Policy 2.26 - Statement of Investment Objectives, Policies and Governance

For the Short-Term Portfolio, Mid-Term Portfolio and Operating and Endowment Fund

Revised April 2022

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Section 1 Purpose and Background

1.1 Introduction

The purpose of this Statement of Investment Objectives, Policies and Governance is to document the investment beliefs, principles and policies of Western University (the "**University**" or "**Western**") for the Short-Term Portfolio (the "**STP"**), the Mid-Term Portfolio (the "**MTP**") and the Operating and Endowment Fund (the "**Fund**"). The STP, MTP and the Fund are collectively referred to as the "**Portfolios**". This document is a management tool and is not designed to satisfy any specific legislation but is expected to demonstrate prudent management of the Portfolios and provide a framework for University investments. The authority and responsibilities of decision-making bodies are also documented herein.

1.2 Description of Portfolios

The Fund consists of:

i) endowed assets that are invested to generate income sufficient to meet the payout rate established by the Board of Governors (the "**Board**") under the Investment Payout Policy ("**Policy 2.11**") to fund endowed chairs and scholarships, among others (the "**Endowed Portfolio**"); and

ii) excess cash related to non-endowed funds (the "**Operating Portfolio**").

The two components are invested according to the same investment policy as described in Section 5. The ownership share of the Fund between the Endowed Portfolio and the Operating Portfolio is tracked on a monthly basis and investment returns are allocated based on the pro-rata share each month.

The University also holds two additional portfolios:

- the STP generally invested in a bank account, a money market fund and a high-interest savings account; and
- the MTP invested mainly in liquid stocks and fixed income securities.

The STP and MTP provide the University with the liquidity necessary for the allocation of spending from endowments. As a result, the University is able to manage the Fund with a very long-term focus, with little need for liquidity. In fact, the horizon of the Fund is perpetuity, and it is invested to withstand volatility in returns from quarter to quarter and year to year.

Section 2 Statement of Investment Committee Beliefs

The Investment Committee (the "**Committee**") is guided by various investment beliefs, including:

- A governance framework is essential to achieve success in managing investments and consists of:

  i) a diverse, independent and experienced Committee to mentor, monitor and counsel University Administration;

  ii) written investment objectives, policies and governance guidelines to facilitate efficient operations;

  iii) acknowledgment and delegation of responsibilities amongst four levels of fiduciaries:

    - Board of Governors ("**Board**") – approves policies and is ultimately responsible for results attained;
    - Property and Finance Committee ("**P&F**") – recommends policies to the Board;
    - Committee – designs policies and oversees implementation thereon; and
    - Administration ("**Administration**") – implements policy directly and through contracted agents.

  iv) establishment of risk management policies, commensurate with the Portfolios' circumstance, which attempt to address the greatest investment risks within the Portfolios. However, it must be recognized that in order to attain the stated objectives, some risk is essential within the Portfolios.

- A broadly diversified portfolio, which includes (among other vehicles as appropriate) cash, bonds, equities and less liquid non-traditional investments such as private equity, private debt, real assets and absolute return strategies are the best way to achieve required nominal and real returns and is a prudent and cost-effective method of reducing risk.

- Cash is generally the asset class with the lowest expected long-term returns and should be minimized, except for the STP.

- Bonds provide a steady income stream and often experience lower volatility when equity performance is volatile.

- Equities provide dividend income and/or potential capital growth and are expected to outperform bonds by a risk and volatility premium.

- Equity premiums are dynamic and unpredictable; hence, diversification by market, investment manager and style is preferred.

- Non-liquid and non-traditional investments, particularly in private equity, private debt, real estate and infrastructure, provide income and potential capital growth, but generally require more specialized knowledge than public equities and have higher management fees.

- Active portfolio managers are expected to add value above their respective benchmark after taking into account related fees, particularly in less efficient markets such as Canadian, non-North American equities and non-traditional investments, including private markets. Active portfolio management is defined as any strategy where a manager uses proprietary knowledge to outperform a benchmark, as opposed to only replicating the benchmark return.

- Portfolio return objectives and pursuits thereon must be evaluated on a net-of-fees basis.

- Portfolio rebalancing according to asset range guidelines is a procedure that maintains equity/bond exposures at risk policy levels.

- Due to the size of the Portfolios, it is more economical to use external investment managers ("**Managers**"). Managers should preferably be researched by the investment consulting community in order to be considered for managing a portion of the Portfolios.

- The Committee should remain mindful of the size of the Portfolios' holdings with a particular Manager in relation to the size of the Manager's assets under management.

- Liquidity needs will vary between the Fund, STP and the MTP. The Fund has a long duration with low liquidity needs and, as a result, can hold some of its assets in illiquid investments (e.g., non-traditional investments, including: real estate, private equity, private debt, infrastructure and hedge funds) with an objective to achieve additional diversification and an additional liquidity risk premium. The STP and the MTP have high and moderate liquidity needs, respectively, and as such, investments in illiquid asset should be minimized.

- Attempting to achieve investment return advantages through market timing practices, such as frequent asset allocation changes, poses unacceptable risks to the Fund and the MTP. It is extremely difficult to repeatedly time the market through ongoing changes to the equity/bond mix and in individual elements of each portfolio. The Committee should be mindful of market cycles and while not attempting to engage in market timing practices, should consider modest portfolio rebalancing with market cycles in mind.

- While acknowledging that most University operating costs and obligations are denominated in Canadian dollars, the Committee recognizes that foreign currency exposure can potentially mitigate or exacerbate risk depending on the currency pairings and underlying asset classes. Foreign currency should be hedged when it is expected that it will exacerbate risk or where the volatility associated with currency movements will meaningfully alter the overall risk profile of the investment. The cost of hedging should also be considered when implementing currency hedging programs.

- A Responsible Investing ("**RI**") approach and consideration of Environmental, Social and Governance ("**ESG**") issues can enhance long-term performance and is aligned with our objective of meeting the needs of current and future generations.

- Active stewardship is important for long-term value creation and for promoting best practices with our Managers.

- The risks posed by climate change are relevant and material to the Portfolios, and we must manage and mitigate both physical and transition climate risks in order to achieve our objectives.

- An understanding of sustainability issues may lead to new investment opportunities that contribute to our Portfolio objectives.

- RI is a journey that requires continuous learning, innovation, and a dynamic and adaptive approach. Being transparent with the University community and regularly reporting on our RI progress is fundamental to our long-term journey. Western's RI Policy is covered in Section 7.

- As described in Section 6.4, members of the Committee will advise the Committee Chair of any conflicts of interest that arise.

- These investment beliefs should be reviewed on an annual basis.

Section 3 Investment Objectives and Policies – Short-Term Portfolio

3.1 Portfolio Objectives

i) to preserve capital and minimize risk in order to meet the University's liquidity needs;

ii) to obtain a reasonable level of return commensurate with risk, terms and liquidity.

3.2 Risk Tolerance

Given the portfolio objectives listed above, risk tolerance is low and therefore investments should be limited to bank accounts, high interest savings accounts and high-quality money market securities.

3.3 Liquidity

Liquidity needs are high given that the STP is used to fund day-to-day operations. Only investments that can settle into cash within a short period of time should be used.

Section 4 Investment Objectives and Policies – Mid-Term Portfolio

4.1 Portfolio Objectives

i) to outperform the FTSE 91-Day T-Bill Index by 300 basis points over a 3 to 5 year period;

ii) to generate investment returns that can be used to make additional allocations in relation to University priorities and needs.

4.2 Risk Tolerance

The risk tolerance is moderate, and the standard deviation of returns should normally fall between 3% and 7%. Preservation of capital over the investment horizon (3 to 5 years) is preferred. Liquidity and currency risks are to be minimized. As the MTP will be the next source of liquidity should short-term assets be exhausted, the risk tolerance will fluctuate over time based on the position of the Operating Portfolio and its reserve ratio and should be reassessed periodically.

4.3 Asset Mix Policy

The asset mix policy of the MTP will be reviewed on an annual basis. Given the portfolio's objectives, risk tolerance and constraints, assets will be invested mostly in liquid equities and fixed income. The current target asset mix policy is 30% Equities and 70% Fixed Income.

The MTP's objectives can be achieved by gaining exposure to the following risk factors:

- Equity
- Interest rate (duration)
- Credit

The following types of mandates may be used in the MTP:

Equities

- Canadian equities
- Global equities

Fixed Income

- Short-term bonds
- Core fixed income
- Corporate bonds
- High-yield bonds
- Commercial mortgages

The allocation to each individual mandate is limited to 30% of the MTP market value. This constraint is in addition to the asset mix policy in Section 4.4.

The table below shows the risk factors that each strategic asset class is exposed to:

Risk Factor Exposure

Strategic Asset Class	Risk Factors
Equities (Growth)	
Canadian Equities Global Equities	Equity Size (Small cap) Value Growth Momentum Quality
Fixed Income (Interest Sensitive)	
Core Fixed Income Corporate Bonds Commercial Mortgages	Interest rate Credit Deflation Inflation

4.4 Rebalancing Policy

Administration is permitted to deviate from the approved asset mix policy as follows:

Strategic Asset Class	Target Mix	Allowable Drift	Range
Equities			
Canadian Equities	10%	-5%, +5%	5% to 15%
Global Equities	20%	-5%, +5%	15% to 25%
Total Equities	30%	-5%, +5%	25% to 35%
Fixed Income	70%	-5%, +5%	65% to 75%

Changes to the asset mix policy beyond these ranges would require the approval of P&F on the recommendation of the Committee.

4.5 Exposure to Non-Canadian Currencies

Given the fixed income focus of the MTP, currency exposure should be limited as it would increase the risk of the portfolio. Most non-Canadian currency exposure should be hedged on fixed income mandates. Managers are allowed to retain up to 10% of non-Canadian currency exposure for tactical purposes. The global equity component of the portfolio may remain unhedged, given the relatively small exposure and the diversification benefits it would bring.

4.6 Measurement of Investment Returns

Investment returns are measured quarterly and assessed in relation to the following criteria:

- The overall objective is to achieve a gross rate of return in excess of the FTSE 91-Day T-Bills + 300 basis points over a 3 to 5 year period, with a level of risk, as measured by the standard deviation of returns, ranging from 3% to 7%.

- The Managers are expected to achieve the performance objectives included in their mandates over the relevant time horizon.

4.7 Liquidity

Liquidity requirements for the MTP are moderate. In a normal environment, assets will not be taken out of the MTP to meet obligations. A significant portion of the portfolio should be convertible into cash in a relatively short timeframe (30 days or less), given the nature of the obligations that the MTP is backing.

Section 5 Investment Objectives and Policies – Operating & Endowment Fund

5.1 Fund Objectives

i) to maintain the purchasing power of the Fund after payout over the long-term. The required return, at a minimum, should meet (after fees) **Policy 2.11**.

ii) to earn the return produced by the asset mix policy (Section 5.3), based on the return of the market indices, plus a premium to reflect active portfolio management. The premium should at least cover the cost of active portfolio management; and

iii) to meet the following payout requirements:

For the Endowed Portfolio

a) Pay the total return generated by the endowment portfolio's share of the Fund to the capital of the endowment funds.

For the Operating Portfolio

b) Pay the 30-day Treasury bill rate less an established administrative fee to a portion of the non-endowed funds, as outlined in **Policy 2.11**. Such portion of the Operating Portfolio includes the Capital Fund, Ancillaries, and Trust Funds but do not include Research Funds.

c) Pay the amounts required for the Supplemental Pension Plan and for Term Endowments as outlined in **Policy 2.11**.

d) Pay an allocation to the University, subject to availability and restricted to one-time allocations. Allocations will not be made to fund general operations of the University.

e) Fund the initial and future allocations to the Major Strategic Opportunities Fund ("MSOF"), subject to the Major Strategic Opportunities Fund (**Policy 2.31**).

f) When investment returns exceed the above obligations and are in excess of the reserve requirements (as defined later in this document), the Board may make additional allocations in relation to University priorities and needs.

5.2 Risk Tolerance

The required real rate of return over time can only be achieved by accepting a level of volatility in returns from quarter to quarter and from year to year. The current expected asset mix policy return on the Fund is 6.5% and the expected standard deviation of returns is 10.8%[1]. As a result, we expect that annual policy returns will fall within a range of minus 4.3% to plus 17.3% about 67% of the time and that annual returns will fall outside of this range about 33% of the time.

5.3 Asset Mix Policy

The Committee reviews the asset mix policy on an annual basis to maintain, over the long-term, the best balance between investment returns within an acceptable level of risk. Assets will be allocated across four strategic asset classes, based on the role of the underlying assets in the Fund. The four strategic classes are: Equities, Fixed Income, Real Assets, and Diversifiers (see Section 6.1 for a list of eligible investments for each strategic asset class). Each strategic asset class is exposed to particular risk factors:

- Equities are expected to generate most of the growth in the Fund
- Fixed Income assets are expected to protect the Fund in times of stress and provide some liquidity
- Real Assets are expected to protect the Fund from high or unexpected inflation
- Diversifiers provide additional diversification to the Fund due to their low correlation with the other asset classes

The University is committed to invest 10% of the Fund in sustainable investment strategies by 2025, including but not limited to strategies trying to find solutions to the world environmental and climate change issues. Allocations to sustainable opportunities can be made through an allocation within Equities, Fixed Income or Real Assets.

The current target asset mix policy is 60% in Equities, 15% in Fixed Income, 20% in Real Assets and 5% in Diversifiers. The asset mix policy is based on an optimization model that was externally developed and vetted by the Committee. This model projects investment return and risk based on historic relationships among the asset classes. To achieve the return objective, the Fund has a substantial weight in growth assets.

[1] Source: Mercer as of December 31, 2021

The table below shows the risk factors that each strategic asset class is exposed to:

Risk Factor Exposure

Strategic Asset Class	Risk Factors
Equities (Growth)	
Canadian Equities U.S. Equities EAFE Equities Global Equities Long/short Equities Private Equity	Equity Size (Small cap) Liquidity Value Growth Momentum Quality Foreign exchange
Fixed Income (Interest Sensitive)	
Core Fixed Income Commercial Mortgages Private Debt	Interest rate Credit Deflation Inflation Liquidity Foreign exchange
Real Assets (Inflation Sensitive)	
Real Estate Infrastructure Commodities	Inflation Liquidity Foreign exchange
Diversifiers	
Absolute Return Strategies Market Neutral Strategies Cash	High yield credit spread Liquidity

5.4 Rebalancing Policy

The Committee is permitted to deviate from the approved asset mix policy as follows:

Fund Rebalancing Policy

Strategic Asset Class	Target Mix	Allowable Drift	Range[2]
Equities			
Canadian Equities	12.5%	+/- 5%	7.5% to 17.5%
U.S. Equities	7.5%	+/- 5%	2.5% to 12.5%
EAFE Equities	7.5%	+/- 5%	2.5% to 12.5%
Global Equities	20.0%	+/- 5%	15.0% to 25.0%
Private Equity	12.5%	+/- 5%	7.5% to 17.5%
Total Equities	60%	+/- 7.5%	52.5% to 67.5%
Fixed Income			
Core Fixed Income	5%	+/- 5%	0% to 10%
Commercial Mortgages	5%	+/- 5%	0% to 10%
Private Debt	5%	+/- 5%	0% to 10%
Total Fixed Income	15%	+/- 7.5%	7.5% to 22.5%
Real Assets			
Real Estate	10%	+/- 5%	5% to 15%
Infrastructure	10%	+/- 5%	5% to 15%
Total Real Assets	20%	+/- 7.5	12.5% to 27.5%
Diversifiers			
Cash	0%	-0%, +10%	0% to 10%
Absolute Return Strategies, Market Neutral Strategies	5%	+/- 5%	0% to 10%
Total Diversifiers	5%	-5%, +7.5%	0% to 12.5%

The Administration may, at all times, rebalance the Fund towards the target weights without prior approval of the Investment Committee, provided that the rebalancing is less than 2.5% of the Strategic Asset Class.

Changes to the asset mix policy beyond these ranges would require the approval of P&F on the recommendation of the Committee.

5.5 Target Ratios for the Operating Portfolio

The Administration provides quarterly reports to P&F, which monitor the reserve levels for the Operating Portfolio by reporting the ratio of the market value of investments to the obligations of the Operating Portfolio at the end of each fiscal quarter over time. The Board's policy requires the ratio of investments to obligations to maintain a target level of at least 1.08, based on a 12 quarter moving average. It is recognized that due to volatility in

[2] The Fund may fall outside of these ranges as it transitions towards the target mix established in 2022. Temporary deviations are allowed.

investment returns this ratio may fall below 1.00 at the end of a given quarter. Any such shortfall will be shown in the annual financial statements but will not be used in calculating the balanced operating budget required by the Board.

The investment earnings objective is expected to exceed the payout requirements over time for the Operating Portfolio. Indeed, a fundamental premise is that investment returns in excess of the payout requirements will be generated to meet other important University needs.

Reserves, being the cumulative difference between investment returns and obligations are maintained for the Operating Portfolio to accommodate the short-term variability of investment returns and thus reduce, to an acceptable level, the risk associated with meeting the payout requirements discussed in Section 5.1 (b) and (c) above.

The reserve level is equal to the total market value of the Operating Portfolio portion of the Fund less the obligations owing to the Operating Portfolio. It is recognized that there is potential for the reserve level for non-endowed funds to be in deficit. Nevertheless, the Committee is expected to take a long-term view of the management of the Fund and to maintain an asset mix, which is expected to earn the required rate of return over the long run.

5.6 Endowed Portfolio Payout Policy

The Board establishes policy for University investment payout (see **Policy 2.11**). Such policies are designed to ensure that current and future generations share equally in the benefits of the endowments.

5.7 Exposure to Non-Canadian Currencies

The Canadian equity market represents approximately 4% of total world equity market in terms of total capitalization. Non-Canadian investments are included in the Fund in order to add diversification and reduce volatility of returns. Non-Canadian investments need not necessarily incur gains or losses from increases or decreases in the value of the Canadian dollar relative to currencies in other countries. This can be accomplished through currency hedging techniques employed by a Manager.

Although an analysis of the University's spending shows that less than 5% of all expenditures are in non-Canadian funds, the value of the Canadian dollar affects the price of imported materials that are resold in Canada. Accordingly, it is appropriate to have some exposure to investments within currencies that are non-Canadian to provide a hedge against a major fall in the value of the Canadian dollar. Given the rapidly evolving nature of currency markets, it is preferable to hire a Manager dedicated to the management of the Fund's currency exposure.

The policy range of exposure to non-Canadian currencies has been established to be within the range of 0% to 80% of the total Fund, after currency hedging.

5.8 Measurement of Investment Returns

Investment returns are measured quarterly and assessed in relation to the following criteria:

- The overall objective is to achieve the required rate of return over the long-term on the Fund, with an acceptable level of risk. The real rate of return is monitored on a 5 year annualized basis.

- The Managers are expected to achieve the performance objectives included in their mandates over the relevant time horizon.

5.9 Liquidity

The Committee will ensure that the Fund has sufficient liquidity to meet its future obligations. To properly assess the liquidity needs of the Fund, Administration will provide the Committee with regular updates on risk controls regarding liquidity, such as:

i) the availability of short-term and mid-term assets;
ii) the ratio of assets to obligations for the Operating Portfolio;
iii) upcoming capital calls and distributions;
iv) potential working capital needs and releases on rolling currency hedges in the currency hedging program;
v) any upcoming contributions to the University operating and capital budgets;
vi) internal loans; and
vii) borrowing within the Fund.

5.10 Borrowing

In order to meet short-term liquidity needs arising from activities such as rebalancing, capital calls or currency hedging, the Fund may consider using line(s) of credit. Draws on the credit facilities will have a combined limit of $100 million and should be repaid within 90 days. A repayment plan from within the Fund shall be identified by Administration prior to any draw(s) on the credit facilities. Short-term borrowing is restricted for use within the Fund and is not available for general University operations. Short-term borrowing costs will be netted against the performance of the Fund.

Section 6 General Investment Guidelines and Operational Matters

6.1 Eligible Investments

The following represents descriptions of eligible investments making up the strategic asset classes. The Portfolios may use these eligible investments except where specifically restricted by the individual portfolio guidelines.

Equities

Equity investments include common stock and equivalent securities, including, but not limited to, equity warrants, rights, call options, installment receipts, subscription receipts, convertible debentures, limited partnerships, private placements, REITs, preferred shares, stapled units[3], stock index futures, options on futures and other derivative securities to manage risk, such as currency futures. The common stock or equivalent securities may be traded on Canadian, U.S., international or emerging markets stock exchanges, but can also be privately held. Specific equity mandates may be classified as Canadian equity, U.S. equity, international equity, global equity or emerging markets equity. Equity investments may also involve short selling. Private equity investments may include leverage that is appropriate for that asset class.

Fixed Income

Fixed income investments may include Canadian Government and Guaranteed-Affiliates bonds, real return bonds, provincial and municipal bonds, corporates/credit sensitive securities (includes the debt of corporations, supranational agencies and municipal entities whether domiciled inside or outside Canada, in developed or developing countries), sovereign bonds from developed or developing countries, high-yield bonds, mortgages, preferred stock, commercial mortgage-backed securities, commercial mortgages, mortgage-backed securities, asset-backed securities, private placements, convertible securities, cash and equivalent and fixed income futures and options. Fixed income investments may be tradeable or privately held. Private debt investments may include leverage that is appropriate for that asset class.

[3] A stapled unit is a security that is contractually bound to one or more other securities to form a single salable unit.

Real Assets

Real Asset investments include real estate, infrastructure and commodities.

Real estate investments are ownership investments in land and buildings that are used for office, industrial, retail or residential purposes. Returns from real estate are expected to provide an offset for inflation over time.

Infrastructure investments are investments in assets that provide essential services with sustainable demand and predicable cash flows[4]. Returns from infrastructure are expected to provide an offset for inflation over time.

Real estate and infrastructure investments may include leverage that is appropriate for those asset classes.

Commodities may include direct investments, or investments through derivatives such as futures, in basic goods in the agriculture, livestock, energy and mining sectors.

Diversifiers

Diversifiers include cash and cash equivalents, absolute return strategies and market neutral strategies.

Cash and cash equivalents may include the following securities:

- Government of Canada treasury bills, notes, debentures and any obligations unconditionally guaranteed by the Federal Government of Canada;
- Treasury bills, notes, debentures and any obligations unconditionally guaranteed by a provincial government of Canada;
- Municipal notes, debentures and any obligations unconditionally guaranteed by a municipal government of Canada;
- Highly rated foreign government treasury bills, notes, debentures and any obligations unconditionally guaranteed by a foreign government;
- Highly rated Banker's Acceptances, Certificates of Deposits and other instruments issued by a Canadian or foreign bank;
- Highly rated commercial paper and corporate bonds of Canadian and foreign corporations;
- Repurchase agreements backed by a minimum of industry standard collateral;

[4] Infrastructure investment projects may include renewable energy, water, utilities, toll roads, bridges, tunnels, communications and airports.

- Floating-rate notes issued by Canadian or foreign issuers; and
- High interest savings accounts.

Absolute return strategies try to achieve positive returns irrespective of the market environment and exhibit low correlations with bonds and stock portfolios. These strategies may include, but are not limited to life settlements, litigation finance, reinsurance and insurance-linked securities.

Market neutral strategies are structured in such a way that they are not exposed significantly to market fluctuations.

Absolute return and market neutral strategies may include public and private securities as well as leverage that is appropriate for these types of assets.

6.2 Manager Structure

The Committee manages the risk profile of the Fund and the MTP by recommending for approval each portfolio's Asset Mix Policy to P&F and then, ultimately, to the Board. The Committee hires Managers with specific asset class investment mandates as opposed to balanced investment mandates and the Committee is thus able to manage the actual asset mix of the Fund and the MTP.

The Committee may hire either active or passive Managers. In general, passive management is preferred in markets where Managers have not been able to outperform the market indices, such as the current case in Canadian fixed income securities. Active Managers are required to earn a prescribed amount over the appropriate index return to cover their fees and to compensate for the greater risk and fee costs of active management.

Management of publicly traded equities may involve the use of leverage and short selling at a level with which the Committee stated at the outset of the Manager's mandate. The Committee may hire Managers where the mandate allows leverage and short selling[5].

There is a preference for multiple manager styles for the total fund. Within equities, a diversified exposure to various factors, such as value, growth, size, momentum and quality is preferred. Within bonds, styles can include interest rate anticipation, sector selection, security selection, yield curve positioning and currency management or passive (index returns).

The University's tax-exempt status makes interest, dividends, capital gains and foreign exchange gains equally desirable.

[5] When a security is sold short, the security is borrowed from a broker and sold with the intention of making a profit by buying the security back at a lower value.

6.3 Cash Flow Management

The objectives of the University's cash flow management process are as follows:

i) to maximize the funds that are available for external management in the Fund, while maintaining sufficient short-term and mid-term investments outside of the Fund to meet the University's working capital requirements;

ii) to generally maintain a positive cash balance throughout each year in order to meet the University's liquidity needs, investing temporary excess cash either in the STP or MTP;

iii) to only borrow funds for short periods of time to support operating purposes of the Fund. A line of credit is maintained for the Fund's operating needs; and

iv) to ensure, as much as reasonably possible, that the funds allocated to Managers are not subject to short-term cyclical variations as a result of the University's cash flow needs.

6.4 Conflict of Interest

If a member of the Committee or any agent of or advisor to the Committee has any material pecuniary interest, direct or indirect, in any matter in which the Portfolios are concerned and becomes aware of such a conflict, that person shall, without delay, disclose this interest in writing and shall not take part in any debate or vote on such a matter. It is noted that agents and advisors are permitted to present items to the Committee, and it is understood that such agents and advisors may benefit in the event that the Committee adopts the items.

The Committee shall include in the mandate of each Manager the requirement to comply with the Code of Ethics and Standards of Professional Conduct adopted by the CFA Institute.

Every disclosure of interest under this section shall be recorded in the minutes of the Committee meeting. The failure of a person to comply with the procedures described in this section shall not of itself invalidate any decision, contract or other matter.

If a conflict of interest is discovered or disclosed after the Committee has made a decision, the Committee will reconsider the decision in light of the new information.

6.5 Proxy Voting

The exercise of voting rights acquired through any investment is delegated to the Managers with the instruction to vote in favour of any proposal which, in their opinion, will accrue and enhance the investment value of the relevant security, and against any proposals which will unduly increase the risk level or reduce the investment value of the relevant security to the detriment of the Fund or the MTP. However, when it would be in the University's best interest to do so, the University reserves the right to exercise its voting rights.

If the Manager firm, or any employee or associate of the Manager firm, has any direct or indirect pecuniary interest in any matter on which the Fund or the MTP has a right to vote, it must be brought to the attention of the Committee, which has discretion to:

i) instruct the Manager to exercise the voting right in line with the principles described above, on the grounds that the relevant pecuniary interest is not material; or

ii) instruct the Manager how to cast the Fund's or MTP's vote, having considered the principles described above; or

iii) authorize the Fund's and MTP's Custodian to exercise the voting right in line with the principles described above.

6.6 Securities Lending

The Portfolios may engage in securities lending activities to generate incremental income, subject to approval from the Committee, P&F and compliance with appropriate laws and regulations.

Such loans must be secured by Canadian government bonds, treasury bills, provincial bonds of any highly rated Canadian province and/or letters of credit, discount notes, and banker's acceptances of major Canadian chartered banks. The amount of collateral taken for securities lending should reflect best practices in local markets and marked to market on a daily basis.

The terms and conditions of any securities lending program, including the maximum exposure in aggregate and by counterparty, will be set out in a contract with the Custodian. The Custodian shall, at all times, ensure that the Administration has a current list of those institutions that are approved to borrow the Portfolios' investments. If the Portfolio's assets are invested in a pooled fund, security lending will be governed by the terms and conditions set out in the pooled fund contract.

6.7 Derivatives Usage

Derivatives may be used by the University or the Managers managing the Portfolios for hedging, risk management and portfolio rebalancing purposes, but not for leveraging the Portfolios. Derivative products include options, futures, forwards and swaps.

6.8 Valuation of Infrequently Traded Instruments

The valuation of infrequently traded investments shall be determined by the trustee or Custodian of the underlying fund. In the case of private investments, including but not limited to real estate, infrastructure, private equity and commercial mortgages, the valuation shall be based on independent opinions of qualified appraisers as required or should follow the best practices used for a particular asset class.

Section 7 Responsible Investing

7.1 Introduction and Definition

The Committee recognizes that RI is a rapidly evolving approach to investing that understands sustainability as a fundamental concept in wisely allocating financial capital for the benefit of today and future generations. The Committee has a fiduciary obligation to invest funds for the benefit of the University in the interest of endowment funds/donors and RI is in keeping with that obligation.

The Committee defines RI as an approach which integrates ESG considerations into investment decisions. It is also recognizes that RI approaches and ESG issues will vary in the degree of relevance and materiality by asset class, strategy, and sector, but ultimately will provide a broader lens to understanding emerging and long-term systemic issues.

As such, the Committee has incorporated the following components into our RI framework:

a) it will involve being pro-active by allocating capital to solutions-based investments that are considered progressive (see Section 7. 3 for a definition of the Sustainable Investment Strategy); and
b) it will use ESG factors as an integral part of the investment process, such as investment decision making, Manager monitoring, and active ownership.

The Committee recognizes the importance of being up to date on RI issues and peer institutional best practice, requiring an adaptive approach and ongoing improvement. It endeavors to look forward and be transparent and flexible in carrying out its long-term investment objectives and in meeting RI commitments. Western's existing RI commitments are outlined in Section 7.2. The Committee will consider new commitments over time, as our RI framework evolves and adapts to changing circumstances.

RI activities will be reported to the University community on an annual basis. The report shall highlight our progress and milestones achieved as well as any challenges experienced in our RI journey.

At all times the RI strategies employed will be in keeping with the mission, aim, values and governance culture of the University.

7.2 Commitments and Targets

a) Capital Allocation Commitment

Western has committed to invest 10% of its Fund (by 2025) in accordance with the Sustainable Investment Strategy, as defined in Section 7.3.

b) Climate Change Commitment

Net-zero emissions target:

The University has committed to net-zero absolute carbon emissions by 2050, or sooner, and this commitment extends to the University's investments. This is a decarbonization strategy that encompasses all investment classes and industries. To monitor the performance of its climate change strategy, the Committee is setting the following targets for the MTP and the Fund:

i) Western aims to reduce the carbon intensity by 45% by 2030, using 2020 as a base year, and;
ii) Western aims to achieve net-zero absolute carbon emissions by 2050, or sooner.

These targets are consistent with those adopted by the University and are aligned with science-based targets to meet the goals of the Paris Agreement. As part of this decarbonization strategy, we will be reviewing all investments and how they align to our goal of net-zero by 2050, or sooner, and will take appropriate action where necessary to achieve those goals.

Carbon measurements include Scope 1 & 2 greenhouse gas ("GHG") emissions. The Committee will consider material Scope 3 GHG emissions once accurate measurement and reporting are available.

The Committee will annually assess carbon measurements and publicly report progress towards the net-zero commitment. It is recognized that the global carbon emission measurement frameworks continue to evolve and standardize. The Committee will review measurement frameworks at least tri-annually to determine if existing measurements continue to be industry best-practice and modify as necessary. For example, while we have committed to a reduction in carbon intensity by 2030, as information on absolute carbon emissions for all asset classes becomes available, we expect to converge to this measurement over time.

7.3 Sustainable Investment Strategy

Western recognizes the role of RI in achieving a forward-looking Fund for the benefit of future generations.

To help steer its Sustainable Investment Strategy, the University is guided by the United Nations Sustainable Development Goals ("SDGs"). These 17 goals have been developed to confront major issues.

Western takes a broad and dynamic approach to sustainable investing; however, a few issues have surfaced as being critical to its stakeholders. These include:

- Access to clean water
- Carbon footprint reduction
- Pollution abatement

Solving those issues presents new opportunities for investors and there is a growing number of businesses providing solutions to these problems which can add to the University's long-term investment returns.

The University is committing to invest a portion of its Fund (10% by 2025) in companies providing solutions along the following themes:

- Clean and renewable energy
- Water treatment solutions
- Waste management solutions

These investments will be funded from the Fund's public equity investments.

By focusing on those investment themes, Western will ensure that its investments will contribute to the following SDGs:

SDG #6: Clean water and sanitation
SDG #7: Affordable and clean energy
SDG #13: Climate action

As the University's understanding of sustainable investment practices, opportunities and stakeholders' preference evolve, additional themes and SDGs may be considered.

The University reserves the right to select the appropriate investment vehicle to implement its strategy, in order to take advantage of all the opportunities available. These may include, in addition to publicly traded equities:

- Fixed income (such as green bonds)
- Natural resources (such as farmland and timber)
- Infrastructure assets
- Private equity

7.4 Monitoring Managers

Given the relatively small size of the Portfolios and the fact that most investments are held in pooled vehicles, it is impractical for the University to directly engage with all individual companies on ESG related issues. Instead, the University will monitor the Managers it hires to manage the Portfolios on how they integrate ESG factors into their portfolio building process.

The cornerstone of the process by which the University monitors its Managers is a required ESG due diligence questionnaire. The ESG questionnaire should cover the following areas:

- Commitment of resources both financial and personnel;
- Transparency of process, including individual company;
- Evolution and advancement of manager expertise in ESG consideration;
- Appropriate manager marketing to the public;
- Policies and practices around the managers' shareholder engagement activities, as part of an overall RI strategy. Managers are to assess companies' management practices in contributing to the long-term health of each investee company.

7.5 Engaging Companies

Company engagement activities, such as dialogue with management, proxy voting or shareholder resolution filing are delegated to the Managers. Managers are expected to report to the University on a regular basis on their engagement work and provide a rationale for their decision to alter a portfolio position based on ESG factors.

The University may also participate in corporate engagement services, where a collective engagement strategy is desirable and may lead to positive change on specific ESG related topics.

7.6 Divestment

The University leaves the decision to exclude a security to the Managers hired to manage a portion of the Portfolios, as they possess the necessary expertise and information to make the decision that is in the best interest of the Portfolios.

The University believes that, in most situations, engagement is a superior approach to divestment in effecting changes on ESG related issues. Engagement allows investors to retain their voice in terms of voting on shareholder resolutions and maintaining or escalating, as needed, a dialogue with portfolio company management.

Divestment will be considered where engagement has failed or is not feasible.

7.7 Advocacy and Collaboration

The University endeavours to remain up to date on sustainability investing issues and the impact of ESG factors on its investments. In order to maintain its knowledge of the field of RI and to contribute to its development, the University will liaise with other institutional investors and industry associations to discuss key issues.

7.8 Disclosure

The University will make available to the University community, upon request, the most recent list of publicly traded investments of the Portfolios, subject to blackout periods imposed by the underlying Managers. Publicly traded investments are defined fixed income securities for which there is a reasonably liquid market and equities of companies listed on a stock exchange. Requests need to comply with the Disclosure of Information on Western Investments (**Policy 2.14**).

Section 8 Governance

Responsibilities are divided among P&F, the Committee, and Administration as noted below. Additional stakeholders involved with the Portfolios include Managers, a Custodian, Investment Consultant and a Performance Measurement Consultant.

8.1 Property and Finance Committee

The Property & Finance Committee is a standing committee of the Board of Governors constituted for the review and approval of policy, and decision-making in respect of the property and financial resources of the University. As it relates to the Portfolios and the Investment Committee, P&F:

i) makes recommendations to the Board on investment policies and governance as recommended by the Investment Committee;

ii) appoints members of the Investment Committee; and

iii) reports investment activities to the Board.

8.2 Investment Committee

The Committee is a sub-committee of P&F. The overall objective of the Committee is to bring expert advice and knowledge to bear on the effective management of the Portfolios consistent with the approved fund objectives. Within this general mandate, the Committee:

i) establishes and regularly reviews investment policy, objectives and strategy;

ii) appoints Managers and retains a fund measurement service and other investment consultants as appropriate; and

iii) regularly reviews the Portfolios and the performance of the Managers and takes action as may be deemed appropriate.

8.3 Administration

i) ensures compliance with legal and University requirements;

ii) rebalances the Portfolios by transferring funds among Managers and asset classes appropriately according to policies approved by the Committee and reports such activity to the Committee;

iii) manages University cash flows and any short-term borrowing of the Fund in accordance with the objectives and policies outlined in Sections 6 and 5.10 of this document. Reports to the Committee about the University's cash flows and short-term investing activities on a periodic basis;

iv) executes investment decisions made by the Committee;

v) reports to the Committee on the performance of individual managers and of the Portfolios. Keeps the Committee informed of all other issues and developments relative to the management of the University Portfolios;

vi) works closely with and directs the Consultant, the Custodian and the Managers as appropriate;

vii) reports to the Committee on other University activities that have an impact on the investment portfolio;

viii) periodically meets with each member of the Committee to discuss any concerns, additional information requirements and suggestions for improvement;

ix) maintains an awareness of progressive investment management policies and practices at other Canadian and US universities;

x) reports to the Committee and to the P&F on the ratio of investments to obligations for the non-endowed portion of the portfolio; and

xi) makes recommendations to the Committee concerning terminating Managers and hiring new Managers.

8.4 Managers

i) manage a specific investment mandate according to a set of investment guidelines and maintain compliance to those guidelines;

ii) aim to achieve a performance objective;

iii) report to the University on performance by providing attribution analysis, but also on changes at the firm in terms of organizational structure, personnel and investment process; and

iv) vote proxies on behalf of the University according to proxy voting guidelines.

8.5 Custodian

i) holds assets owned directly by the University and provides monthly valuation of those assets;

ii) executes instructions provided by authorized representatives of Administration; and

iii) coordinates securities lending, if any.

8.6 Investment Consultant

i) assists the Committee in the development of governance structures, policies and procedures;

ii) assists the Committee in identifying the objectives and risks to be managed and in implementing the appropriate asset mix;

iii) provides research on emerging investment strategies;

iv) maintains research on Managers employed by the University;

v) assists with manager searches by giving the University access to its database of Managers, narrowing the universe, providing performance analysis, preparing questionnaires and attending finalist meetings;

vi) provides quarterly opinions on the Fund's and MTP's performance;

vii) informs the Committee on successful, seasoned, and state-of-the-art investment management technologies where relevant and appropriate; and

viii) attends Committee meetings, at the invitation of the Investment Committee Chair.

8.7 Performance Measurement Consultant

i) provides performance measurement services and analytical services through research reports, data and/or database(s) to be delivered by electronic means or hard copy format;

ii) provides total fund, individual Manager and asset class return on a monthly basis; and

iii) provides quarterly performance reports that include capital market commentary, market indexes, asset class summary by class and Manager, returns over selective time periods by class and Manager, returns attribution analysis, and comparative analysis measurement for active Managers.