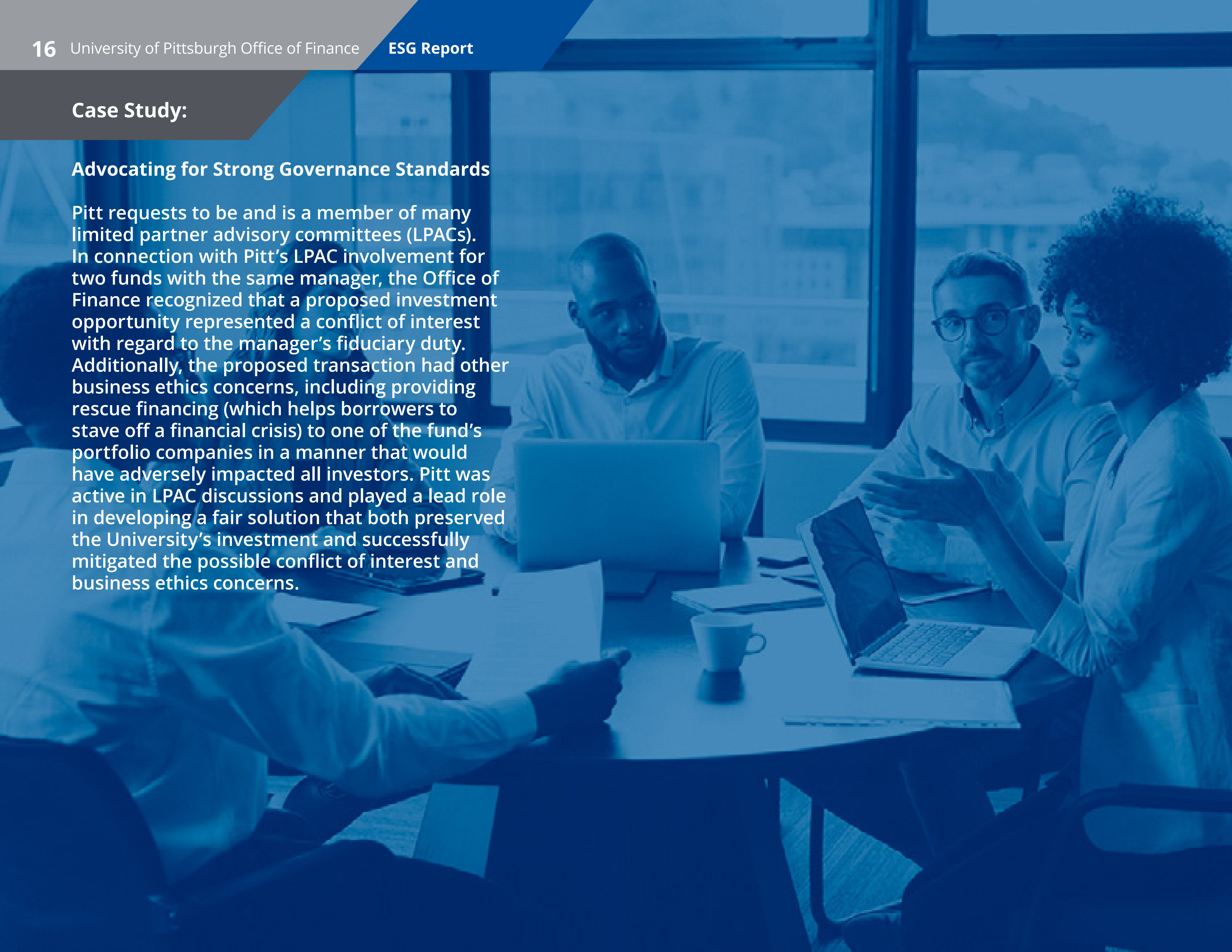
Actively Mitigating Stranded Asset Risks

During the due diligence process related to renewing a commitment and a possible new co-investment in a metallurgical coal mine (i.e., to support the production of steel), concerns remained about the ability to exit the investment in the future as major mining firms seek to reduce their greenhouse gas profiles. After a careful review, the investment team denied investment in both opportunities due to these risks and concerns related to coal's becoming a stranded asset (e.g., not able to achieve financial returns for its full lifetime) as global economies transition to a lower-carbon economy.

Case Study:

Advocating for Strong Governance Standards

Pitt requests to be and is a member of many limited partner advisory committees (LPACs). In connection with Pitt's LPAC involvement for two funds with the same manager, the Office of Finance recognized that a proposed investment opportunity represented a conflict of interest with regard to the manager's fiduciary duty. Additionally, the proposed transaction had other business ethics concerns, including providing rescue financing (which helps borrowers to stave off a financial crisis) to one of the fund's portfolio companies in a manner that would have adversely impacted all investors. Pitt was active in LPAC discussions and played a lead role in developing a fair solution that both preserved the University's investment and successfully mitigated the possible conflict of interest and business ethics concerns.



Future Trends for Evaluating ESG Risks

In addition to the ESG Policy and the related process we put in place, we also began measuring and tracking data associated with the portfolio and thinking through future data trends that can assist in evaluating the risk-adjusted financial returns of CEF investments.

One major challenge is the availability of data across the entire range of ESG factors and an understanding of their financial impact. As an example, data were available to measure ESG factors and their financial impact for certain public equity and corporate fixed-income investments that make up only approximately 19% of CEF as of June 30, 2021. The other CEF assets primarily consist of alternative assets, including private equity, venture capital, marketable alternatives (hedge funds), private credit, real assets, and cash. ESG data providers either do not cover or do not provide sufficient information to assess these asset classes relating to ESG factors.[16]

As a result, much of the ESG Policy implementation is qualitative in nature, as we described in the case studies above. As more data become available across more of the CEF asset classes, we expect to be able to analyze the data to develop meaningful measurements that will be reported in future editions of this report. For this first report, we have focused our data and measurement on the environmental factors, specifically fossil fuels. As we get a better understanding of the governance and social factors surrounding ESG, we expect to increase our reporting in these areas in future reports.

Future Outlook: Environmental Factors

As the University contemplates how environmental metrics factor in its investment due diligence processes, it also is considering how portfolio allocations may shift in the future as broader economic and societal trends influence financial markets and economic events. Several key considerations help to inform the University's perspective on future environmental trends. The 26th Conference of the Parties to the United Nations Framework Convention on Climate Change (otherwise known as COP26), concluded in Glasgow, Scotland, in November 2021, and the University is focused on how the global government agreements will impact investment opportunities.

Following the conclusion of COP26, scientists and policymakers have identified that keeping global warming to no more than 1.5 degrees C above preindustrial times would help to ensure that the physical impacts of climate change (while still significant around the world) would not overwhelm society's ability to adapt. Subsequently, while the COP26 outcome is positive, they believe it is not yet enough.

As a result, regardless of the speed, it is apparent that the global economy is moving toward a lower-carbon future, with government regulations, technological advances, and behavior changes by individuals and organizations expected to increasingly impact investment opportunities and risks. As a result of these broader trends and their likely impact on the financial returns of certain investments, the University's investment portfolio also is expected to become less carbon intensive, supporting a more sustainable future.

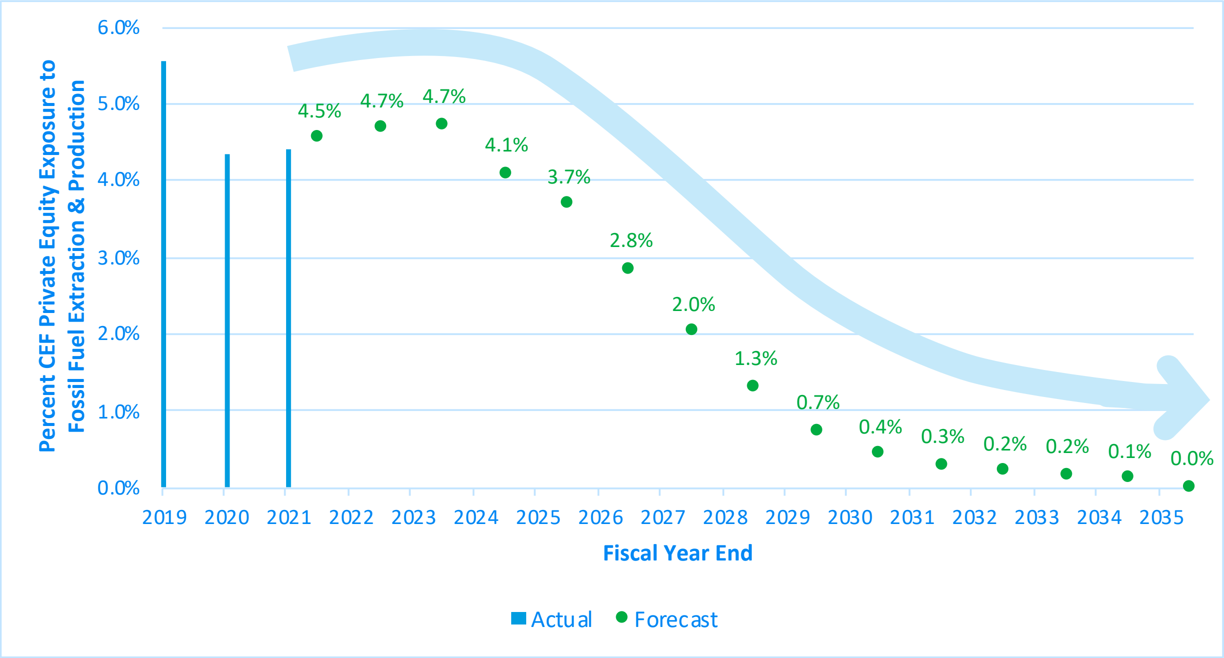
[16]A key challenge for investors is gaining access to ESG-related metrics from private market, or alternative, investments, which include private equity, private debt, real estate, infrastructure, and natural resources, among other potential asset classes. As they are not subject to, for example, being publicly listed on stock exchanges, the privately held assets within these investment vehicles, whether businesses, buildings, or bridges, are not typically required to disclose much information publicly, and therefore it can be difficult for investors to gather ESG information from private market fund managers. While private market investment managers are increasingly focused on enhancing their capabilities to gather and report ESG-related information to investors, ESG reporting remains relatively atypical in these particular asset classes at present.

Below are the current expected future trends for our fossil fuel exposure.

As disclosed in the February 2021 report of the Board of Trustees Ad Hoc Committee on Fossil Fuels, the value of the University's private equity investments is expected to increase in the short term until 2023; as Figure 2 illustrates, as these investments reach their planned liquidation dates, they are expected to drop to zero by the end of 2035. The Office of Finance has not made any new fossil fuel investments since February 2021, when the Ad Hoc Committee on Fossil Fuels report was issued. The CEF's exposure to public fossil fuel extraction and production holdings was 1.4% as of June 30, 2021. We expect fossil fuel exposure in our public market holdings to remain low for the reasons already cited in this section of this report.

Figure 2: University of Pittsburgh CEF Private Equity (Illiquid) Fossil Fuel Exposure Forecast[17]

Illustration shows 4.5% in 2021 with a projected 0.0% by the year 2035



[17]Actual illiquid fossil fuel exposures for 2019-21 are as of June 30 for each year. Forecast exposures are at the end of each future calendar year.

We will continue to measure our exposure to fossil fuels in our private equity (illiquid) investments and to evaluate other environmental factors that may be relevant to evaluating a potential investment's risk-adjusted return profile. As access to data improves, other meaningful environmental measurements may become available.

Social Factors

The University is committed to advancing diversity and human rights as part of its academic mission while also recognizing that such considerations can be material to financial outcomes and corporate performance. Levels of corporate transparency are increasing in these veins through both enhanced corporate reporting on ESG factors and through greater attention to such topics by investment analysts and third-party data providers. As a result, the University has had more opportunities to engage investment managers regarding important social factors included in the SASB Materiality Map.

Specifically, Pitt is monitoring the formation of the International Sustainability Standards Board, announced at COP26.[18] The board builds on the work of SASB and related ESG disclosure-focused organizations but has been created with the intention that a common framework of sustainability metrics (inclusive of social considerations) will be agreed upon for adoption by financial regulators and other global oversight bodies. This development will help to align the disclosure expectations of corporate issuers so that investors (including Pitt) can have access to enhanced and standardized ESG data to better inform decision making. Such disclosures will aid the University's evaluation of social factors that may impact the projected returns of prospective investments.

Governance Factors

Recent years have shown a growth in investor focus on investment stewardship with respect to ESG topics, including voting proxies in equities and engaging with companies or debt issuers through either individual engagements or collaborative initiatives. Investors also are increasingly elevating stewardship tactics with companies that are not responsive enough to these engagement efforts and directly raising questions of whether corporate directors have the requisite experience and expertise to govern companies facing significant ESG-related challenges, including energy transition and other topics. We will continue to monitor the available data regarding governance factors and add those factors into our investment due diligence process.

[18] IFRS Foundation. (2021). "IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements." Available at: **https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/**

CEF Sustainable Investing Road Map and Future Commitments

This inaugural ESG report aligns with the educational mission of the University of Pittsburgh and supports a more robust dialogue within the Pitt community around the incorporation of ESG factors into the CEF investment due diligence process. As part of that dialogue, the Office of Finance makes the following additional commitments to continue to enhance and improve the integration of ESG factors into the University's investment processes:

1) Launch an ESG Section of the CFO Website: In keeping with our efforts to enhance transparency of CEF and align with the University's sustainability reporting efforts, we commit to launching a new public ESG-focused section of our website in fiscal year 2022. This new page will be a portal for new CEF documents and updates related to Office of Finance ESG policies, practices, and outcomes under the purview of the University's senior vice chancellor and chief financial officer.

2) Expand and Deepen ESG Reporting: We commit to making future editions of this report more robust and granular than this inaugural report, assuming additional data continue to become available. Specifically, we intend to report on progress achieved in incorporating ESG factors into our investment decision-making process between the release of this report and the next edition as well as to update the community on any new standards and benchmarks that have emerged.

3) Explore Sustainable Investments: We commit to specifically seeking exposure to sustainable investments that could enhance risk-adjusted financial returns while advancing sustainable impacts. Per option 4 of the Ad Hoc Committee on Fossil Fuels report (adopted by the Board of Trustees in February 2021), this exploration will include financially attractive investments that also help to reduce, avoid, and eliminate greenhouse gas emissions

4) Join Collaborative ESG Initiatives: There is a proliferation of investor initiatives focused on a range of critical ESG risk and opportunity topics, and we believe that the University's interests will best be served by initially joining initiatives focused on sustainable higher education investing. To that end, the Office of Finance commits to evaluating such collaborative networks and to joining one of the networks that aligns with University goals. Membership in such a network would be in addition to the University's existing participation in the Big Plus Roundtable (formerly Big Ten Network) and COO Peer Network. ESG is an active topic of discussion in these forums.

University of Pittsburgh
Office of the Senior Vice Chancellor and Chief Financial Officer

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