



BOARD OF GOVERNORS
Investment Committee

Minutes of the Public Session of the Meeting of February 17, 2021
11:30 a.m. – 12:25 p.m., Videoconference

Members: Stephanie Chow (Chair), Mitch Frazer, Ferdinand Jones, Thorsten Koseck, Mark Neville, Dietmar Reiner, Maria Saros, Kim Slade, Steven Murphy

Staff: Becky Dinwoodie, Cheryl Foy, Brad Maclsaac

Guests: Leila Fiouzi & Jacinta O'Connor (PH&N), Chelsea Bauer (FA)

1. Call to Order

The Chair called the meeting to order at 11:31 a.m.

2. Agenda

Upon a motion duly made by M. Saros and seconded by M. Neville, the Agenda was approved as presented.

3. Conflict of Interest Declaration

None.

4. Minutes of Public Session of Meeting of November 12, 2020

Upon a motion duly made by D. Reiner and seconded by F. Jones, the Minutes were approved as presented.

5. Chair's Remarks

The Chair welcomed the members to their first committee meeting of 2021. It's difficult to believe that it has been almost a year since we have all been working from home. It is normally a challenging time of year due to the "winter blues" and this has been exacerbated by the pandemic. The Chair encouraged everyone to prioritize their mental health. She also noted that the agenda has been structured to allow time for strategic discussion and she encouraged the members to actively participate in the discussions.

6. President's Remarks

The President reminded the committee that it is B. MacIsaac's first committee meeting in his new role as VP Administration. The members of the senior leadership team who are committee leads are being encouraged to work with the committee chairs ahead of time to develop the agenda to ensure that it reflects the committee's priorities. During today's meeting, time will be spent discussing the Statement of Investment Policies (SIP) and the university's investment objectives. As we make this shift, there will be growing pains. The goal is to provide additional opportunity for strategic discussion, as members of this committee have expressed the view that there has not been enough time to discuss recommendations. The President thanked the Secretariat, the Board Chair and Committee Chair for helping accomplish this.

7. Investment Review

7.1. Third Quarter Investment Review

L. Fiouzi reviewed the performance of the portfolio over the last quarter. The portfolio performed 1% ahead of the custom benchmark. Further, it is generating more in the cash account than what it would make from regular short term investments.

7.2. Annual ESG Report

L. Fiouzi reminded the committee that RBC is a UNPRI signatory. She explained the rationale for RBC signing onto it. This approach ensures RBC is properly accounting for the risks and opportunities in portfolios. Non-financial factors are playing an increasingly important role in investments. L. Fiouzi reviewed the definitions of environmental, social and governance factors. She advised that as responsible investors, PH&N incorporates ESG into their decision-making processes. Using their position as large asset managers is for the good of their shareholders. PH&N has fossil-free investment products available. She noted that the transparency report is included in the meeting material for the committee's review.

L. Fiouzi advised that RBC has always maintained a grade of A or A+ and last year they received a grade of A+. She reported that they conduct their own due diligence with respect to ESG, in addition to relying on external sources. She emphasized that customer service is also an important factor that is examined, which would never appear on a company's financial statements. If members want to know how PH&N's proxies are voted, they are available publicly, as well as their proxy voting guidelines. There has been an increased focus on diversity over time (minimum of 25% female directors on the boards of companies in which PH&N invests). Well run companies tend to have more diverse boards. L. Fiouzi also reviewed the results of their annual survey of institutional clients with respect to ESG. She highlighted the shift in attitudes of Canadian institutional investors towards ESG over the last few years.

The Chair reminded the committee that this presentation is important as it forms part of the committee's oversight responsibility as set out in the SIP. L. Fiouzi responded to questions from the committee, which included:

- What impact has incorporating ESG had on investment performance?
 - L. Fiouzi advised that incorporating ESG into the assessment of investments has enabled them to produce better returns for their clients, as they are able to identify intangible costs and opportunities.
- Are they seeing an alignment of focus on climate change and new opportunities?
 - L. Fiouzi responded that they are observing longer term structural changes in companies focused on addressing climate change. They are also observing a change in consumer attitudes with respect to climate change.

The Chair asked L. Fiouzi to provide an overview of the current state of the markets. L. Fiouzi advised that their view is that looking forward, they still see better return opportunities from equities as opposed to bonds. The outlook is for the economic trajectory to improve due to the combination of vaccinations and pent up demand. L. Fiouzi highlighted the strategies already in place in the portfolio to situate it well from an early cycle environment. She confirmed that they are not recommending making any further changes to the asset allocations in the portfolio at this time. There was a discussion regarding whether risk avoidance is worth the .1% being below benchmark. L. Fiouzi cautions clients not to expect to be ahead of benchmark every single time. If a portfolio is performing ahead of benchmark every quarter, it is likely as a result of changing the asset allocation too frequently or investing outside of the the investment guidelines. L. Fiouzi explained how the custom benchmark is set.

7.3. Strategic Discussion: Strategic Review of Statement of Investment Policies

S. Chow provided an overview of the SIP and Asset Class Management Strategy (ACMS). She asked the committee to consider what their risk appetite is, keeping in mind the committee's investment objectives. The committee's comments included:

- not too uncomfortable with the risk profile we have - prefer to keep in line with a balanced recommendation - perhaps move a bit more to equities (up to 45% from 40%);
- looking at the long term performance, it has been quite good and has benefitted from the changes made - cautioned against "chasing the market";
- the SIP does a good job of capturing the committee's objectives - PH&N has done a good job of bringing opportunities that weren't available under "alternatives";

- consider looking at the fixed income proportion and provide flexibility given the low interest environment - consider changing allocation given the low returns;
- notion of "capital preservation" versus "income generation" - must be thoughtful about striking a balance between the two - might have been overly conservative in favour of capital preservation - worthwhile to revisit that language;
- could this be addressed by providing PH&N with a broader range to work within?;
- range in SIP for fixed income is 20-50% - if comfortable with this range, seems PH&N limited by ACMS;
- at the moment, the university has the SIP and ACMS – should review the need to have 2 separate documents, as having only the SIP would provide PH&N with more flexibility;
 - L. Fiouzi advised that the university is one of only two clients that have two separate investment management documents, including one that lists specific funds – this interferes with PH&N's ability to make tactical changes in a timely manner – they discourage clients from having specific fund names listed.
- is there some way for PH&N and management to review the documents and bring them together to ensure we know how we are sitting with respect to the SIP – what does over/under weight mean? Suggest cleaning things up and keeping things in one place, if possible;
 - L. Fiouzi added that targets must be included within the range to ensure the committee can measure the investment manager's ability to add value.
- member expressed support for eliminating the ACMS in order to provide PH&N with additional flexibility with the assurance that there are controls in place;
 - L. Fiouzi confirmed that controls are in place in the current SIP.

The committee directed B. Maclsaac to work with PH&N to incorporate the ACMS into the SIP and return with the amendments for review at the next meeting.

8. Other Business

9. Adjournment

There being no other business, upon a motion duly made by M. Saros, the public session of the meeting adjourned at 12:40 p.m.

Becky Dinwoodie, Secretary