



BOARD OF GOVERNORS Investment Committee

Minutes of the Public Meeting of Wednesday, February 20, 2019
11:30 a.m. to 12:40 p.m., ERC 3023

Members: Stephanie Chow (Chair), Doug Allingham, Ferdinand Jones, Thorsten Koseck, Mark Neville, Maria Saros, Steven Murphy

Staff: Becky Dinwoodie, Craig Elliott, Cheryl Foy, Susan McGovern

Guests: Connor Glassco & Taylor Woodward (PH&N)

1. Call to Order

The Chair called the meeting to order at 11:30 a.m.

2. Agenda

Upon a motion duly made by D. Allingham and seconded by T. Koseck, the Agenda was approved as presented.

3. Conflict of Interest Declaration

There were no conflict of interest declarations.

4. Chair's Remarks

The Chair wished everyone a Happy New Year. He welcomed guests T. Woodward and C. Glassco. L. Fiouzi was unable to attend due to a scheduling conflict.

(F. Jones arrived at 11:32 a.m.)

5. Approval of Minutes of Public Session of Meeting of November 19, 2018

The Chair noted the correction made to the spelling of M. Saros' last name.

Upon a motion duly made by D. Allingham and seconded by M. Saros, the Minutes were approved as amended.

F. Jones noted that he was absent at the last meeting due to a class scheduling conflict.

6. Investment Review

a. Third Quarter Investment Review

T. Woodward reviewed the third quarter investment results. The university's portfolio fell short of benchmark by about 20 basis points. Over the longer term, the portfolio has demonstrated good absolute return. The report highlighted the month of January because of the market rebound. T. Woodward advised that the -0.83 difference between the university's portfolio and the benchmark in January was because it was a lower quality rally and the university has a high quality portfolio. The portfolio is largely on target for the asset mix. The most notable divergence was Canadian equities, which was underweight by almost 3%. T. Woodward also reviewed the end of year distributions, which totalled \$759,851 in 2018.

b. Annual ESG Report

T. Woodward reviewed the types of projects in which RBC is involved. He reminded the committee that ESG represents Environment, Social, and Governance factors that are integrated into the investment process to identify those that may impact a company's valuation. ESG involves looking beyond financial statements to better identify risk and opportunity. ESG is about investment performance as opposed to ethical issues.

There was a discussion regarding the Governance component of ESG. T. Woodward clarified that potential corruption issues would be captured in the Governance evaluation of a company. He emphasized the importance of board independence and used the Volkswagen board as an example of lack of independent oversight. There was also a discussion regarding how the guidelines are determined. T. Woodward advised that there are guidelines, which are flexible. He reaffirmed that ESG does not involve judging a company by ethical standards – it involves examining risks that would negatively affect a company's performance down the road. ESG is another way of giving an edge in investments.

Referring to the recent SNC scandal, there was a discussion regarding the point at what which PH&N decides to divest. T. Woodward advised that PH&N is always looking at the cost of contingent liability; if the current reward of investing in a company outweighs the potential future cost of liabilities, then PH&N will continue to invest in the business now.

Another factor that is looked at is how a company treats its employees (e.g. Glassdoor)? In order to assess ESG well, factors must be examined in depth. Business practices examined include:

- Colleagues
- Customers
- Suppliers
- Environment

Global regulations, investor led initiatives and link to performance are driving the growth in responsible investment.

Every strategy RBC implements involves ESG in the screening process. One of the challenges of implementing socially responsible investing is the variation in people's standards of what is acceptable (e.g. religious organization screening out AI companies).

T. Woodward discussed the variation in ESG scores among the three main third party ESG data providers: Sustainalytics, FTSE, and MSCI. He emphasized the very nuanced aspects of ESG. He also explained the distinction between ESG and Socially Responsible Investing (SRI) strategies. SRI is an exclusionary strategy and ESG is an additional investment assessment tool, not a determinative tool. There was a discussion about the Canadian market's evolution and the example was given of using ESG scores to choose the best in class among oil producers in the Canadian market.

c. Investment Learning – ESG

T. Woodward reviewed the results of the 2018 Responsible Investing Survey. He reviewed what is driving the short-term focus. ESG is a way of offsetting short-term focus. RBC votes shareholder proxies and one of the most contentious issues is compensation. In 2018, 72% of respondents either somewhat or significantly use ESG principles as part of their investment decision-making – increase of 11% in only one year. Adoption of ESG across asset classes is increasing quickly, but predominantly used for equity asset class.

Diversity of Board

RBC is part of the 30% investor club, which is pushing for all boards to have at least 30% gender diversity by 2022. This will help the performance and risk management of an organization by having diversity of thought. While the goal is to reach a minimum of 30% gender diversity, the actual composition is not specified. The committee had a discussion about why the goal is only 30%. Unfortunately, the pipeline is not in place to hit a goal of 50%. The survey results show support for adopting gender diversity targets (62.9% of respondents). There was also a discussion about effective investor engagement – the drive for change will largely come from shareholders. T. Woodward and C. Glassco responded to questions from the committee members.

d. Statement of Investment Policies Amendment (SIP)

C. Elliott presented the proposed change to the asset class range in the SIP. Due to the recent strategy changes in the Asset Class Management Procedure, the range set out in the SIP must also be updated. The proposed amendment to section 6.1 involves changing the range for the Canadian equities in order to align with the Asset Class Management Procedures:

Section 6.1 – Asset Mix and Ranges

- In Table 6.1, change the range for Canadian Equities from 20-40% to 10-30%

Asset Class	Range
Cash & Short Term	0-10%

Asset Class	Range
Fixed Income	20-50%
Canadian Equities	20-40% 10-30%
Global Equities	25-45%

A question was raised about whether the range needs to be changed now since it currently falls within the target. C. Elliott advised that he anticipates the Canadian equities range will continue to drop.

Upon a motion duly made by M. Saros and seconded by D. Allingham, the Investment Committee recommended the amendment to the Statement of Investment Policies, as presented, to the Audit and Finance Committee for recommendation to the Board of Governors for approval.

7. Endowment

a. Endowment Disbursement Report

C. Elliott provided an overview of the endowment disbursement recommendation. There are earnings available of \$2.5M to disburse for the upcoming year. The university must disburse a minimum of 3-4% and the Disbursement Committee recommended disbursing 4% (\$550,000) for bursaries and scholarships. S. Murphy added that in light of the OSAP changes, it is important to disburse as much as possible. In response to a question about whether any of this funding could be used to help support clubs that might experience shortfalls due to the ancillary fee changes, C. Elliott clarified that the endowment fund agreements limit the use of funds to scholarships/bursaries.

In the past, the committee has recommended disbursing over 4% because of the portfolio's positive returns. C. Elliott advised that there remains \$219,000 to be disbursed from last year's endowment funds.

The committee considered recommending a disbursement greater than \$550,000 in light of student need. There was a discussion regarding the criteria used to determine eligibility for scholarships/bursaries. The criteria depends on the terms of the grant and can be based on grades, Faculty, or gender, etc.

Upon a motion duly made by T. Koseck and seconded by M. Neville, the Investment Committee recommended that the Audit & Finance Committee recommend the disbursement of up to \$600,000 from Endowment Funds for distribution as student awards in 2019-20.

8. Other Business

9. Adjournment

There being no other business, upon a motion duly made by D. Allingham, the public session of the meeting adjourned at 12:48 p.m.

Becky Dinwoodie, Secretary