

UNIVERSITY OF
VICTORIA
FOUNDATION
ANNUAL REPORT

2017-18



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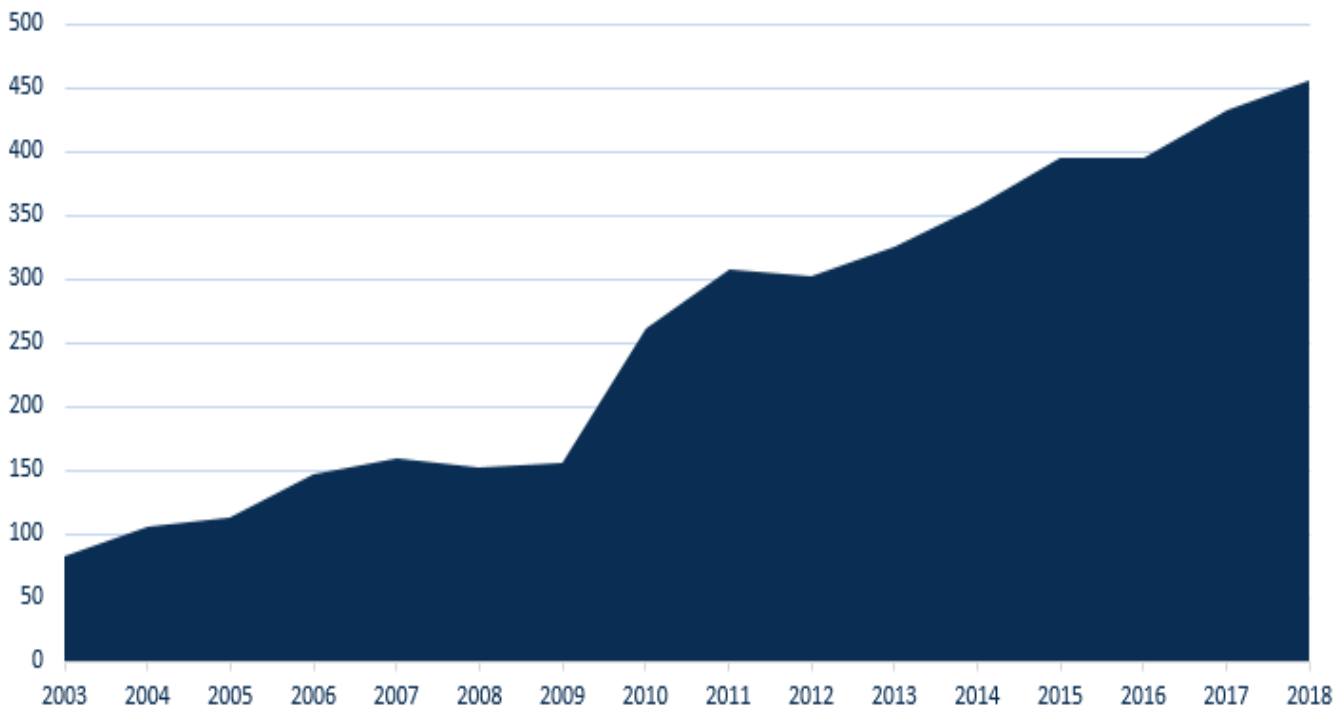
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“Thanks to the generosity of donors, almost \$8 million in new funding was added to the University of Victoria endowments this year. This investment is a show of confidence for the future of the university. All of us who are part of the University of Victoria Foundation are proud of the continued role the foundation plays, on behalf of our donors, in fueling innovation, dynamic learning and continued excellence at the University of Victoria.”

Tom Zsolnay
President, University of Victoria Foundation

Figure 1: Foundation Growth

\$ Millions, Market Value, 2003-2018 (as at March 31)



MESSAGE FROM THE CHAIR

I am very pleased to present the 2017-18 edition of the University of Victoria Foundation's Annual Report. The purpose of this Annual Report is to provide an investment overview and summary of the Foundation's activities for its many stakeholders.

This year marks the ninth consecutive year of positive returns of the Foundation's investments since the financial crisis of 2008-09. The net annual return for the fiscal year of 7% exceeded the Foundation's absolute and relative benchmarks. The Foundation's long-term investment goal is to achieve a minimum annualized rate of return (net of management fees) of inflation + 4.5%. As outlined in this report, the Foundation Board is pleased to have achieved this goal over the last 10 years, thus helping to ensure the intergenerational equity of each endowment.

2018-19 marks the largest budgeted distribution in the Foundation's history with more than \$15.6 million in planned disbursements from more than 1300 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.

The Board continues to meet at least six times a year. In addition to in-depth discussions with the Foundation's investment consultant and 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 include:

- as noted above, the approval of the 2018/19 Annual Spending Budget of \$15.6 million;
- reallocation of 10% of our equity allocation to Global from Canadian; and
- implementation of an Endowment System.

The target equity allocation of the Foundation in prior years was 55% (25% Canadian and 30% Global Equities). Based upon an asset allocation study undertaken by the Board, this allocation was identified as an area of priority to be reviewed. After its review, the Board chose to maintain the 55% equity allocation, but to increase the Global Equity exposure by 10% for diversification purposes. This reallocation is funded from Canadian Equities.

The first phase of the Endowment System was completed this year. This marks an important milestone as our endowment tracking system has been uploaded to the University of Victoria enterprise financial system. This will allow UVic endowment administrators to view up to date endowment financial information to ensure funds from endowments continue to be spent in an accurate and timely manner as the number of funds continues to grow.

On a personal note, I have served on the Board since 2010 and have been privileged to work with many talented, thoughtful and convivial board members with a great depth of knowledge about all aspects of the financial market. As my first term began shortly after the depths of the 2008-09 financial crisis, I have experienced first-hand the dedication and hard work of those board members and the University staff supporting the Board, in ensuring that the Foundation's investments are maintained. As it continues to attract very knowledgeable and skilled board members, I am confident that the Foundation will maintain its responsible oversight of the over \$440 million for the benefit of the University and its stakeholders. This year, we welcomed Ann Glazier Rothwell, Jagdeep Shergill and Bryan Thomson to the Board. As my final year on the Board comes to a close, I wish to thank current and past board members, as well as the University staff, for the valuable contributions each brings to the Board table.

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

Fiona Hunter (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 \$440 million in assets and administering over 1,300 endowment funds that disburse more than \$15 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

The Board has taken steps to codify its investment practices into belief statements. Our 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

GOVERNANCE

The University of Victoria Foundation Act provides the Foundation Board with the investment powers of a “prudent investor” 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.

MEMBERS OF THE BOARD

Elected by the Members

Ms. Lisa Dempsey (Vice-Chair)
Ms. Ann Glazier Rothwell
Mr. Andrew Turner
Mr. Jagdeep Shergill

Appointed by the Board of Governors of the University

Ms. Mary Garden
Ms. Fiona Hunter (Chair)
Mr. Paul Siluch
Mr. Bryan Thomson
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)

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>

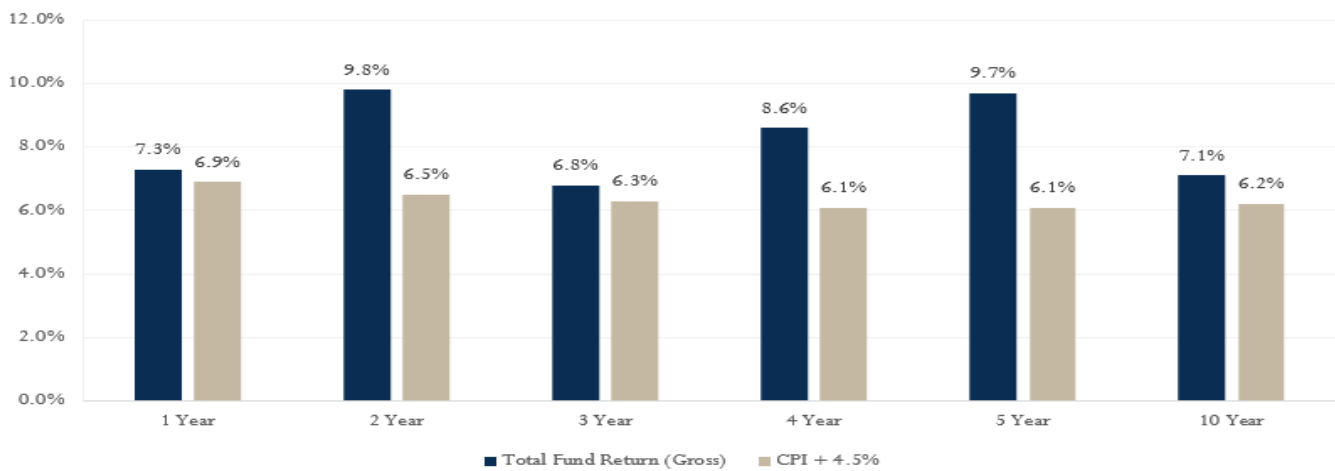
INVESTMENT PERFORMANCE

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 been funding allocations to real estate and infrastructure. Strong returns and subdued inflation has allowed the Foundation to outperform that goal over all periods.

Figure 3: Fund Return Relative to Investment Goal

Total Gross Fund Return vs Investment Goal of CPI + 4.5%, as at March 31st, 2018

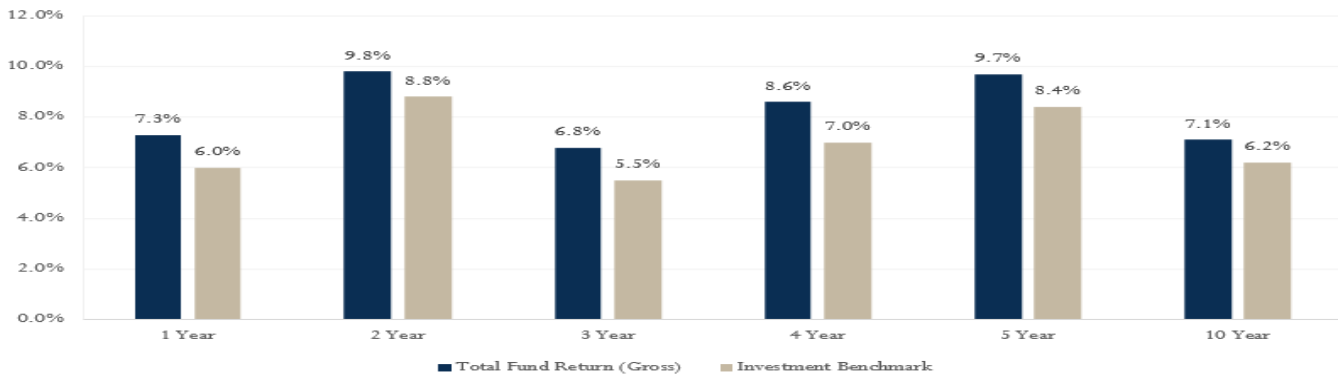


Fund Return Relative to Investment Benchmark

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 31st, 2018



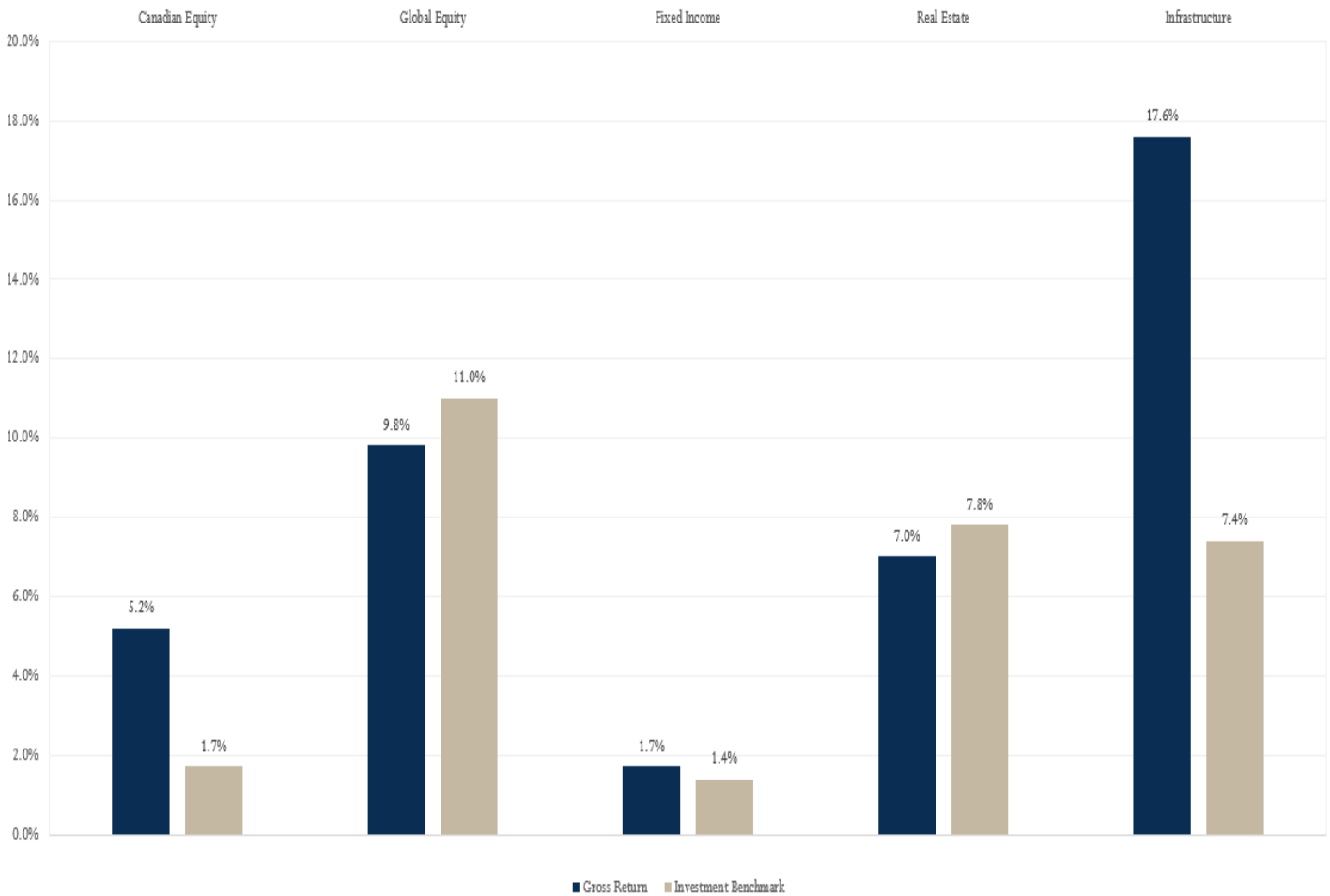
Returns by Asset Class Relative to Benchmarks

In 2017-18 Global equities outperformed Canadian equities; Fixed Income returns were low as expected; Real Estate returns were inline with expectations and Infrastructure exceeded expectations. Our Canadian equities exceeded our benchmark by 3.5% while the Global equities underperformed our benchmark by 1.2%. Fixed income returned 1.7% and outperformed its benchmark by 0.3%.

Real estate returned 7.0% and underperformed its benchmark by 0.8%. Infrastructure returned 17.6% and outperformed its benchmark by 10.2%. Finding an appropriate benchmark for Infrastructure remains a challenge and is highlighted by the relative outperformance this year. The Foundation is now meeting its investments allocation target of 10% to infrastructure.

Figure 5: One-Year Returns by Asset Class Relative to Benchmarks

Total Gross Fund Return vs Investment Benchmark, as at March 31st, 2018



As a long-term investor, the Foundation monitors year over year income performance but it places more emphasis on 4-year performance. Over the past four years, Canadian equities and Fixed income have outperformed their benchmarks over each period. Global equities absolute returns have been strong but have underperformed its benchmark over the last two years. This is consistent with the styles of our two managers as both were hired to provide downside protection in difficult equity markets.

Real Estate has underperformed its benchmark over the last 4 years while infrastructure has outperformed its benchmark. 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 31st, 2018

<i>As at March 31st, 2018</i>	Annualized Performance			
	1 Year	2 Year	3 Year	4 Year
Canadian Equity (Gross)	5.2%	13.1%	5.8%	7.5%
Benchmark: S&P/TSX Composite Total Return Index	1.7%	9.8%	4.1%	4.8%
<i>Value Added</i>	3.5%	3.3%	1.7%	2.7%
Global Equity (Gross)	9.8%	13.1%	10.0%	12.7%
Benchmark: MSCI ACWI (Net) (CAD)	11.0%	14.8%	8.8%	11.7%
<i>Value Added</i>	-1.2%	-1.7%	1.2%	1.0%
Canadian Fixed Income (Gross)	1.7%	2.1%	1.9%	4.0%
Benchmark: PH&N Fixed Income Benchmark	1.4%	1.4%	1.2%	3.4%
<i>Value Added</i>	0.3%	0.7%	0.7%	0.6%
Real Estate (Gross)	7.0%	6.7%	6.3%	5.8%
Benchmark: REALpac/IPD Canada Property Index	7.8%	7.3%	6.7%	6.5%
<i>Value Added</i>	-0.8%	-0.6%	-0.4%	-0.7%
Infrastructure (Net)	17.6%	10.4%	14.7%	11.1%
Benchmark: Consumer Price Index + 1%	7.4%	7.0%	6.8%	6.7%
<i>Value Added</i>	10.2%	3.4%	7.9%	4.4%

Asset Allocation

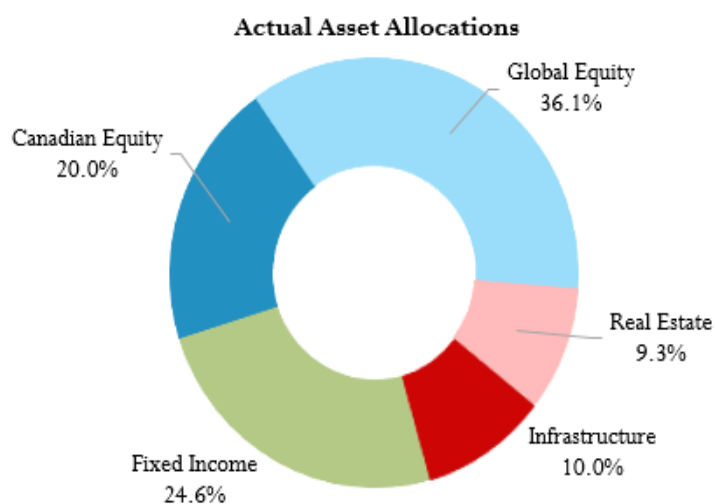
Figure 7: Asset Allocations Relative to Policy

As at March 31, 2018

Asset Class Benchmark Policy	Investment Policy (%)	Actual Allocation (%)
<i>Fixed Income:</i>		
Fixed Income-FTSE TMX Canadian Universe Bond Index	25.0	24.6
Total Fixed Income	25.0	24.6
<i>Equity:</i>		
Canadian Equity - S&P TSX Composite Index	20.0	20.0
Global Equity - MSCI ACWI (Net) (CDN) Index	35.0	36.1
Total Equity	55.0	56.1
<i>Alternatives:</i>		
Real Estate - REALpac / IPD Canada Property Index	10.0	9.3
Infrastructure - Consumer Price Index + 1%	10.0	10.0
Total Alternatives	20.0	19.3
Total Fund	100.0	100.0

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

The infrastructure asset class allocation is meeting the target allocation. The Foundation has committed to North American and European Infrastructure Funds to achieve geographical diversity.



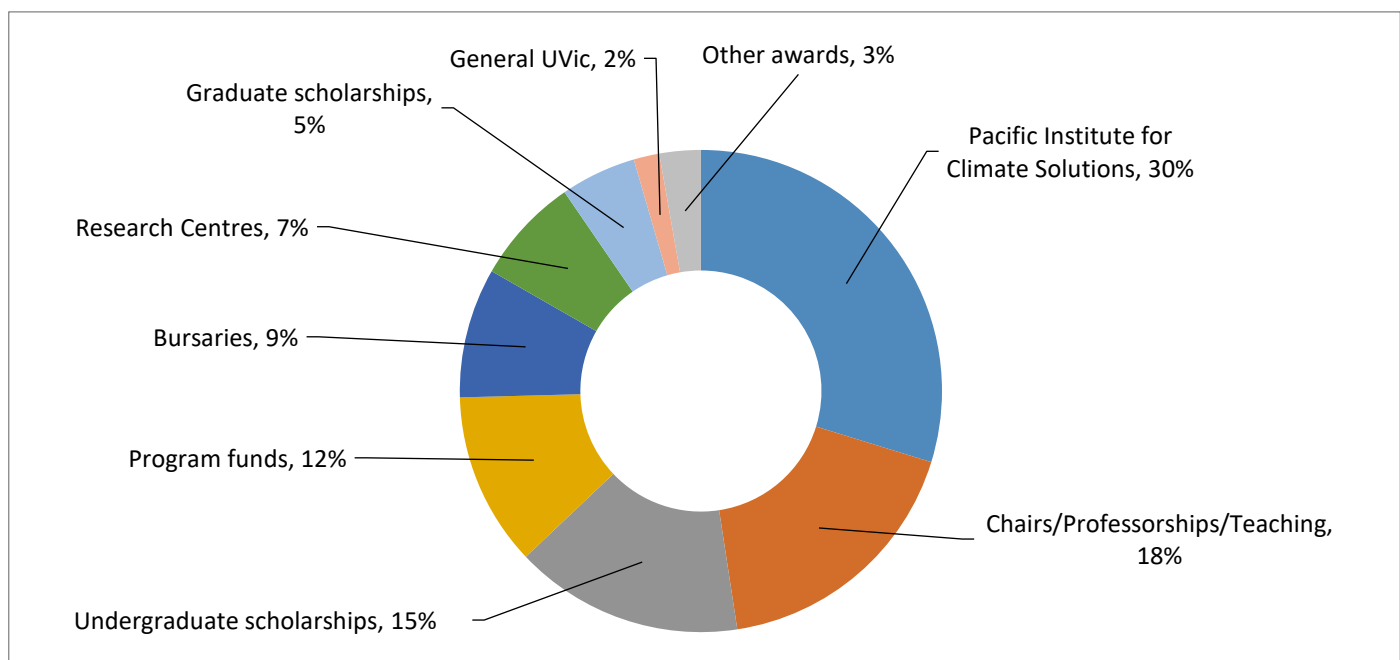
ENDOWMENT MANAGEMENT (SPENDING) POLICY

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 the 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 up to 1% for investment costs, the endowment must 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 2017-18 more than 77% of the funds are eligible for the additional 0.5% spend. Conversely, if the market value of a fund falls below 80% of the original donation, the distribution of that fund will be re-evaluated and may result in no distribution for a given year. In 2017-18 no funds market value fell below the 80% threshold. Consistent with the application of the Endowment Management Policy, the Board approved a budget of \$15.6 in 2018-19. The breakdown of how the budget is allocated is illustrated below.

Figure 8: 2018-19 Budget Allocations



Management Fees

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

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

For 2017-18 the Foundation budget for these expenses is 0.32% of the inflation adjusted principal at cost as of December 31, 2017.

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

PERFORMANCE MANAGEMENT

Aon

AUDITOR

KPMG LLP

As at March 31 2018

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 Environmental Social and Governance (ESG) factors are incorporated into the investment decision-making process. The Board continues to focus its efforts on responsible investing instead of divestment. In order to advance responsible investing, the Board continues to:

1. complete the United Nations-supported Principles for Responsible Investing (PRI) reporting;
2. review the landscape of asset owner best practices in implementing responsible investing; and
3. review the responsible investment practices of its investment managers and their commitments to 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.

Responsible investment is a process to be tailored to fit each organization's investment strategy, approach and resources. The Foundation views the principles as framework for responsible investing and, where consistent with our fiduciary responsibilities, we commit to the following:

- Incorporate ESG 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.

All six of the Foundation's external investment managers are PRI signatories.

INVESTMENT MANAGER ESG INTEGRATION

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

Walter Scott – Global Equity Manager

We invest in companies across different geographies and sectors; therefore the governance, social and environmental issues each company faces will differ. Key themes include, but are not limited to:

Governance

- Board structure and effectiveness
- Remuneration
- Regulation
- Bribery and corruption
- Tax

Social

- Employee training and satisfaction
- Sustainable, traceable and ethical supply chain
- Health and safety
- Cybersecurity
- Demographics
- Affordability & access
- Stakeholder relationships

Environmental

- Climate Change
- Pollution/emissions
- Water scarcity
- Resource consumption
- Waste Management

ESG is integrated throughout the process. Few ESG issues are isolated and almost all have financial implications. Every stock held in our portfolios can be said to demonstrate a performance record of accomplishment. ESG issues are not considered or tracked separately.

The Research team seeks to identify and review all relevant factors appropriate to assessing a company's ability to generate wealth, including ESG factors, through in-house research and communication with investee companies. As long-term investors it is essential that we invest in business with robust attitudes towards, and the highest standards of, corporate governance. Over time, we consider corporate performance to be the key determinant of investment performance and, therefore, we are committed to encouraging the highest standards of corporate governance in the companies in which we invest.

The same analytical framework is followed in researching any company regardless of geography or sector. That framework forms an important part of the overall research process and is based on seven areas of investigation. It may be appropriate to consider ESG factors across almost any aspect of a company's business and therefore all seven areas, but those considerations will usually come to the fore in the areas of investigation titled, 'integrity' and 'control of destiny'. Assessing a company's integrity encompasses matters such as accounting methods, off balance sheet financing, treatment of minorities, insider selling as well as ethical and governance factors. A company that cannot show integrity in its operating structure and practices is not a valid long-term investment idea. Similarly, in assessing whether a company is in control of its destiny, it is only companies with market leadership based on reputable ethical and operating practices that will retain that control.

ESG considerations are present throughout our investment activities. They come to the fore particularly in three areas: (a) research, where companies with poor standards of governance are screened out; (b) in face-to-face meetings and other communications with company management; and (c) in the way proxy votes are exercised. Our Research team is responsible for all three aspects.

There is a formal, ongoing training programme for the Research team, covering important and/or topical areas of investment and research including ESG issues. Training is also incorporated into more ad-hoc presentations and meetings with industry or academic experts. Members of the team regularly attend ESG related meetings and conferences, in addition to direct ESG engagements with companies.

Hexavest – Global Equity Manager

ESG Philosophy:

We believe that the companies lacking strong governance standards or social and environmental responsibility are taking business risks that can have an adverse effect on company and stock performance. Our investment team is mindful of the potential risks associated with ESG issues, which are therefore considered from a risk assessment standpoint. We also believe that certain investment opportunities may arise from ESG factors.

Integration in stock selection:

Managers use quantitative tools to support them in the portfolio construction process, including a stock selection model. This model ranks companies according to the main families of variables. Sustainalytics' overall ESG score represents one of these families of variables. Thus, companies' ESG performance impacts their rank among their peers and can ultimately influence their presence in the portfolio. As a UN PRI signatory, Hexavest is committed to incorporating ESG issues into its analysis and decision-making. Through our Responsible Investment Policy, we are also committed to continuing to evolve our ESG approach. Here are the developments that were made by our firm in 2017:

Expansion of shareholder engagement coverage in the United States

Until 2016, the dialogues with the companies we held in the portfolio focused on Canadian companies. We have mandated our shareholder engagement service provider to expand coverage across North America. Seven US companies with various ESG issues were added to our annual action plan list and contacted in 2017.

Systematization of the integration of ESG scores into our portfolio construction process

Various tests were conducted by our quantitative analysts and portfolio managers to improve ESG integration methodology in the portfolio construction process. The objective was to optimize the consideration of ESG risks and opportunities without compromising the integrity of the firm's management style. The chosen process uses the quantitative decision support tools used by the portfolio managers. The securities' ESG rating has been incorporated into the models and a significant weight has been allocated to all regions, making the consideration systematic.

Integration of ESG risks into monthly risk reports

Since this year, the Hexavest Risk Committee has included a section on ESG risks in each monthly risk report presented to the management team.

Adoption of a responsible investment policy

On December 7, 2017, Hexavest's Board of Directors adopted a Responsible Investment Policy to define and regulate the practices of the firm for this purpose. The policy is public and can be consulted on the firm's website.

2018 Objectives

Four objectives have been set for the coming year to continue to improve our responsible investing practices:

- Obtain the tools and data needed to measure and analyze the carbon footprint of our portfolios.
- Communicate our responsible investment practices more transparently.
- Formalize a training plan for our resources with responsibilities related to our responsible investing practices.
- Increase the number of companies held in our portfolios with which we carry out shareholder engagement.

Additionally, we are working on enhancing ESG factors, and as such we are currently in discussion with a highly skilled ESG provider to see if we can work together in order to provide more in-depth analysis in ESG factors and integrating them into our investment decisions.

Macquarie – Global Infrastructure Manager

ESG risks and opportunities are integrated into the full investment life-cycle. 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 conducted for each potential acquisition, and all transactions are screened for conflicts of interest and ESG ‘red flags’.

To ensure the consistency and adequacy of these assessments, Macquarie Infrastructure and Real Assets (MIRA) 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. Where necessary, external ESG advisors may be engaged to undertake due diligence, resulting in a detailed report that includes assessment of:

- main licensing requirements and issues arising from investigations
- key ESG risks and potential liabilities
- recent regulatory actions taken, reviews and/or third party actions or claims against the company
- ongoing obligations/regulatory standards to be met post-acquisition
- assessment of the ESG risk management framework in place against accepted good practice
- recommendations for any remediation actions and clear allocations of responsibility across ESG.

The Macquarie Environmental and Social Risk Assessment Tool was built in collaboration with an external consultant and customized for our business. It is used for all transactions. The environmental and social risk criteria and categorization are based on International Finance Corporation Performance Standards and the system is kept up to date in line with industry practice. The tool covers the following areas:

- escalation, regulation and compliance
- land acquisition and involuntary resettlement
- biodiversity and sustainable management
- labour and working conditions
- resource efficiency and pollution prevention
- community, health, safety and security
- indigenous peoples and vulnerable groups
- cultural heritage.

Prior to investing in a portfolio company, the results of due diligence – including key ESG issues, risks and mitigation measures – are presented to the fund board or investment committee. As part of a detailed investment risk assessment, we would factor in any significant deficiencies in the proposed investment’s risk management framework, including those relating to ESG. Resulting actions taken are contingent on the level of control or influence MIRA may have over the proposed investment.

In investment decision making, MIRA will assess both ESG issues raised in due diligence and our ability – through governance rights either at the director or shareholder level – to influence the management of those issues. If we feel that we are unlikely to be in a position to bring about any necessary improvement, the fund board/investment committee will not proceed with the investment. If the acquisition proceeds, we would document any risk-related deficiencies as part of the acquisition transition plan, to be addressed by the company during transition. We would then expect the portfolio company to monitor and report on how the implementation of this plan is progressing.

Following acquisition, more detailed information is sought from each portfolio company in respect of its risk management framework and analyzed by MIRA risk personnel (an asset risk management framework assessment).

The portfolio company’s framework should as a minimum include procedures and processes to:

- identify and document major ESG issues relevant to the business
- manage significant ESG risks including environmental incident response
- audit compliance with ESG regulatory obligations and status of environmental risk management framework
- manage and report environmental and safety incidents
- report on ESG management to the board.

Any findings are discussed with MIRA’s asset managers and the non-executive directors, with a view to seeking incorporation of any identified improvements – including in respect of ESG matters – into the portfolio company’s risk management framework and underlying processes and policies.

Each portfolio company is expected to monitor its compliance with key ESG requirements, metrics and KPIs relevant for the specific business, sector and jurisdiction, and to resolve identified issues on a timely basis, reporting at least annually to its board and shareholders on developments.

MIRA as fund or asset manager also seeks to ensure:

- immediate reporting of any serious health, safety and environmental incidents to the portfolio company CEO and board, and to MIRA’s asset management and risk teams
- quarterly reporting and monitoring of general health, safety and environmental performance.

PH&N – Canadian Fixed Income Manager

At Phillips, Hager & North Investment Management (PH&N) and RBC Global Asset Management (RBC GAM), we believe the degree to which ESG factors are relevant and material to an investment depends on the company, the industry in which it operates, and the nature of the investment portfolio for which it is purchased. In general, we encourage consideration of the following factors when they have the potential to impact the value of our investment:

Environmental: Environmental factors include the impact of a company's activities on the climate, including greenhouse gas emissions and the risks and opportunities presented by climate change, energy efficiency, pollution, water and waste management, site rehabilitation, biodiversity and habitat protection.

Social: Social factors include human rights, community consent/impact, respect for indigenous peoples, employee relations and working conditions, discrimination, child labour and forced labour, health & safety and consumer relations.

Governance: Governance factors include the alignment of interests between executives and shareholders, executive compensation, board independence and composition, board accountability, shareholder rights, transparency/disclosure, anti-corruption measures, financial policies and the protection of private property rights.

Our approach to responsible investment is anchored by the knowledge that our clients have entrusted us to help them secure a better financial future for themselves or for the beneficiaries of the funds they manage. Our principal duty is to maximize investment returns for our clients without undue risk of loss, within the investment limits described in the relevant investment mandate.

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.

Specific to the ESG approach relevant for the University of Victoria's portfolios under our management, the PH&N Fixed Income team believes that ESG factors should be considered as an intrinsic component of risk analysis in terms of their capacity to affect long-term credit quality and investment performance. Comprehensiveness of research is the team's primary goal, therefore they believe it is prudent to assess a credit in its entirety, which would naturally include ESG concerns.

The team views risk holistically, meaning ESG issues are not evaluated separately or as an extra step to traditional analysis; rather, they are incorporated throughout the due diligence process. It is important to emphasize that ESG analysis is not a novel concept to us. We have been focused on evaluating the same risk factors that are now labelled as ESG since we first began offering investment management services over 50 years ago.

The PH&N Fixed Income team's fund managers and analysts look beyond companies' financial statements to take all potential sources of risk into consideration, including ESG factors. The risks that are material to any given investment will vary across industries and among players within each industry. There is no blanket ESG criteria that can be applied across the board. For instance, it would be imprudent to evaluate an oil and gas company without an extensive examination of its track record managing oil spills and other environmental events. Conducting the same analysis for a financial company, however, would be much less relevant and productive.

Bentall Kennedy – Canadian Real Estate Manager

Our Environmental, Social and Governance practices enhance long-term value for investors by reducing risks, reducing operating costs and increasing tenant loyalty.

When considering a new development or the acquisition of a building, we look at a number of sustainability factors, including environmental risk and energy performance. One of the first things we consider is the city – is it a city that proactively addresses sustainability and associated risks. Next, we drill down to the neighborhood level to determine whether it is a vibrant neighborhood that will attract top talent to work and live. We then look at the attributes of the building itself (for example, is it mixed-use, LEED certified, etc.) and how it will play a part in ensuring health and productivity of tenants and residents. Finally, we evaluate the management of the property and how we can play a role in the overall tenant experience. There is varied weighting to these factors as well as many others relative to real estate asset class and market.

Bentall Kennedy believes in investing soundly + sustainably. Our approach to sustainability is directly tied to our investment strategy and designed to match a range of investor risk and return expectation. Incorporating sustainability factors into our investment portfolio support stable, long term returns. It enhances value by increasing property occupancy and income, reducing risk of obsolescence and strengthening tenant loyalty – all while reducing emissions to protect our environment.

Foyston Gordon & Payne – Canadian Equity Manager

- Primary objective is to make investments to maximize returns on behalf of our clients without undue risk or permanent capital loss.
- Our updated ESG strategy focuses on 4 objectives:
 1. Consider ESG factors (checklist) and understand ESG risks within the investment decision
 - Keep it simple
 2. Identify and monitor corporate ESG disclosure
 3. Actively engage and raise our ESG concerns with our management teams
 - Actively engage management
 - Support sensible ideas
 4. Proactively report our ESG positions with our clients
 - Quarterly updates
 - Used fact-based analysis
- Include (and update) our checklist with the investment grade checklist at least annually
- Identify any ESG known issues with each update (i.e., email, formal report)
- Disclose guidelines annually according to the United Nations Principles for Responsible Investing (UNPRI)

Aon – Investment Consultant

Aon considers Responsible Investing to be comprised of four sub-categories, one of which is ESG integration. How we define each of these sub-categories is described below:

Environmental, Social and Governance Integration (ESG) - A growing body of research presents compelling cases that certain ESG factors will likely have an impact on the global economy (e.g. climate change) and on individual corporate results. From an investment strategy perspective, Aon views non-financial ESG factors as potential risks that can and should be monitored, as well as possible investment opportunities for outperformance.

Aon has a Responsible Investment Policy and is dedicated to working with our clients to accommodate the many aspects of Responsible Investing. Our commitment to Responsible Investing, as described in the policy, is outlined below:

- We will endeavor to consider at all times the six principles of the United Nations Principles of Responsible Investing.
- We have studied, and will continue to study, Responsible Investing so we can incorporate best practices into our consulting and Outsourced Chief Investment Officer (Delegated) practices.
- We believe consideration of ESG factors in the investment process is beneficial from both a return and risk reduction standpoint.
- Aon is committed to working with clients to fulfill their Responsible Investment goals, whether through Socially Responsible Investing, Impact Investing ESG Integration or Mission Related Investing.
- On at least an annual basis, we will review and rate all buy-rated investment managers according to their level of ESG integration. The rating scale will be 1 (lowest) to 4 (highest). Managers will be informed about our intention to rate them on ESG integration, and we will communicate their initial rating and any rating changes in the future.
- We will rate non-buy rated managers on a set of quantitative ESG criteria.
- We will provide information on available ESG ratings to clients.
- We will not advise on the manner in which to vote proxies in a client's plan/portfolio. However, from time to time, non-discretionary investment consulting clients may request guidance on investment decisions related to mutual fund proxies. In such cases, Aon will refer the question to the appropriate local investment committee for further research.
- We will factor Responsible Investment into local investment beliefs.
- We will monitor various Responsible Investment factors (including environment and climate change, social and governance data) for their impact on financial performance and market stability and will address them as required. We will also support our clients to fulfill their fiduciary and stewardship duties in line with their investment beliefs and organizational goals.

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. Our 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.

CONTACT

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