

UNIVERSITY OF
VICTORIA
FOUNDATION
ANNUAL REPORT

2015-16

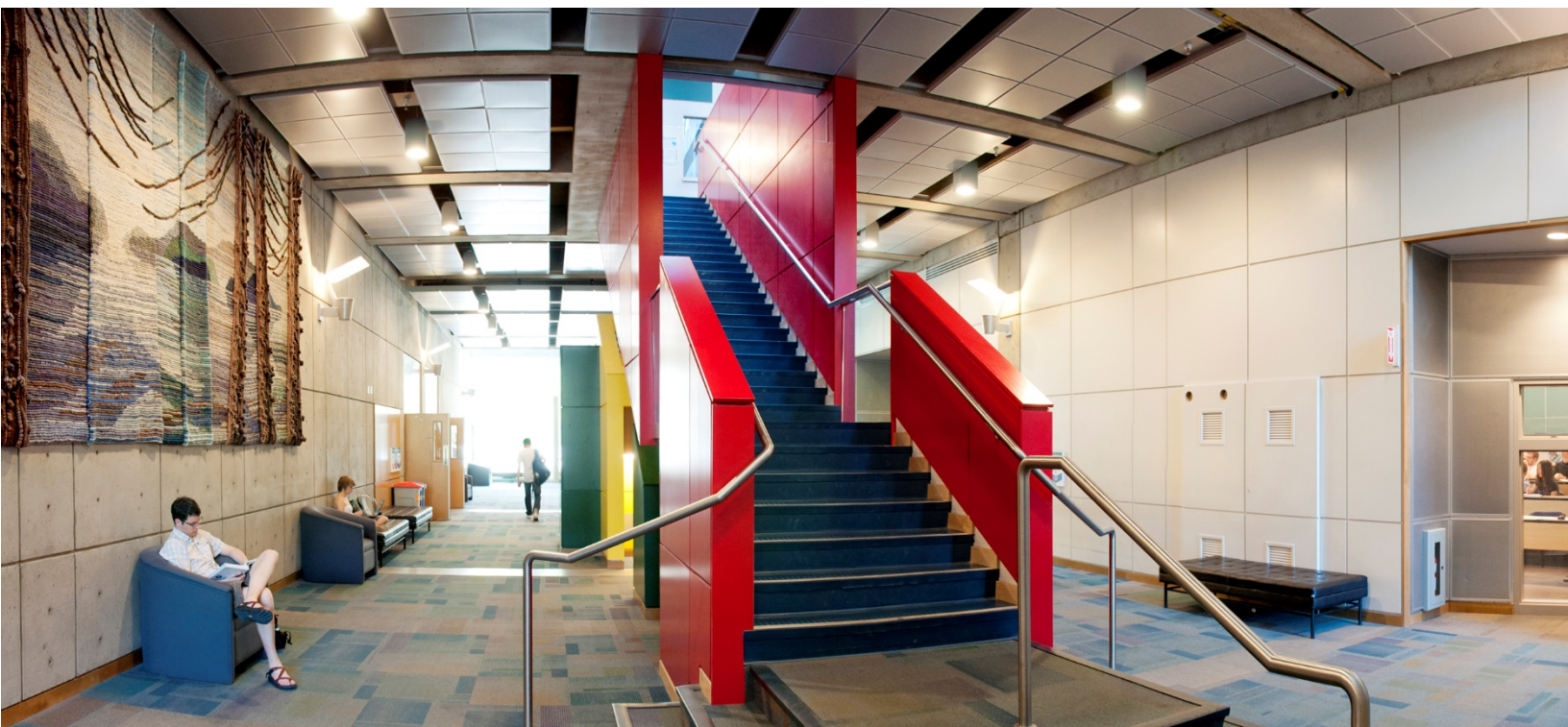


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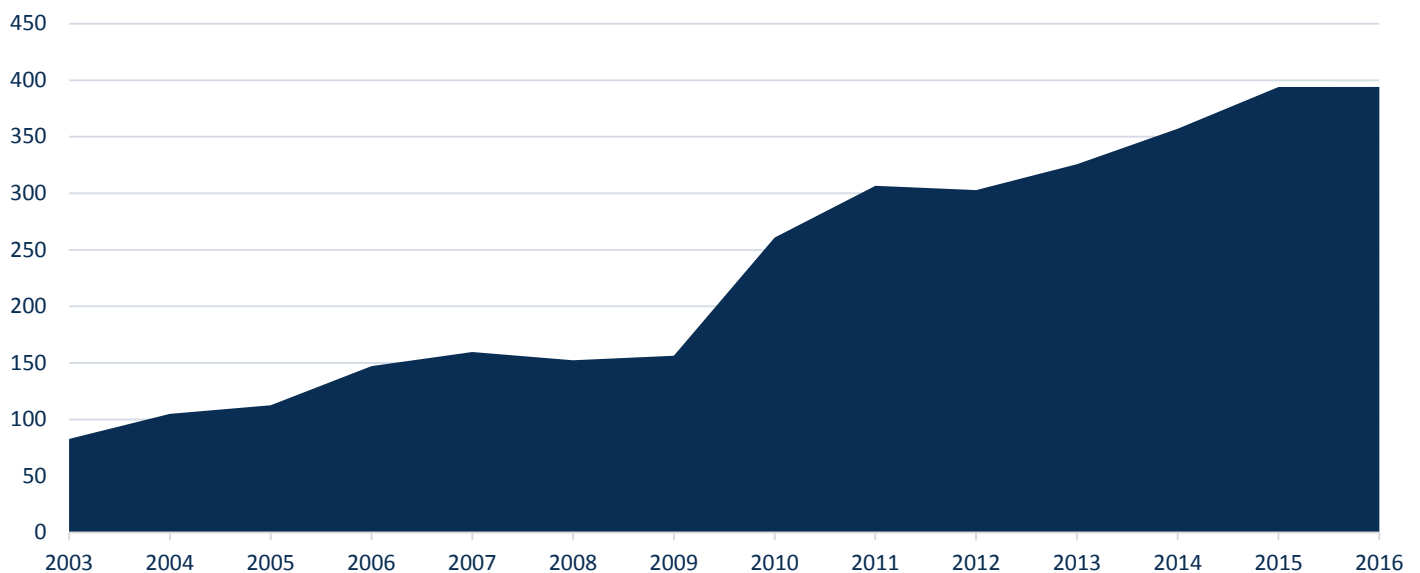
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“The impact of the endowment funds cannot be overstated. This past year, almost \$14 million in disbursements generated by the endowment assisted thousands of students and diverse programs. It also supported cutting-edge research through research centres, Chairs and Professorships. Donors to the endowment allow UVic to continue to have a vital impact on people, places and the planet. And, because their gifts are endowed, donor impact will carry on in perpetuity.”

Tom Zsolnay
President, University of Victoria Foundation

Figure 1: Foundation Growth

\$ Millions, Market Value, 2003-2016 as at March 31



MESSAGE FROM THE CHAIR

It is with great pleasure that I present to you the 2015-16 University of Victoria Foundation Annual Report. The Annual Report provides an investment overview and summary of the Foundation's activities for its many stakeholders.

This year marks the seventh straight year of positive returns since the Financial Crisis. The Foundation's long term investment goal is to achieve a minimum annualized rate of return (net of management fees) of inflation (as measured by the Canadian CPI) + 4.5%. Although the net return of 0.5% is the lowest annual return since 2008-09, the Foundation Board (the "Board") is pleased to have achieved its long term investment goal over the past five years with an annualized return of 7.9%, exceeding benchmark by 2%. On a ten year basis the annualized return is 5.3%, falling slightly short of the investment goal by 0.9%.

The Board meets at least six times a year. In addition to in-depth discussions with the Foundation's investment consultant and various asset managers, the Board regularly reviews the Foundation's Statement of Investment Objectives and Guidelines, Endowment Management Policy, Statement of Investment Beliefs and other areas of priority. This year's highlights included:

- Approval of the 2016/17 Annual Spending Budget of \$14.5 million;
- Examination of a number of alternative investment strategies, including hedge funds, and consideration as to what role, if any, these strategies may play in the Foundation's long term asset mix;
- Completion of the first year of reporting as a signatory of the United Nations Principles for Responsible Investment (UNPRI);
- Commitment to create a pilot fossil fuel free fund; and
- Expansion of the Foundation's website with the aim of improving communication to stakeholders.

2015-16 marks the largest budgeted distribution in the Foundation's history; with more than \$14 million in planned disbursements from more than 1200 funds. The vast majority of these funds go to support scholarships, bursaries and research centres at the university. A detailed breakdown is provided further in this report.

This year the Board received a detailed presentation concerning a variety of investment hedge strategies and considered whether this asset class would be compelling for the Foundation from a risk-reward perspective. Based on many factors that include the complexity of the investment alternatives, the historical risk-adjusted returns and the size of the Foundation's portfolio, the Board decided not to invest in hedge funds at this time. With reference to other alternative strategies, the Board will consider expanding the Foundation's exposure to infrastructure and real estate investments.

The UNPRI is an organization that seeks to explicitly acknowledge the relevance of environmental, social, and governance in investment decision-making. As a new signatory the Foundation completed its first annual disclosure to the UNPRI at the end of March. Based on the annual disclosure of its member signatories, the UNPRI issues each member a public and a private transparency report, commenting on the organization's implementation of responsible investing principles. The Foundation's public report is made available on the UNPRI website. Given that the Foundation's private report provides additional information stakeholders might find helpful, the Private Transparency Report has been made available on the Foundation website. We hope this helps to inform those stakeholders interested in how the Foundation is implementing our responsible investing belief.

This year the Board again considered several requests to divest from the Foundation's investments in fossil fuels. It was decided at our meeting in February that a pilot fossil-fuel-free fund be established with \$25,000 committed by the University to launch the fund (this being the amount required to establish an endowment and thereby facilitating smaller donations to be made by future donors). The fossil-fuel-free fund will not invest in companies that have proven and probable thermal coal, oil or natural gas reserves. In doing so, the Foundation also reaffirmed its decision not to otherwise divest of or sell fossil-fuel investments related to oil, gas and coal. Future distributions from the pilot fossil-fuel-free-fund endowment will support the Campus Sustainability Fund initiatives at the university. New endowments can invest in the Fossil Fuel Free Fund and can support an area of their selection.

Finally and most importantly, I would like to thank the terrific group of volunteer Board members who dedicate so much time to the Foundation. I would specifically like to thank outgoing Board members Michael Mills and Robert Miller who have generously volunteered their time over the past nine years. Robert and Michael both started on the Board in 2008 and they have helped guide the Foundation through an extended period of growth.

To all those that support the University of Victoria Foundation, I thank you and welcome your feedback.

Carolyn Thoms (Chair)



ABOUT THE FOUNDATION

The University of Victoria Foundation was established in 1954 by the *University of Victoria Foundation Act*. The Foundation is responsible for managing more than \$394 million in assets and administering over 1,200 endowment funds that disburse more than \$14.5 million annually for scholarships, bursaries, and other university purposes. These endowment funds are supported by generous donations from individuals, corporations, and foundations that play a vital role in promoting a continuing interest in the University and in higher education more broadly. The Foundation is a registered charitable organization under the Income Tax Act and is exempt from income taxes.

INVESTMENT OBJECTIVES

The University of Victoria Foundation is invested in accordance with the Foundation's [Statement of Investment Objectives and Guidelines](#) (SIO&G). The SIO&G sets out the categories of permitted investments, diversification, asset mix and rate of return expectations.

A fundamental underlying concept is that endowments are intended to exist in perpetuity. As a result the Foundation has a long-term investment horizon and focuses on long term returns. The investment objectives of the Foundation reflect this and are focused on:

- Preserving capital in real terms;
- Generation of cash flow to meet expenditures objectives; and
- Growth of cash flow to meet rising expenditures in the long term.

The SIO&G is reviewed annually.

INVESTMENT BELIEFS SUMMARY

As of August 2011, the Board has taken steps to codify its investment practices into belief statements. This year, it has continued this effort by defining its beliefs regarding Portfolio Management. In addition, as a result of a recent campaign for the Foundation to divest of fossil fuel investments, the Board revisited its Responsible Investing belief originally crafted in 2012. Our other beliefs are summarized in the [Summary of Investment Beliefs](#) available online.

“As members of the Board, we all recognize the far reaching impact that the endowment funds will have for the university. And with this recognition comes a great sense of responsibility to be careful stewards of our donors’ generous investments. ”

Tom Zsolnay
President, University of Victoria Foundation

MEMBERS OF THE BOARD

Elected by the Members

Ms. Lisa Dempsey
Mr. Michael Mills
Mr. Andrew Turner
Mr. Richard Weech (Vice-Chair)

Appointed by the Board of Governors of the University

Ms. Fiona Hunter
Mr. Robert Miller
Mr. Paul Siluch
Ms. Carolyn Thoms (Chair)
Mr. Duncan Webster

University Members (ex officio)

Prof. Jamie Cassels
Ms. Gayle Gorrill

Officers (non-voting)

Mr. Tom Zsolnay (President)
Mr. Andrew Coward (Treasurer)
Dr. Julia Eastman (Secretary)
Ms. Kathy MacDonald (Assistant Secretary)

GOVERNANCE

The University of Victoria Foundation Act provides the Foundation Board with the investment powers of a “prudent investors” as per sections 15.1 to 15.6 of the *Trustee Act*.

The Foundation is governed by a Board of Directors distinct from the University Board of Governors and includes volunteers qualified in investments and trust issues.

Figure 2:

Links to Audited Financial Statements & Portfolio Holdings

A full set of audited financial statements is available on the University of Victoria website at <http://www.uvic.ca/vpfo/accounting/resources/financial-statements.php>.

A list of the portfolio holdings is posted on the Foundation website: <https://www.uvic.ca/universitysecretary/otherbodies/foundations/reports/index.php>

INVESTMENT PERFORMANCE

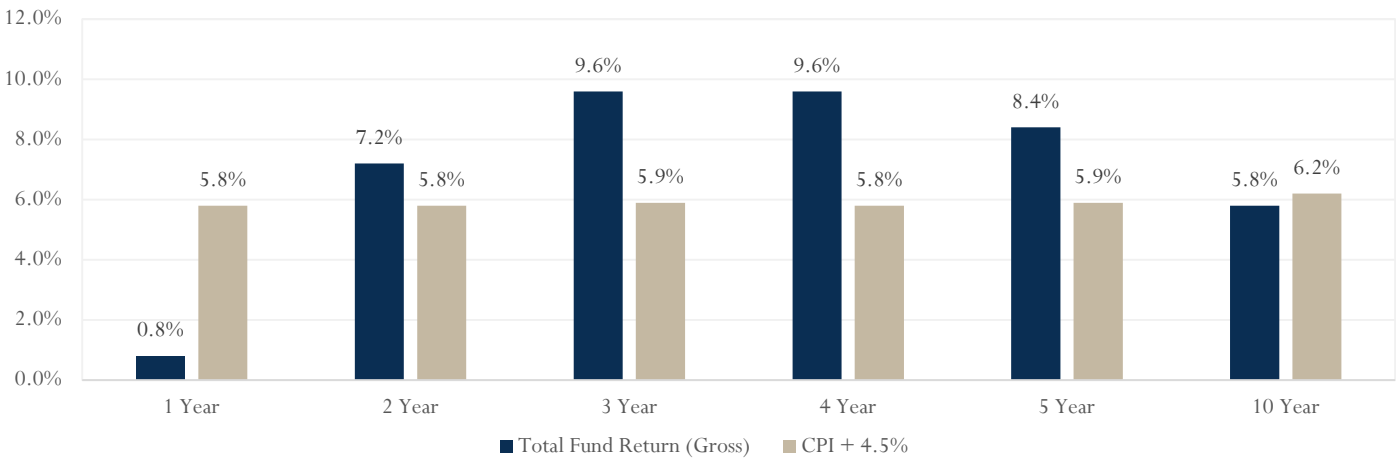
Fund Return Relative to Investment Goal

The long term investment goal of the Fund is to achieve a minimum annualized rate of return of 4.5% in excess of the Canadian Consumer Price Index. To achieve this goal, the Fund has adopted an asset mix that has a bias to equity investments and in the last five years has also been funding allocations to real estate and infrastructure.

Investment risk is mitigated by investing in a well-diversified portfolio of asset classes and managers. Strong absolute returns and relatively low inflation has allowed the Foundation to comfortably meet that goal over five years. On a ten year basis that includes the 2008/09 global financial crisis, returns are slightly underperforming that goal.

Figure 3: Fund Return Relative to Investment Goal

Total Gross Fund Return vs Investment Goal of CPI + 4.5%, as at March 31, 2016

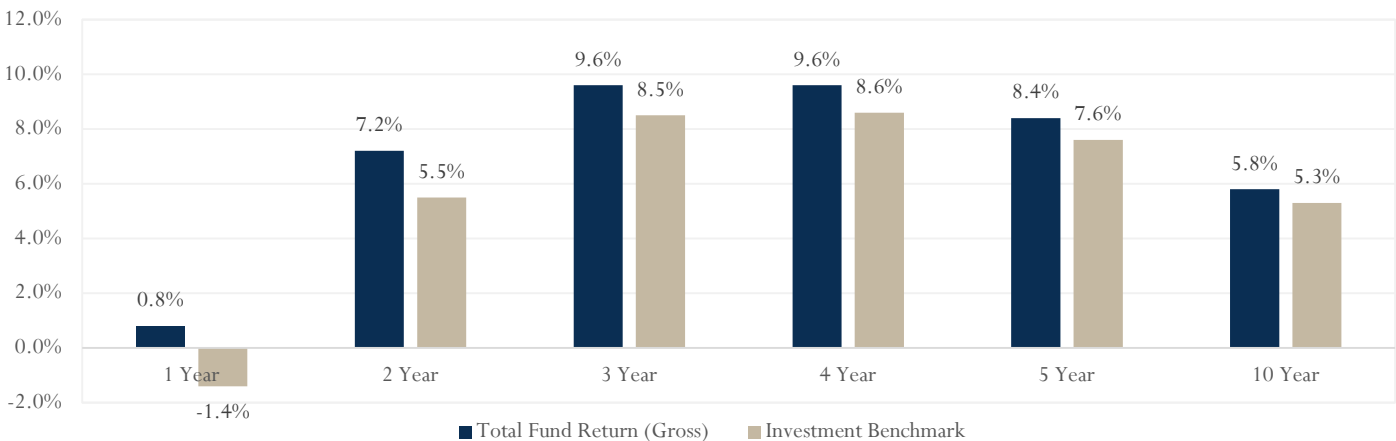


Fund Return Relative to Investment Benchmark

The Fund employs an active management style. Active management provides the opportunity to outperform specific investment benchmarks. On a relative basis the total Fund has met its investment benchmarks in each period measured below.

Figure 4: Fund Return Relative to Investment Benchmark

Total Gross Fund Return vs Investment Benchmark, as at March 31, 2016

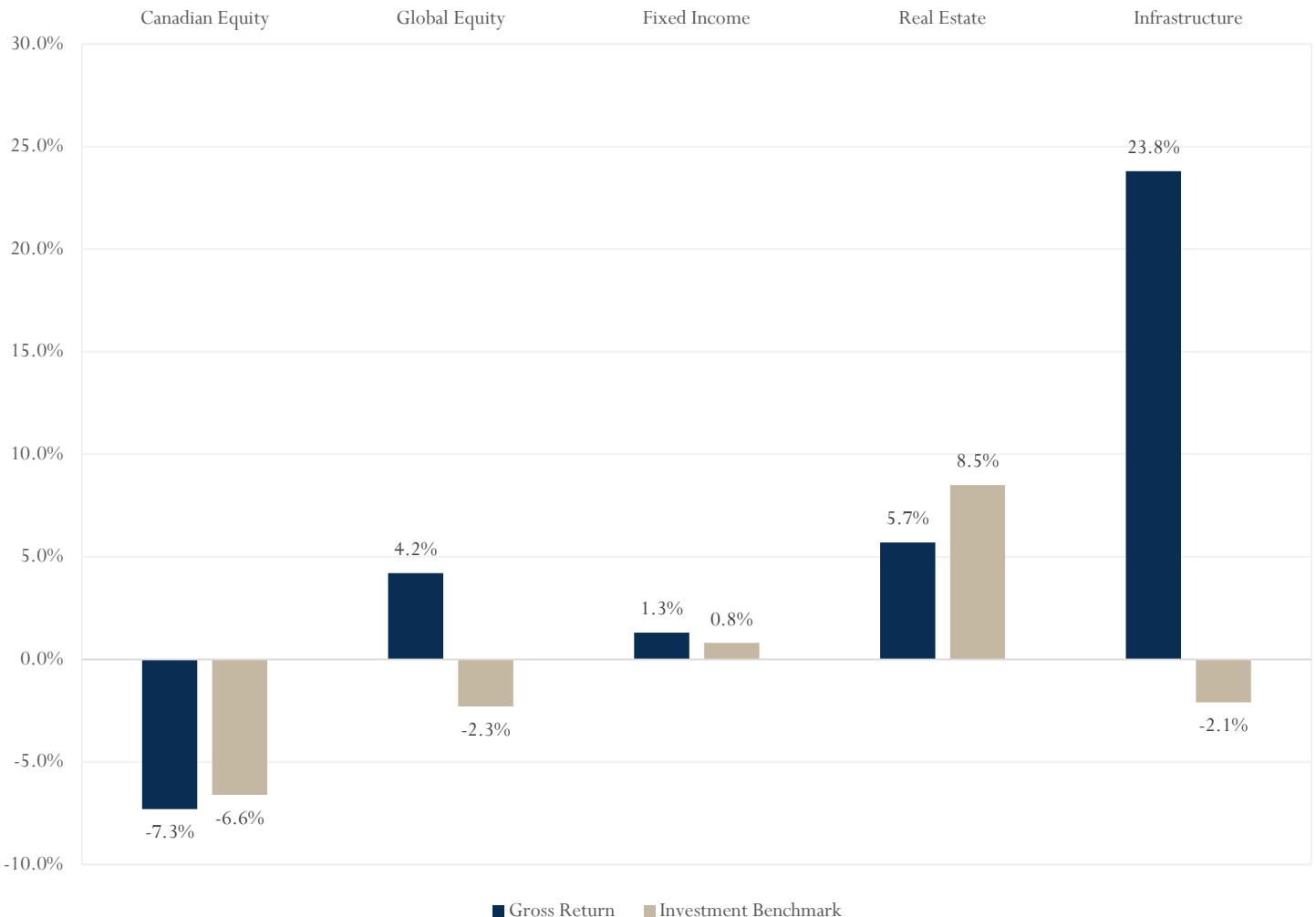


Returns by Asset Class Relative to Benchmarks

2015-16 was a volatile year. Global equities returned 4.2%, exceeding our benchmark by 6.5%. Canadian equities returned -7.3% and underperformed the benchmark by 0.7%. Fixed income returned 1.3% and outperformed its benchmark by 0.5%.

Real estate returned 5.7% and underperformed its benchmark by 2.8%. Infrastructure returned 23.8% and outperformed its benchmark by 25.9%. The infrastructure benchmark is the best of many not ideal alternatives (50% global equities/50% real return bonds). The difference illustrates well the benchmark does not account for gains or losses from currency which generated much of the infrastructure returns for the year. The Foundation is still in the early days of investing in infrastructure and it represents only 5% of the total fund and half the target allocation.

Figure 5: One-Year Returns by Asset Class Relative to Benchmarks
Total Gross Fund Return vs Investment Benchmark, as at March 31, 2016



As a long term investor the Foundation monitors year over year performance but it places more emphasis on 4 year performance. Over the past four years each of the Foundation's asset classes have generated positive return with a total fund return of 9.6% outperforming its benchmark by 1.0%.

Each manager outperformed its benchmark over a four year period save for real estate which has consistently trailed its benchmark across all four years. It is worth noting that the real estate and infrastructure benchmarks are the least comparable of all the benchmarks, however the Board felt it was better to have a relative measure for reference, even if it is not directly comparable.

Figure 6: Annualized Performance by Asset Class

Total Gross Returns & Benchmarks by Asset Class, as at March 31, 2016

<i>As at March 31, 2016</i>	Annualized Performance			
	1 Year	2 Year	3 Year	4 Year
Canadian Equity (Gross)	-7.3%	2.2%	7.1%	6.8%
Benchmark: S&P/TSX Composite Total Return Index	-6.6%	0.0%	5.0%	5.3%
<i>Value Added</i>	-0.7%	2.2%	2.1%	1.5%
Global Equity (Gross)	4.2%	12.4%	16.0%	15.5%
Benchmark: MSCI ACWI (Net) (CAD)	-2.3%	8.6%	15.1%	14.8%
<i>Value Added</i>	6.5%	3.8%	0.9%	0.7%
Canadian Fixed Income (Gross)	1.3%	5.9%	4.6%	4.7%
Benchmark: PH&N Fixed Income Benchmark	0.8%	5.4%	3.9%	4.0%
<i>Value Added</i>	0.5%	0.5%	0.7%	0.7%
Real Estate (Gross)	5.7%	5.0%	5.5%	6.7%
Benchmark: REALpac/IPD Canada Property Index	8.5%	7.6%	8.6%	9.8%
<i>Value Added</i>	-2.8%	-2.6%	-3.1%	-3.1%
Infrastructure - Macquarie European Infrastructure Fund (Net)	30.8%	17.5%	22.1%	N/A
Benchmark: Macquarie Infrastructure Benchmark*	-2.1%	7.3%	8.4%	N/A
<i>Value Added</i>	32.9%	10.2%	13.7%	
Infrastructure - Macquarie Infrastructure Partners III (Net)	10.5%	N/A	N/A	N/A
Benchmark: Macquarie Infrastructure Benchmark*	-2.1%	N/A	N/A	N/A
<i>Value Added</i>	12.6%			

*FTSE TMX Real Return Bond Index (50%) and MSCI ACWI (Net) (CAD) Index (50%)

Asset Allocation

Figure 7: Asset Allocations Relative to Policy

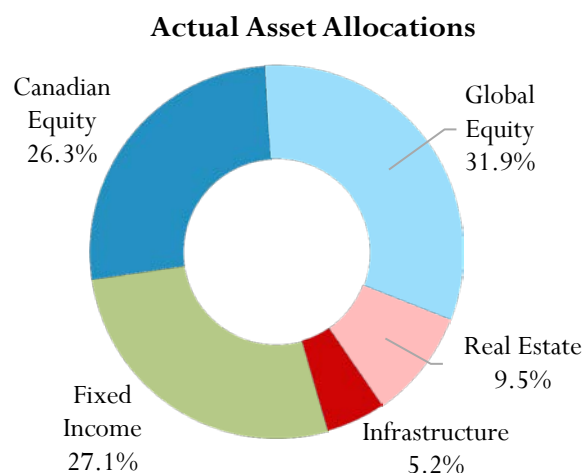
As at March 31, 2016

Asset Class Benchmark Policy	Investment Policy (%)	Actual Allocation (%)
<i>Fixed Income:</i>		
Fixed Income-FTSE TMX Canadian Universe Bond Index	25.0	27.1
Total Fixed Income	25.0	27.1
<i>Equity:</i>		
Canadian Equity - S&P TSX Composite Index	25.0	26.3
Global Equity - MSCI ACWI (Net) (CDN) Index	30.0	31.9
Total Equity	55.0	58.2
<i>Alternatives:</i>		
Real Estate - REALpac / IPD Canada Property Index	10.0	9.5
Infrastructure: FTSE TMX Real Return Bond 50% Index MSCI ACWI (Net) (CAD) 50% Index	10.0	5.2
Total Alternatives	20.0	14.7
Total Fund	100.0	100.0

*Rounded figure

The Foundation's actual allocation to each asset class remains within the approved investment policy ranges.

The infrastructure asset class allocation remains low relative to policy benchmark. The Foundation has committed to North American and European Infrastructure Funds to achieve geographical diversity. Both funds are in the early stages of investing and capital is only requested once investments are made. Accordingly, the full investment will take time to achieve. While the allocation is a small portion of the portfolio, returns to date have been strong.



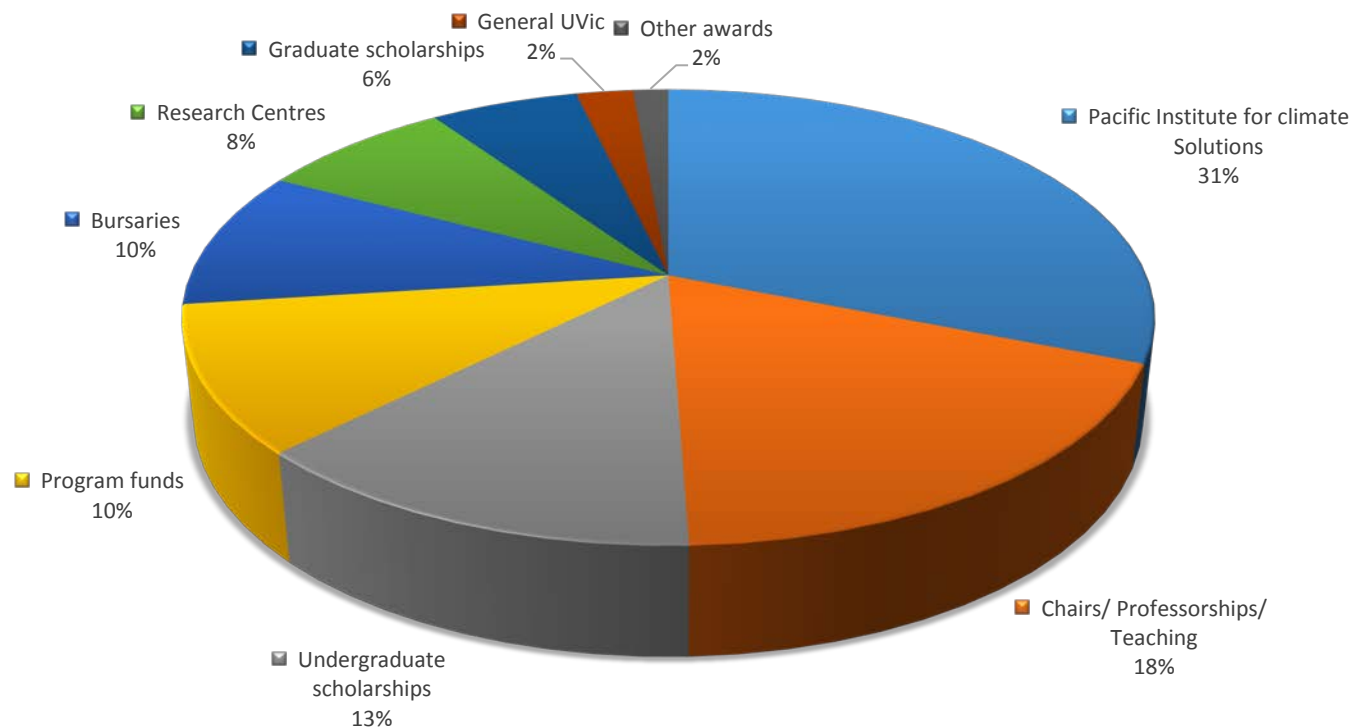
ENDOWMENT MANAGEMENT (SPENDING) POLICY

The Board maintains an Endowment Management Policy that sets out the following objectives:

- Protect the value of the Fund against inflation over time so that the donor is assured that the donation will continue to work for the benefit of the University for generations to come; and
- Provide stability in the earnings distribution to allow both the recipients and the University to plan ahead knowing what funds will be made available each year.

In order to achieve these goals the Foundation updated the spending policy in 2010 to allow for a 4.0% spend rate of the principal adjusted for inflation annually. In order to achieve a 4% distribution as well as fund approximately 2% annually for inflation and 0.5-1% for investment costs, the endowment should earn a mean expected return of roughly 7%. If investment returns exceed 7%, then the endowment can establish a cushion that enables stability in fund disbursements and the maintenance of a long term asset allocation strategy throughout the ebbs and flows of various market cycles. Funds with two years of spend cushion (i.e. funds with a market value of greater than 108% of principal, adjusted for inflation) are permitted an additional annual 0.5% spend. In 2015-16 more than 55% the funds are eligible for the additional 0.5% spend. Moreover, it is through adherence to the Endowment Management Policy that the Board was able to approve a budget of \$14.5 in 2016-17. The breakdown of how the budget is allocated is illustrated below.

Figure 8: 2016-17 Budget Allocations



Management Fees

The majority of investment expenses are investment management fees; and the spending policy limits administration expenses to a maximum of 0.35% per annum of the inflation adjusted principal as at December 31 of the prior year.

These expenses include audit, custodian, consulting and performance measurement fees as well as advancement and administration services provided by the University of Victoria.

For 2016-17 the Foundation budget for these expenses is 0.31% of the inflation adjusted principal at cost as of December 31, 2015.

Budget Categories:

Awards – Achievement based

Bursaries – Bursaries are non-repayable awards based on financial need and reasonable academic standing.

Specific Purpose - Research Chairs, Centres, etc.

Scholarships – Scholarships are non-repayable and are awarded to students on the basis of academic merit or excellence

SERVICE PROVIDERS

INVESTMENT MANAGERS

Walter Scott & Hexavest -*Global equity*
Phillips, Hager & North -*Fixed Income*
Foyston, Gordon and Payne -*Canadian equity*
Macquarie Infrastructure -*Infrastructure*
Bentall Kennedy -*Real Estate*

CUSTODIAN

RBC Investor Services

INVESTMENT CONSULTANT

Aon Hewitt

PERFORMANCE MEASUREMENT

Aon Hewitt

AUDITOR

KPMG LLP

As at March 31 2016

RESPONSIBLE INVESTING REPORT

In 2012, the Foundation extended its list of investment beliefs to include a belief on responsible investing. Two years later, it was updated to include a requirement that investment managers submit annual disclosures regarding the processes by which ESG factors are incorporated into the investment decision-making process. The Board continues to focus its efforts on responsible investing instead of divestment. In 2015, in order to advance responsible investing the Board focused on:

1. completing the United Nations-supported Principles for Responsible Investing (PRI) reporting and understanding how to optimize membership, and;
2. reviewing the responsible investment practices of its investment managers and their commitments to Environmental Social and Governance (ESG).

PRINCIPLES FOR RESPONSIBLE INVESTING

The United Nations-supported PRI Initiative has quickly become a leading global network for investors to publicly demonstrate their commitment to responsible investment, to collaborate and learn with their peers about the financial and investment implications of ESG issues, and to incorporate these factors into their investment decision-making and ownership practices.

Membership to the PRI also offers a menu of possible actions for incorporating ESG issues into investment practices across asset classes. Responsible investment is a process to be tailored to fit each organization's investment strategy, approach and resources. The principles are designed to be compatible with the investment styles of large, diversified, institutional investors that operate within a traditional fiduciary framework.

Also through this membership the Board has agreed to adopt the Six PRI principles below that are voluntary and aspirational. The Foundation views the PRI's Six Principles as framework for responsible investing and, where consistent with our fiduciary responsibilities, we commit to the following:

- Incorporate environmental, social and governance issues into our decision-making processes.
- Encourage managers to be active owners and incorporate ESG issues into ownership policies and practices.
- Encourage managers to seek appropriate disclosure on ESG issues by the entities in which we invest.
- Promote acceptance and implementation of the Principles within the investment industry.
- Work together to enhance our effectiveness in implementing the Principles.
- Report on our activities and progress towards implementing the Principles.

INVESTMENT MANAGER ESG INTEGRATION

The Board requests that its investment managers provide annual written reports on ESG practice integration. Key disclosures from each investment manager are included below.

Walter Scott – Global Equity Manager

“For Walter Scott, ESG will never be a box-ticking exercise, instead it is considered at every stage of the investment process.

-Walter Scott Investment Manager, 2015

Integral to Walter Scott’s investment philosophy is a belief that there is an irrefutable link between corporate governance and corporate performance. Over time corporate performance is the key determinant of investment performance and therefore Walter Scott is committed to encouraging the highest standards of corporate governance in the companies in which it invests. In this context, corporate governance is understood to include all factors that may be considered under the terms ESG or SRI.

During the course of 2015 scandals around the world continued to highlight the importance of robust attitudes to ESG. Frustratingly, the common theme seems to remain quite simple – corporate governance and the tone from the top.

History has shown that companies with anything less than robust attitudes to such issues and those lacking strong corporate governance structures cannot maintain the growth and profitability over the long term that the investment team expects from investments.

Hexavest – Global Equity Manager

Hexavest’s philosophy regarding environmental, social, and corporate governance (ESG) issues is based on the belief that companies lacking strong governance standards or social and environmental responsibility are taking business risks which may adversely affect them as well as their stock’s performance. Our investment team is mindful of the potential risks associated with ESG issues, which are therefore considered from a risk assessment standpoint; we analyze the potential risks and incorporate the results in our research.

Hexavest has also incorporated ESG issues in the voting guidelines of its Proxy Voting Policy. Our main basis of analysis when exercising our voting rights is the maximization of returns for our clients, but we also require that companies submit to the regulations in force in the countries and jurisdictions where they do business, that their conduct be socially responsible and that they submit to high standards of governance and ethics.

Please note that Hexavest has outsourced the execution of proxy voting to Groupe Investissement Responsable (GIR). GIR has earned a coveted reputation for its boutique approach to extra-financial strategic advisory services. GIR brings together onsite professional staff and analysis services - facilitated by its Integralpha™ Proxy Voting System - to ensure that voting rights are exercised in line with their clients’ stated principles. In addition to serving as an outstanding delivery platform, Integralpha™ is top-of-the-line proprietary technology that executes the voting process in a fraction of the time it would take to do so internally. Hexavest has therefore delegated to GIR the responsibility of proxy voting in accordance with the firm’s proxy voting policy.

Our top-down investment approach limits the extent of shareholder engagement we can operate. Therefore, Hexavest has decided to find other ways to influence companies included in its portfolios to help them improve the management of their extrafinancial risks: the firm has been a signatory of the United Nation’s Principles for Responsible Investment (the “PRIs”) since 2012, established a partnership with a highly engaged organization, and regularly participates in local and international initiatives with other key participants of the financial sector.

As an institutional investor, we have the duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we commit to report on our activities and our progress towards the integration of the Principles for Responsible Investment.

Hexavest’s philosophy regarding ESG issues is based on the belief that firms lacking strong governance standards or social and environmental responsibility are taking business risks that can have an adverse effect on company and stock performance.

The investment team is mindful of the potential risks associated with ESG issues, which are therefore considered from a risk assessment standpoint; we analyse the potential risks and incorporate the results in our research. We subscribe to Sustainalytics to assist us with this analysis.

Bentall Kennedy – Canadian Real Estate Manager

Bentall Kennedy, ranked 1st globally in its peer group in the 2015 Global Real Estate Sustainability Benchmark (GRESB), is a member of UN PRI and a recognized Responsible Property Investing leader committed to best-in-class environmental, social and governance practices in developing, leasing and managing commercial real estate.

Here are a few highlights from the annual Corporate Responsibility Summary Report:

- Increased coverage of building certifications across our portfolio, with \$11 billion in assets now certified to LEED® standards;
- Achieved 41% year-over-year growth in green building certifications across the retail and industrial properties we manage; and

The most material environmental impact of a real estate company are greenhouse gas (GHG) emissions associated with the energy use in buildings over their lifetimes. This energy use accounts for 90% of our Scope 1 & 2 GHG emissions, with water and waste making up the remaining 10%. Over the past 5 years we have achieved incremental improvements in these areas. In 2015, with a renewed focus on training and building certifications, we have achieved some significant reductions.

Greenhouse Gases (GHG) and Energy

Across our portfolio, normalized gross location-based GHG emissions decreased by 2.8% in 2015 compared to 2014. As a long-time proponent of implementing energy reduction measures, some may believe there is no low hanging fruit left for efficiency gains. In order to drive down energy and associated costs, we focus on reducing energy intensity (the energy used in a building on a per square foot basis, normalized to remove variances for weather and occupancy). This enables us to highlight the impact that management practices have on energy reduction goals. The normalized energy intensity across our portfolio decreased by 4%, compared to 2014. These results are partially due to an increased emphasis on energy efficiency training and building certifications along with improvements to our utility management tool, Eco Tracker, and a continued focus on energy reduction programs at the properties.

We have several examples where high performing buildings, already certified to LEED Gold, have been able to deliver a further 15-20% energy efficiency gain by focusing on data collection and deeper analytics to identify efficiency opportunities.

Looking forward, we will continue our best-in-class management practices to reduce energy intensities, while improving energy efficiency literacy amongst our real estate professionals through training and more active participation in Eco Tracker.

Macquarie – Global Infrastructure Manager

Macquarie Asset Management (MAM) has been a signatory to the United Nations Principles for Responsible Investment (PRI) since July 2015. In addition, Macquarie Group is a signatory to the Carbon Disclosure Project (CDP) and responds to the CDP about its approach to the risks and opportunities from climate change.

All potential portfolio company investments are reviewed for ESG risks and opportunities as an integral part of the investment due diligence process. Anti-bribery and corruption assessments are also conducted for each potential acquisition, and all transactions are screened for conflicts of interest.

To ensure the consistency and adequacy of these assessments, we have comprehensive due diligence scope checklists and external expert advisors are engaged as needed. The scope of due diligence advisors also includes consideration of ESG issues.

PH&N – Canadian Fixed Income Manager

In 2015, RBC Global Asset Management (RBC GAM), the owner of PH&N, joined a growing list of asset owners and managers globally by becoming a signatory to the United Nations-supported Principles for Responsible Investment (PRI). RBC GAM is a signatory to the Carbon Disclosure Project which promotes standardized reporting of greenhouse gas emissions. A PH&N employee, Jason Milne, has been a RIA board member since 2012 and was appointed Chair in 2015. RBC GAM is a Sustaining Member, the highest level of membership in the RIA. Dan Chornous, Chief Investment Officer of RBC Global Asset Management Inc., is the Chair of the CCGG, and Judy Cotte sits on the Public Policy Committee of the CCGG. Over a number of years PH&N has been a vocal supporter of CCGG initiatives such as majority voting, say-on-pay, and requiring shareholder approval of dilutive transactions.

We believe that the proper disclosure and consideration of ESG risks and opportunities by the companies or countries in which we are invested will enhance the long term, sustainable performance of those investments. Accordingly, we seek to integrate ESG factors into our investment process when doing so may have a material impact on our investment risk or return. As a general rule, we will not exclude any particular investment or industry based on ESG factors alone. We believe it is important to consider those factors within our overall investment process rather than unduly narrowing the universe of potential investments.

Good corporate governance practices are particularly important for all of our investments across all industries and markets. We believe that companies with good governance structures are better able to focus on the company's long-term, sustainable growth and pose less risk for shareholders. Good corporate governance is also essential to properly align the interests of management with those of shareholders. We believe that the quality of a company's corporate governance is relevant to all other environmental and social factors, as poor management or disclosure of environmental or social risks and opportunities may indicate weak board oversight of risk, strategy and management and may also be a sign of poor management quality. For fixed income investments, the governance practices of an issuer (whether sovereign or corporate) may be material to creditworthiness and risk.

Foyston Gordon & Payne – Canadian Equity Manager

Foyston Gordon & Payne (FGP) incorporates ESG to their equity vetting and monitoring processes. FGP tracks:

- I. Company environmental factors (such as emissions, use of renewables, recycling & whether management has formulated ESG policies);
- II. Social factors (such as employee equity, workplace diversity, adherence to safety standards & whether management has incorporated training and health & safety programs); and,
- III. Governance factors (such as board structure and executive compensation).

FGP compiles ESG factors using proprietary software such as Bloomberg ESG metrics, and incorporates this into individual equity's risk/performance profiles. FGP incorporates an investment scoring system which directly correlates to an investment's weighting in their portfolio. FGP also subscribes to Sustainalytics and receives SRI-based coverage of Canadian Equities (mid/large cap).

FGP has started reporting on ESG developments in our quarterly reports to our clients. FGP is not a signatory to the UN PRI.

PROXY VOTING

Proxy voting is another essential tool in our commitment to responsible investing. The Board has delegated voting rights to be exercised by the investment managers. Equity investment managers are expected to vote all proxies in the best interests of the Foundation. The proxy voting activity of our investment managers demonstrates that they continue to remain active participants within their equity portfolios. Are managers are requested to report regularly on their proxy voting activity.

The most common types of proxy votes are:

- Board Opposition,
- Say on Pay Opposition, and;
- Shareholder Proposal Support.



