



## Policies, Procedures and Guidelines

**Complete Policy Title:**

**Statement of Investment Policies and Procedures - Investment Pool**

**Policy Number (if applicable):**

n/a

**Approved by:**

- Board of Governors

**Date of Most Recent Approval:**

March 7, 2024

**Responsible Executive:**

Associate Vice-President and Chief Financial Officer

**Date(s) of Original Approval:**

October 19, 1995

**Supersedes/Amends Policy Dated:**

April 21, 2022/March 31, 2022; August 5, 2021; October 1, 2019; October 19, 1995

**Policy-Specific Enquiries:**

**[Associate Vice-President and Chief Financial Officer](#)**

**Disclaimer:** If there is a discrepancy between this electronic Policy and the approved copy held by the University Secretariat, the approved copy prevails.

**Accessible Format Requests and General Policy Enquiries:** [policy@mcmaster.ca](mailto:policy@mcmaster.ca)

## Table of Contents

|   |           |
|---|-----------|
| Preamble.....   | 1         |
| Terms and Definitions .....   | 1         |
| Governance .....  | 2         |
| Investment Objectives.....  | 2         |
| Responsible Investing.....  | 3         |
| Investment Beliefs.....   | 4         |
| Risk.....   | 5         |
| Strategic Asset Allocation .....  | 8         |
| Expectations from Active Management.....  | 8         |
| Investment Return Volatility.....   | 9         |
| Rebalancing Policy.....   | 9         |
| Permitted Investments .....   | 9         |
| Limitations and Restrictions .....  | 10        |
| Derivatives .....   | 10        |
| Quality & Quantity Requirements .....   | 11        |
| Proxy Voting Rights.....  | 11        |
| Selection Requirements .....  | 12        |
| Reporting Requirements .....  | 14        |
| Other Policy Items.....   | 16        |
| Valuation of Securities.....  | 16        |
| Securities Lending.....   | 17        |
| Related Third-Party Transactions.....   | 17        |
| Conflict of Interest .....  | 17        |
| Conflict between Policy and Pooled Fund Investment Policies .....                                 | 18        |
| Policy Review.....  | 19        |
| <b>Appendix 1: McMaster University Investment Pool Value Added Rate of Return Objective .....</b> | <b>20</b> |

## Preamble

1. University funds, including specific purpose endowed funds and reserves, and a portion of working capital, are pooled and unitized for investment purposes to create a large investment pool. The larger size of the pool creates greater investment opportunities and benefits from economies of scale.

## Terms and Definitions

2. Commonly-used terms used in this Policy are defined as follows:
  - a) **Fund** refers to the combined assets of the Investment Pool.
  - b) **Fund Manager** is an external investment manager who invests a segment of the Fund according to guidelines specified in this policy and the mandate given by the University.
  - c) **Investment Consultant** is the external advisor, AON Solutions Canada Inc, selected by the Fund oversight committee.
  - d) **Long-Term** is defined as a period of 10 years or longer.
  - e) **Oversight Committee** is defined as the Investment Pool Committee, which is a sub-committee of the Planning and Resources under the Board of Governors. Where plural, refers to reporting beyond the Investment Pool Committee to the Planning and Resources Committee unless otherwise noted,
  - f) **Real Assets** refer to real estate and infrastructure investments.
  - g) **Related Party** is defined to be the administrator of the Fund, including any officer, director or employee, or any person who is a member of the oversight committees, up to the Board of Governors. Including Fund Managers and their employees, a spouse or child of the persons named previously, or a corporation that is directly or indirectly controlled by the persons named previously, among others. The concept of “related party” does not include government or a government agency, or a bank,

trust company or other financial institution that holds the assets of the Fund, where that person is not the administrator of the Fund.

- h) **Total Rate of Return** is the time-weighted rate of return based on the change in market value of the Fund over a measured period, calculated in conformity with the standards established by the CFA Institute.

## Governance

- 3. The University is the administrator of the Investment Pool, and the Board of Governors is responsible for the overall management. The Board of Governors has delegated certain duties and responsibilities (including the power to sub-delegate) to the Planning and Resources Committee, which, in turn, has delegated certain duties and responsibilities to the Investment Pool Committee, Financial Affairs, and third-party agents to carry out the Investment Pool duties and adhere to this Policy.

## Investment Objectives

- 4. The primary objective is to generate [Long-Term](#) average returns sufficient to meet the needs of the University, defined as a [Total Rate of Return](#) of **5.0%** after inflation and fees. Subject to an overriding commitment to financial prudence, investment decisions must align with the University's sustainability commitments as a signatory to the [United Nations Principles for Responsible Investment \(UNPRI\)](#) and support a transition to a sustainable, just, and net zero carbon economy and society.
- 5. The Principles for Responsible Investment (PRI) is a United Nations-supported international network of investors working six principles:
  - a) **Principle 1:** Signatories will incorporate ESG issues into investment analysis and decision-making practices;
  - b) **Principle 2:** Signatories will be active owners and incorporate ESG issues into our ownership policies and practices;
  - c) **Principle 3:** Signatories will seek appropriate disclosure on ESG issues by the entities in which we invest;

- d) **Principle 4:** Signatories will promote acceptance and implementation of the Principles within the investment industry;
  - e) **Principle 5:** Signatories will work together to enhance our effectiveness in implementing the Principles; and
  - f) **Principle 6:** Signatories will each report on our activities and progress towards implementing the Principles.
6. As such, the University’s responsible investing approach integrates environmental, social, and governance factors across portfolio strategy, risk management, [Fund](#) selection, management, monitoring metrics and targets, and reporting.
7. The secondary objective of the Fund is to establish phased action plans toward a net zero (scope 1 and 2) carbon profile across invested assets as soon as practical with periodic target reduction milestones. The Fund will ambitiously target to reduce the carbon intensity of publicly traded assets with milestone objectives of **65%** lower weighted average carbon intensity by 2025, **75%** by 2030, and an aspirational objective of the remainder, thereafter, compared to a 2018 baseline.

## Responsible Investing

8. The University’s responsible investing approach integrates environmental, social and governance (ESG) considerations that could pose material risks to or otherwise impact (for better or worse) **Long-Term** return. Further, the University is committed to aligning this Policy with the UNPRI principles (above) and reporting its net zero strategy, targets and progress using widely recognized recommendations from the [Task Force on Climate-related Financial Disclosures \(TCFD\)](#). Finally, the University seeks to support a positive societal impact that aligns with the [United Nations Sustainable Development Goals \(SDGs\)](#) and, as such, will work to measure, track, and reduce carbon intensity across investments while increasing green revenues and holdings in sustainable, renewable, green, and other clean technologies.
9. ESG considerations are identified as, not limited to, the following:

- a) **Environmental:** How a company evaluates its operational impact and stewardship on physical natural resources and wild animal life, as well as the exposure of that company to the risks created by climate change. These factors include a company's impact on climate change, including greenhouse gas emissions, biodiversity loss, deforestation, changing land use, air, water, natural resource depletion, waste management, along with impacts on animal habitat, and ocean acidification, as well as physical and transition risks to commercial operations.
  
- b) **Social:** How a company evaluates risks associated with human capital through business relationships and agile practices. Factors include a company's policies and approaches on human rights, labour standards, employment equity, diversity, child, slave and bonded labour, workplace health and safety, freedom of association and freedom of expression, human capital management, and employee relations. In addition, we will consider where material community impact, activities in conflict zones, health and access to medicine and finance, consumer protections, and relation to controversial weapons and activities. Further, where applicable, social factors extend to a company's position on animal use and/or testing and how animals are bred or used in food supply chains.
  
- c) **Governance:** How a company evaluates operational risks associated with corporate behaviours. These factors include effective disclosures that are relevant, complete, transparent, accurate, and consistent and provide details about a company's board structure, director nomination processes, composition, size, executive pay, shareholder voting rights, diversity skills, independence, stakeholder rights, business ethics, anti-bribery policies, corruption involvement, tax avoidance activity, internal controls, cyber-security, and conflict of interest policies. This area includes a company's position and oversight on sustainability plans and the integration of those plans into employee performance assessments and compensation.

## Investment Beliefs

- 10. The University believes that the Fund is a Long-Term asset that requires primarily active management and prudent diversification across asset classes, geographies,

and [Fund Manager](#) styles. These, taken together, will generate fund performance within tolerable volatility and risk profiles and have appropriate liquidity for annual needs. To deliver the objectives of this policy, the University believes the use of third-party experts is appropriate.

## Risk

11. The University takes into consideration the Long-Term nature of the fund, and in accordance with the enterprise risk management framework, the fund has a high-risk appetite, defined as **10%** of available expendable resources. Risk is multi-faceted and cannot be expressed in a single measure and, as such, the University considers and works to manage the following risks and other such risks that may emerge over time when setting asset mix, targets, and other limits within this Policy:

| Risk Item                 | Risk Description  | Risk Mitigation Strategy   |
|---------------------------|---|--|
| <b>Volatility Risk</b>    | Market cycles and economic disruption impact orderly and smooth return performance of the Fund.   | Quarterly, the aggregate Fund volatility is reviewed against the permissible ranges determined by the strategic asset allocation within the Fund scorecard. Additionally, Fund Manager volatility is reviewed within the <a href="#">Investment Consultant's</a> quarterly report. |
| <b>Concentration Risk</b> | The Fund asset mix and geography allocations across Fund Managers fail to achieve effective diversification, resulting in concentration (or holdings overlap) that is otherwise undetected. | Annually, the Fund oversight committee will discuss concentration risk and assess whether any actions are necessary. An investment in the shares of any single company should not exceed <b>10%</b> of the total market value of all equities held in the investment pool.         |
| <b>Impairment Risk</b>    | A decline in the Fund's purchasing power over the Long Term.  | Fund performance is monitored quarterly, annually (from inception), and on 4-year annualized return basis to relative benchmarks.  |

|                             |   |  |
|-----------------------------|---|--|
| <b>Currency Risk</b>        | Exposures to foreign currency can impact return and need to be considered when establishing the asset mix.  | A minimum of <b>20%</b> of foreign currencies will be hedged to Canadian currency.   |
| <b>Liquidity Risk</b>       | The ability of the Fund to maintain sufficient liquidity to meet spending requirements.   | Annual spend requirements are reviewed to ensure the percentage of funds held in illiquid assets will not affect spending requirements.  |
| <b>Governance Risk</b>      | Failure to undertake, or demonstrate where delegated, good stewardship and positive engagement activities in relation to Fund assets.   | An annual report on active engagements and proxy voting by Fund Managers will be reviewed along with University engagements, direct and indirect, through partnerships.  |
| <b>Reputation Risk</b>      | Failure of the plan to effectively convey is strategic, risk management, metrics, and targets through widely accepted reporting principles to the satisfaction of broad and varied interest groups.   | The University is a signatory of UNPRI. The plan is also following an accelerated decarbonization strategy and is underway to deliver a net zero portfolio. A globally recognized reporting framework TCFD has been adopted to promote transparency in the Annual Financial Report and on the Responsible Investing website.   |
| <b>ESG and Climate Risk</b> | ESG and climate change implications can have a material impact on the future performance of the Fund, both associated with physical risks and transition risks. Physical risks include acute or increased chronic extreme weather event-driven risks. Transition risks include impacts associated with policy, legal, technology, market, and reputation risks. | Fund Managers are asked to report, at a minimum annually, on how physical and transition risks (and opportunities) are factored into individual company selection and the overall product profile. Fund Managers are required to consider the emissions profile of the companies held and assess company transition initiatives against global sustainability objectives. Additionally, the <b>Investment Consultant</b> and other third-party experts will report on ESG integration and total Fund physical and transition risk (and opportunities). |

|  |   |   |
|--|---|---|
| <p><b>Net Zero Risk</b></p>              | <p>The objective to achieve net zero within an accelerated timeline fails to be achieved, whether in concert with the primary Investment Objective or due to a lack of data availability and transparency to effectively track.</p>   | <p>Consistent with the UN-convened Net-Zero Asset Owner Alliance, the Fund shall monitor its decarbonization (using the carbon intensity measure for scope 1 and 2 emissions) and investment performance together. Further, five (5) year carbon reduction milestones will be used to measure the net zero path of the Fund.</p>  |
| <p><b>Investment Consultant Risk</b></p> | <p>Failure of the Investment Consultant to ensure the University oversight bodies are kept informed on evolving practices aligned to this policy and provide effective summary reporting on the Fund performance and other key metrics against established targets or maximum tolerances.</p> | <p>The <a href="#">oversight committee</a> will review quarterly reporting prepared by the Investment Consultant, discuss evolving practice changes arising from global investment practice consortiums and standards-setting bodies, and engage in discussions about the overall Fund profile, performance, and attainment of Investment Objectives.</p>   |
| <p><b>Fund Manager Risk</b></p>          | <p>Failure of a Fund Manager to meet the Investment Objectives of the Fund while adopting evolving CFA Institute guidance requiring integration of ESG considerations, active engagement with companies held, and effective reporting to the University.</p>                                  | <p>Each Fund Manager will report quarterly on its performance and product alignment to this policy. At least annually the Fund Manager will provide a report on its selection and monitoring approaches as aligned to CFA Institute (including ESG) guidance. Further, the Fund Manager will provide an annual proxy voting summary ideally organized by ESG and/or SDG topics and confirm discretionary votes were made in alignment with this Policy.</p> |
| <p><b>Transition Cost Risk</b></p>       | <p>Risk that portfolio turnover costs impact the performance of investments.</p>  | <p>The Fund oversight committee will review net fees and investment strategy relative to anticipated transition costs to ensure costs do not have a materially detrimental impact on</p>  |

|  |  |                                      |
|--|--|--------------------------------------|
|  |  | achieving the Investment Objectives. |
|--|--|--------------------------------------|

## Strategic Asset Allocation

12. Given the perpetual nature of the Investment Pool, asset allocation will be the most important determinant of long-term success. The target allocation balances the need to satisfy the long-term return objective and to minimize total investment risk.

|                             | Long-Term                      |                   | Benchmark Index | Value-Add*  |                  |
|-----------------------------|--------------------------------|-------------------|-----------------|---|------------------|
|                             | Target Allocation <sup>^</sup> | Permissible Range |                 |   |                  |
|                             |                                | Minimum           | Maximum         |   |                  |
| Canadian Equities           | 5%                             | 0%                | 15%             | S&P/TSX Composite Index                                 | 75 basis points  |
|                             |                                | 10%               | 30%             |   |                  |
| US Large Cap (Hedged)       | 20%                            |                   |                 | Russell 1000 Index (Hedged)                             | 50 basis points  |
| US Small Cap                | 5%                             |                   |                 | Russell 2000 Index(Cdn.\$)                              | 50 basis points  |
| Non-North American Equities | 25%                            | 10%               | 30%             | MSCI EAFE Index(Net)                                    | 150 basis points |
| Bonds                       | 20%                            | 15%               | 30%             | FTSE TMX Universe Bond Index                            | 20 basis points  |
| Short/Medium Term Bonds     | 0%                             |                   |                 | FTSE TMX Universe+Maple Short-term Corporate Bond Index | 20 basis points  |
| Real Assets                 | 25%                            | 15%               | 35%             | CPI + 4%  | 200 basis points |

\*The expectation of value added over the benchmark index on a 4-year rolling annualized basis for active classes.

<sup>^</sup>The benchmark for performance measurement purposes will be adjusted to reflect amounts invested in [real assets](#) when funded. Amounts that are not invested in real assets will be benchmarked against the Universe Bonds Index.

### Expectations from Active Management

13. Based upon policy-weighted allocations, the gross expectation for value added from active management is approximately 100 basis points before fees achieved approximately **60%** of the time. Therefore, the long-term value-added gross expectation is pro-rated to 60 basis points and performance of the Fund from active

management shall be considered satisfactory if the total annualized returns earned by the Fund exceed by 60 basis points (refer also to *Appendix 1*) the returns that could be earned on a passive basis.

### **Investment Return Volatility**

14. The expected volatility of returns for the Fund is directly related to the strategic asset allocation. Volatility is inherent in investing and will be managed according to the permissible ranges.

### **Rebalancing Policy**

15. Should any asset class fall outside of the minimum and maximum ranges, excluding the Real Asset Benchmark allocation outlined on the previous page, the Treasurer shall rebalance the total Fund back to the Benchmark Portfolio. The Treasurer shall rebalance as soon as is practicable but not later than three months after any breach of the ranges.

## **Permitted Investments**

16. The following investments may be made either directly, through pooled or mutual funds, through private partnerships, or through insurance contracts. The list of permitted investments and constraints outlined below apply to all relevant mandates.
17. Additional constraints may be imposed on the Fund Managers through their specific mandate.

|   |  |
|---|--|
| <ul style="list-style-type: none"><li>• Publicly traded Canadian common stocks, rights, warrants, instalment receipts and debt securities convertible into common stock.</li><li>• Publicly traded U.S. and international common stocks, American depository receipts, global depository receipts, rights, warrants, instalment receipts and debt securities convertible into common stock.</li><li>• Debt securities of Canadian issuers, including bonds, debentures, or other debt instruments of corporations, Canadian Governments, Canadian</li></ul> | <ul style="list-style-type: none"><li>• Publicly traded preferred shares.</li><li>• Initial public offerings.</li><li>• Exchange-traded funds.</li><li>• Foreign bonds.</li><li>• Real estate.</li><li>• Infrastructure.</li><li>• Publicly traded income trusts.</li><li>• Private placements.</li><li>• Mortgages.</li><li>• Canadian cash on hand, demand deposits, treasury bills, short-term notes and bankers' acceptances, term</li></ul> |
|---|--|

|  |  |
|--|--|
| <p>Government agencies, or guaranteed by Canadian Governments; mortgage-backed securities; asset-backed securities; and real return bonds.</p> <ul style="list-style-type: none"> <li>• Foreign issuers of Canadian-denominated bonds</li> </ul> | <p>deposits and guaranteed investment certificates having a term of equal or less than one year.</p> |
|--|--|

18. The Fund Manager will serve as active stewards, engaging with the companies it holds and voting proxies. The Fund Manager will promote alignment to widely accepted global standards relating to ESG, such as meeting the Paris Agreement targets. The Fund Manager shall exercise opportunities to divest itself from any company that fails to demonstrate, within a reasonable timeline, a transition plan with science-based metrics and targets aligned with UN-supported directions. The Fund Manager will inform the company and the oversight committee of its reasons for any ESG-related divestments. The Fund Manager may reinvest where the company effectively addresses the reasons for divestment and fits with the Fund Manager’s selection approach.

### Limitations and Restrictions

19. An investment in the shares of any single company should not exceed **10%** of the total market value of all equities held in the investment pool.

### Derivatives

20. Derivatives such as options, futures, swaps, and forward contracts on any permissible investment is allowable, including but not limited to index option and futures, index participation units and equivalents. Derivatives may not be used speculatively, however, may be used to:
- a) Hedge investment risk, including market interest rate, credit, liquidity, and currency risk;
  - b) replicate direct investments in asset classes (to lower cost or market exposure, for example); and
  - c) effect cash and asset mix rebalancing.

21. The Fund Managers shall be responsible for assessing all counter party risks associated with derivative instruments, including credit rating and total exposure limits for each derivative securities dealer and bank.
22. The minimum credit quality for the counter party of any derivative transaction shall be consistent with the credit quality requirements set out in the Fund Manager's mandate. The Fund Managers shall implement internal procedures and controls in order to ensure that derivatives are always used in compliance with this Statement and their mandate.

### **Quality & Quantity Requirements**

23. Minimum quality requirements and maximum quantity limited are established by the oversight committee and included in each Fund Manager's mandate, which may vary between managers within an asset class and across asset classes.
24. Copies of mandates are available for review in the Treasury Department.

### **Proxy Voting Rights**

25. The proxy voting rights for Fund assets are delegated to the Fund Managers with the responsibility of exercising all voting rights acquired through the Fund. The Fund Managers shall exercise such voting rights in alignment with this Statement with the intent of fulfilling the Fund Investment Objectives.
26. The Fund Managers will at least annually provide their proxy voting policy with an annual summary outlining how proxies were voted, ideally identifying the vote relationship to ESG considerations, where possible further linked to related SDGs, and any departures from, or exceptions to, the policies and any other extraordinary matters. This annual report will be available to the oversight committees up to and including the Board of Governors. Fund Managers associated with Real Assets are excluded from this requirement.

## Selection Requirements

27. The selection and appointment process for Fund Managers and investment consultants shall ensure that the final candidates are selected in accordance with the University procurement policies. Further, that the candidate and final selection process aligns to the University's overall investment objectives, investment beliefs and other policy matters in this Statement.
28. The selection process will include, where applicable, an assessment by the Investment Pool Committee whether the prospective candidates can demonstrate all or most of the following criteria, which are evolving in public practice and availability globally:
29. **Prospective Investment Consultants shall:**
  - a) Be a signatory to UNPRI and provide disclosure of recent UNPRI assessment reports;
  - b) Provide documentation that responsible investing is integrated with advisory services offered;
  - c) Demonstrate capability to accommodate the University's responsible investment priorities;
  - d) Demonstrate that it has access to ESG data and analytical tools to support recommendations; and
  - e) Confirm that standard Fund reporting will integrate both performance data with carbon and other ESG measurement data.
30. **Prospective Fund Managers shall:**
  - a) Be a signatory to UNPRI and provide disclosure of recent UNPRI assessment reports;
  - b) Provide documentation demonstrating its responsible investment policy, its responsible investing approach is appropriate for the asset class it manages,

- aligned to CFA Institute guidance, and proxy voting policy, including frequency of policy reviews (whether annual or otherwise);
- c) Demonstrate active engagement strategy and activities during a given year;
  - d) Articulate an escalation strategy when an underlying company has ESG issues or where initial engagement efforts are unsuccessful;
  - e) Be committed (or within a reasonable timeline) to reporting aligned to the Task Force Recommendations on Climate-Related Financial Disclosures (TCFD);
  - f) Engage in discussion, measures, and disclosures available associated with climate-related risks and opportunities, as defined by TCFD;
  - g) Measure weighted average carbon intensity (WACI) of the Fund and carbon footprint, as defined by TCFD, and confirm that these measures will be available in quarterly reports along with standard performance results;
  - h) Provide documentation for the Fund Manger's mandate and its carbon-related reduction targets, if any, associated with the WACI or carbon footprint measure, or other targets on matters such as energy consumption, waster tonnage, water shed, land repatriation, diversity, equity, etc.;
  - i) Demonstrate actions and/or provide case studies where the Fund Manager is working with the companies it invests in to adopt TCFD reporting and provide evidence as to how many of its investee companies have already adopted TCFD, as a percentage of the Fund. Further, confirm that adoption rates will be reported to the committee annually;
  - j) Provide investment assessment approach and disclosure for fossil fuel holdings within the Fund, and in particular rationale for any holdings on the Carbon Underground 200 list, representing the top 100 coal and 100 oil reserve owning companies ("CU200") annually;
  - k) Provide confirmation of the number of companies within the Fund that have a current Sustainability Plan; in relation to carbon emissions whether reduction

targets exist in alignment to the Paris Agreement (or better); how underlying company ESG metrics and targets are monitored by the Fund Manager;

- l) Provide disclosure of the Fund Manager’s other memberships associated with responsible investing and disclosure on how resources within the Fund Manager organization are directly or indirectly responsible for responsible investing;
- m) Demonstrate commitment to incorporate material ESG factors into its investment and stewardship activities; and
- n) Provide disclosure and/or the policy the Fund Manager is deploying to ensure diversity and equity is addressed within the Fund Manager’s organization, and whether employment census data reflects societal census data (if not, whether plans exist to address differences).

31. The above criteria are not exhaustive. Since responsible investment selection criteria is evolving it is not expected that Fund Managers and/or Investment Consultant will meet all the criteria identified. The oversight committee will treat this as an evolving list, reflective of emerging global ESG practice, as guidance during the Fund Manager and Investment Consultant selection processes. In some cases, the criteria may not be applicable depending on Fund Manager’s asset class and/or the Investment Consultant business mix. The Investment Pool Committee will review these criteria at the onset of each selection process.

32. Documentation to be reviewed in the selection and appointment process includes, but is not limited to, standard client reporting, general and responsible investment policy and reports, investment methodology, proxy voting and engagement policy, historical voting and engagement activities with investees, and policy makers, compliance reports, controversies, and incidence reports. Reports provided may be redacted in some cases to protect proprietary information.

## Reporting Requirements

33. Fund Managers will make a presentation to the Investment Pool Committee on a periodic basis, however each Fund Manager shall provide quarterly statements that

include performance, attribution of the performance, carbon measures (WACI and/or carbon footprint), future investment strategy, compliance with the mandate and a listing of the assets in the portfolio.

34. At least annually, each fund manager shall provide the annual proxy voting report described in [Proxy Voting Rights](#), above.
35. At least annually, the Fund Manager will also respond to the Responsible Investing (RI) Questionnaire, whereby responses will be posted on the University's Responsible Investing website.
36. Questionnaire may be updated annually to capture evolving practice matters and will include, for example:
  - a) ESG integration approach, highlighting any changes made over the last 12 months, and how is it used in the company selection process to build the product (pooled or segregated) and used ongoing to monitor risk of individual holdings, and any ESG incidents in the portfolio.
  - b) Percentage of underlying companies in the Fund that:
    - [1] Are UNPRI signatories
    - [2] Adopted TCFD Measures: WACI and/or Carbon Footprint and have a reduction target
    - [3] Have a current Sustainability Plan that materially addresses the UN SDGs
  - c) Explain how climate-related risks are assessed at the pooled fund or segregated fund level, with explanation covering climate-related transition risk considerations (policy, legal, technology, market, and reputational risks) and physical risks (acute and chronic), as defined by TCFD.
  - d) Explain how climate-related opportunities are assessed at the pooled or segregated fund level, with explanation covering resource efficiency, energy source, products and services, new markets, and resilience, as defined by TCFD.

- e) Report on any CU200 fossil fuel investment positions held and the rationale why the position is aligned to the University's investment beliefs and its carbon reduction target.
  - f) An annual carbon intensity measurement and carbon footprint, where measured, in comparison to the University assigned benchmark and/or another ex-fossil fuel measure appropriate for the asset class.
  - g) Additional aggregated annual measurements, where measured, energy consumption, water shed, waste tonnage, land use and repatriation.
  - h) Progress made within Fund Manager's organization on diversity and inclusion strategies.
  - i) Fund managers whose hiring date precedes the date of this policy ("Legacy Fund Managers") and do not have Responsible Investment reporting and investment criteria included in Investment Management Agreements are not subject to negative action associated with Responsible Investment reporting and policy requirements. However, all Legacy Fund Managers will be asked to submit an action plan to the oversight committee that demonstrates compliance with the Responsible Investment requirements of this Statement within a reasonable timeline.
37. If a Fund Manager is not in compliance with their mandate, the Fund Manager is required to notify the Treasurer as to the reasons for the non-compliance and to outline the course of action, including timing that will rectify the situation. The Treasurer will inform the oversight committee of the situation.

## **Other Policy Items**

### **Valuation of Securities**

38. It is expected that all the securities held by the Fund will have an active market and that the values of such securities will be based on their market values. The exception to this is Real Assets (Private Infrastructure and Private Real Estate) where it will be based generally on appraisals conducted on a periodic basis.

39. Investments that are not regularly traded shall be valued at least annually by the Fund's custodian in co-operation with the Fund Manager. In making such valuations, consideration shall be given to bid and ask prices, previous transaction prices, discounted cash flow, independent appraisal values, the valuations of other comparable publicly-traded investments and other valuation techniques that are judged relevant to the specific situation.

### **Securities Lending**

40. Securities held by the Fund may be loaned by the Trustee under a properly approved contract with the University. Such loans must be secured by cash or readily marketable securities with a quality rating of R1 or higher, a market value of at least **105%** with the level of security maintained daily, and an indemnity by the custodian against all losses because of the custodian's securities lending program. Collateral provided with respect to any such securities lending agreement must have free and clear title and may not be subject to any right of set-off. It is recognized that this policy on securities lending is not enforceable to the extent that the investment is in pooled funds.

### **Related Third-Party Transactions**

41. The Fund may not enter into a transaction with a [related party](#) unless the transaction is both required for operation and or administration of a Fund and the terms and conditions of the transaction are not less favourable than market terms and conditions; or Securities of the related party are acquired at a public exchange.

### **Conflict of Interest**

42. A conflict of interest is an event where any employee, hired third party to support the Fund, or member of the oversight committees directly or indirectly gains financial or other advantage from his or her role with respect to the Fund. Or, where circumstances exist that could reasonably impair his or her ability to render unbiased and objective advice compromising his or her fiduciary responsibility to act in the interest of the Fund. In the situation of a conflict of interest it is the duty of the individual ("Affected Person") to disclose any material conflict of interest relating to

them, or any material ownership of securities, which could impair their ability to render unbiased advice, or to make unbiased decisions, affecting the administration of the Fund's assets.

43. Further, it is required that no Affected Person shall make any personal financial gain (direct or indirect) because of his or her fiduciary position. However, normal, and reasonable fees and expenses incurred in the discharge of his/her responsibilities are permitted if documented and approved by the University.
44. No Affected Person shall accept a gift or gratuity or other personal favour that is material, from a person with whom the Affected Person deals in the course of performance of his or her duties and responsibilities for the Fund.
45. It is incumbent on any Affected Person who believes that he or she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation in writing to the oversight committee Chair within three business days. The disclosure should also be made orally if awareness of the conflict occurs during the discussion of the Fund's business. The respective committee, in turn, will decide what action is appropriate under the circumstances but, at a minimum, will table the matter at the next regular meeting of the oversight committee.
46. Normally, the individual disclosing the conflict of interest shall withdraw from the meeting during discussion of and vote on the issue causing the conflict of interest. The individual may be permitted, at the Committee's request, to participate in the discussion but he/she shall not be present for the vote.
47. The disclosure of a conflict of interest, the name of the individual declaring the conflict and the way the conflict was resolved will be recorded in the minutes of the oversight committee.

### **Conflict between Policy and Pooled Fund Investment Policies**

48. While the guidelines in this Policy are intended to guide the management of the Fund, it is recognized that, due to the use of pooled funds, there may be instances where there is a conflict between this policy and the investment policy of a pooled fund. In

that case, the pooled fund policy shall dominate. However, wherever such a conflict results in non-compliance with the Policy, the Fund Manager must report this conflict explicitly in its compliance report.

### **Policy Review**

49. This Statement shall be reviewed at least annually by the oversight committees up to the Board of Governors with respect to the appropriateness of the policies and objectives contained therein.

## Appendix 1: McMaster University Investment Pool Value Added Rate of Return Objective

| Asset Class                                      | Allocation to Active Management % | Expected Annualized Value Added by Asset Class (bps) (a) | Active Component of Asset Mix % (b) | Expected Annualized Value Deducted from Active Management (bps) (a x b) |
|--|-----------------------------------|--|-------------------------------------|---|
| Canadian Equity                                  | 100%                              | 75   | 10                                  | 7.5   |
| U.S. Equity                                      | 100%                              | 50   | 25                                  | 12.5  |
| EAFE Equity                                      | 100%                              | 150  | 25                                  | 37.5  |
| Bonds  | 79%                               | 20   | 20                                  | 4   |
| Real Assets                                      | 100%                              | 200  | 20                                  | 40  |
|  |                                   |  |                                     | 101.5   |
| Assume 60% Success Rate (Management Estimate)    |                                   |  |                                     | 60%   |
| Total Fund Value Added Rate of Return Objective* |                                   |  |                                     | 60  |

*\*intentionally rounded down from 60.9 to 60 bps.*