MCGILL UNIVERSITY HEALTH CENTRE FOUNDATION

STATEMENT OF INVESTMENT POLICY

September 2022

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GENERAL

The Investment Policy ("Policy") is established by the Board of Directors ("Board") of the McGill University Health Center Foundation (the "Foundation") and is provided to any Outsourced Chief Investment Officer (OCIO) and/or Investment Managers (collectively called "Managers"), engaged by the Board, as the governing document for the investment of the assets of the Foundation ("Fund") The goal underlying the establishment of the Policy is to ensure that the Fund shall be invested in a manner that meets the objectives of the Foundation.

OBJECTIVES

The basic objective of the Fund is to meet its financial obligations to fulfill the mandate of the Foundation. This requires meeting the annual spending requirements while still preserving the real value of the underlying assets. At the time of this writing, the long-term objective is to realize a total rate of return of Inflation plus 5% (refer to "**Spending Policy and Endowment Policy**" for more recent updates*).

The Fund is an amalgamation of individual and Foundation endowments, which have been established perpetually, in addition to endowments with fixed commitments as well as funds with short to midterm objectives such as various Capital and other fundraising campaigns. The Fund may also include the assets of foundation(s) other than the Foundation.

The Fund shall be invested in a manner consistent with fiduciary standards and is to be managed in accordance with the Income Tax Act (Canada) and any other applicable legislation. The Fund is to be managed on a going concern basis.

As the Fund may invest in various asset classes, it is recognized that normal market fluctuations may cause short term reductions in market value.

Environmental, Social and Governance (ESG):

As long-term investors, the Foundation believes it is responsible and prudent corporate behaviour to consider Environmental, Social and Governance (ESG) factors in assessing the risks associated with the investment analysis, investment decisions and management of the Fund.

In this context, the Foundation expects its Managers to integrate ESG factors into their investment management processes across the portfolio and specifically as follows:

- Incorporate ESG issues into investment analysis and decision-making processes.
- Be active owners and incorporate ESG issues into our ownership policies and practices.
- Seek appropriate disclosure on ESG issues by the entities in which we invest.
- Report quarterly on trends and progress on ESG issues within the portfolio.

The Foundation will pursue these considerations in a graduated and practical way as both the size of assets under management, specific donor requirements, and the resources allow.

Refer to "**Environmental, Social and Governance (ESG) Policy**" for more recent updates*).

ROLES AND RESPONSIBILITIES

Unless otherwise defined in the "**Mandate of the Investment Committee**"*, the roles and responsibilities concerning the administration and investment of the Fund are assigned as follows:

The Board on the advice of the Investment Committee:

- will establish the Statement of Investment Policy ("Statement");
- will review the Statement as required and make the necessary amendments;
- will select the Managers, including the OCIO and Custodian;
- will monitor investment results according to the investment objectives defined in the Statement;

Responsibility for the care, custody, safekeeping, investment, reinvestment, disbursement and distribution of the Fund rests with the Board. The Board is assisted by the Investment Committee whose Mandate includes:

- meeting regularly to review the Statement, monitor investment results and report and recommend any changes to the Board;
- modify the asset mix targets, as deemed appropriate, within the Board approved Statement.

The Foundation Management:

- will circulate all information provided by the Managers to the Investment Committee Chair;
- is responsible for ensuring adherence to all statutory disbursement requirements;
- will, to the best of their ability, provide Investment Committee and Managers with at least 12 months written notice of disbursements representing greater than 5% of the prior year's value of the portfolio.

The OCIO and/or any other Managers selected by the Board:

- invest the assets of the Fund according to any applicable legislation, and in accordance with this Statement;
- exercise full investment discretion within the scope of this Statement;
- rebalance the portfolio as required;
- notify the Foundation Investment Committee and/or staff in the event the Manager believes the Statement's procedures and policies are adversely affecting performance or are unattainable;
- notify the Foundation Investment Committee and/or staff of any issue that may significantly or adversely impact the investment of the Plan's assets;
- notify the Foundation Investment Committee and/or staff of changing market or economic conditions or other events that suggest that a special meeting or action by the Foundation is necessary;

- provide quarterly reports and conduct periodic presentations to the Foundation Investment Committee and/or staff regarding:
  - The return of the investment account over the reporting period,
  - A comparison of the rates of return to the appropriate benchmarks,
  - Expectations on the economic and financial market outlook, and
  - Associated investment strategies;
- explain the characteristics of new relevant asset classes or investment instruments and how they may assist in achieving the Fund's objectives;
- instruct the Custodian regarding the execution of proxies;
- reconcile holdings with the Custodian;
- provide portfolio specific ESG reporting at least annually;
- provide an annual compliance report.

The role of the OCIO is to assist the Board and Investment Committee in successfully discharging their responsibilities with respect to the management of the Foundation's investment assets, including recommending managers, and rendering proactive advice to the Investment Committee when warranted.

Unless otherwise instructed by the Board, the OCIO is fully responsible for the choice of investment managers and ensuring prudent diversification with respect to concentration, currency, liquidity, country, industry and sectors, subject to compliance with the Statement.

The Custodian:

- holds the assets of the Fund with due regard to applicable legislation;
- disburses monies from the Fund as directed by the Foundation;
- keeps records, confirms positions and performs reconciliation for the Fund;
- provides monthly account statements for all investment and participant accounts.

ASSET CLASSES ELIGIBLE FOR INVESTMENT

Permitted Investments

The Fund will only invest in separately managed accounts, Canadian domiciled Pooled investment vehicles or Pooled Funds which are eligible for tax-exempt Canadian foundations. Subject to this Statement, the funds may be invested in any or all of the following asset categories.

a. Publicly traded Canadian and non-Canadian common stocks, new issues, preferred securities, convertible and participating preferred securities, convertible debentures or other common share equivalents;
b. Warrants, special warrants, share rights, installment receipts, units or other instruments convertible into equity;
c. Bonds, debentures, notes, asset-backed and mortgage-backed securities, real return bonds, or other debt instruments of Canadian and non-Canadian governments, government agencies, or high quality corporations, payable in Canadian dollars or foreign currencies;
d. Private placements, whether debt or equity, of governments or corporations;

e. Non-traditional assets including private equity, private debt, hedge funds, infrastructure, real estate, timber, agriculture, currency and commodities and other assets approved by the Investment Committee;
f. Income trust units, including royalty trust units, real estate investment trusts, limited partnerships and other similar vehicles;
g. Futures, forwards, swaps, options, exchange-traded funds, country fund vehicles, depository receipts, or similar products, the value of which is based upon the market value or level of an index, or the market price or value of a security, currency or financial instrument traded on a recognized exchange or dealt over-the-counter with counterparties of sound financial standing.
h. Guaranteed Investment Contracts or equivalent financial instruments of insurance companies, trust companies, banks or other eligible issuers, or funds which invest primarily in such instruments;
i. Term deposits or similar instruments of trust companies and banks;
j. Cash, treasury bills, commercial paper, bankers acceptances, promissory notes, discount notes, or other money market securities issued by governments or corporations;
k. Pooled funds and vehicles which may invest in any or all of the above instruments or assets.

INVESTMENT GUIDELINES

It is the intention of the Foundation to allow the Managers full discretion regarding the investment of the Fund within the scope of the agreed upon guidelines and restrictions.

The assets of the Fund will be invested at all times in a prudently diversified manner in order to optimize long-term returns at an appropriate level of risk. Within each asset class, the Managers will ensure that there is an appropriate level of diversification, subject to the following limits based on the market value of the respective component of the Fund. The Managers are expected to exercise prudence and follow internal policy norms.

ASSET ALLOCATION

The single most important decision made by the Board is the Asset Allocation decision. Investment research has determined that a significant portion of a portfolio’s investment behaviour can be attributed to: (1) the asset classes/styles which are employed; and (2) the weighting of each asset class/style. The Board, with guidance and advice from the Investment Committee, shall review the asset allocation from time to time and recommend revisions as necessary. The overall Asset Allocation is stated as a range. The Investment Committee is charged with establishing the specific asset allocation or Target Weight within the allowable range.

Policy Asset Mix Targets and Ranges are as follows <u>(as % of Market Value):</u>

Asset Class	**Minimum Weight**	**Target Weight**	**Maximum Weight**
		Ultimate	
Cash & Equivalents	0.0%	-	10.0%
Core Bonds	15.0%	20.0%	25.0%
Commercial Mortgages	0.0%	5.0%	8.0%
Total Fixed Income	**20.0%**	**25.0%**	**45.0%**
Canadian Equity	8.0%	12.5%	20.0%
Global Equity	15.0%	25.0%	45.0%
Global Small Cap Equity	0.0%	6.5%	10.0%
Emerging Market Equity	0.0%	6.0%	10.0%
Total Public Equity	**40.0%**	**50.0%**	**60.0%**
Hedge Funds	0.0%	5.0%	8.0%
Infrastructure	0.0%	5.0%	8.0%
Canadian Real Estate	0.0%	5.0%	8.0%
Private Equity	0.0%	5.0%	8.0%
Private Debt	0.0%	5.0%	8.0%
Opportunistic Fixed Income	0.0%	-	2.0%
Total Alternatives	**8.0%**	**25.0%**	**30.0%**

<u>It is expected that allocations to new illiquid assets, or those which do not trade daily, such as commercial mortgages, real estate, private equity and private debt mandates will be implemented over a period of time. Therefore, during the implementation process, the investment limits may deviate from the above to take into account the effective allocation to these mandates. For greater certainty, the Maximum allocation to illiquid assets (including hedge funds and infrastructure) will be 30%.</u>

<u>BENCHMARKS AND PERFORMANCE OBJECTIVES</u>

The Board has established the investment return objectives, reflective of the risk tolerance of the Fund, in order to provide the Foundation with a means to evaluate the performance of the Fund and the Managers.

Recognizing the importance of monitoring the objectives, the Board will review the actual results at least semi-annually. However, due to the cyclical nature of the markets and recognizing that performance results may fluctuate, the results will be evaluated over moving four-year periods. The Foundation recognizes that the Managers may not achieve the investment return objective over a particular measurement period and will therefore take into consideration the trend of results relative to the objective when evaluating the performance of the Managers.

The objectives may be modified at any time by the Board and accordingly, will be periodically reviewed and monitored in light of actual investment results, emerging economic conditions and the requirements of the Fund.

Value Added Targets:

Asset Class (Benchmark)	Benchmark	Value Added Target
Core Bonds	FTSE Canada Universe Bond Index	+0.2%
Commercial Mortgages	FTSE Canada Short Term Bond Index	+1.5%
Canadian Equity	S&P/TSX Composite Index	+1.0%
Global Equity	MSCI World Net Index	+1.0%
Global Small Cap Equity	MSCI World Small Cap Net Index	+1.5%
Emerging Market Equity	MSCI Emerging Markets Net Index	+1.5%
Hedge Funds	HFRI FoF Composite Index	+0.0%
Infrastructure	CPI + 4%	+0.0%
Canadian Real Estate	MSCI/RealPac Canadian Pooled Fund Index	+0.0%
Private Equity	MSCI World Net Index + 3% (lagged by one quarter)	+0.0%
Private Debt	CPI + 4%	+0.0%
Opportunistic Fixed Income	50% S&P/LSTA Leveraged Loan / 50% Bloomberg Global High Yield	+0.5%

Additional Benchmarks:

Simple 60/40 Benchmark	60%	MSCI ACWI (Cdn$) Index
	40%	FTSE Canada Universe Bond Index
Long Term Benchmark	100%	Consumer Price Index – Canada + 5%

Policy Benchmark: benchmark using Ultimate weights

Actual Allocation Benchmark: benchmark composed of the Investment Committee approved Target Weights for each asset class, adjusting for actual called amounts for private investments

Liquidity

Managers shall prepare quarterly a Liquidity Table for the Investment Committee's review. Such table will show the liquidity terms for all assets in the portfolio arranged in such a way as to show the percentage of assets which may be liquidated quickly in order to raise cash, and what portions are semi-liquid (available within one year) or illiquid.

PROCEDURES

Use of Commingled Funds

Index and pooled funds may be held in the Portfolio with the understanding that these funds will be managed in accordance with their own investment policies. Prior to investing in any such commingled fund, and at least annually thereafter, the Manager is responsible for identifying any conflict with the content of this Statement. In the event of conflict between the content of this Statement and those of the commingled funds used by the Fund, the latter shall prevail.

Direct Loans and Borrowing by the Foundation:

The Foundation will not directly lend or borrow money, except to meet short-term cash needs, unless specifically authorized by the Board.

The Managers will assess the solvency of counterparties, borrowers or issuers by reference to published credit ratings and by their own analysis.

Voting Rights:

The voting rights on securities held are delegated to the Managers. The Managers are expected to act in good faith and to exercise voting rights solely in the best interests of the beneficiaries of the Fund. The Managers have the right to exercise and direct the voting rights acquired through the investments of the Fund subject to any exceptions provided in writing to the Managers by the Foundation Investment Committee and/or staff. The Managers will give instructions to the Custodian for executing the proxies.

Conflicts of Interest:

The Foundation, Members of the Board and Investment Committee, the Managers and related parties are fiduciaries of the Fund and are subject to guidelines pertaining to both actual and perceived conflicts of interest. Any person involved in the investment or in the administration of the Fund may not permit personal interests to conflict with the exercise of duties and powers with respect to the Fund. Such conflicts of interest, actual or perceived, must be disclosed in writing to the Foundation immediately.

The Managers must disclose any material interest in any investment or proposed transaction. All investment activities of the Managers and employees of the Managers shall be conducted in accordance with the Code of Ethics and Standards of Professional Conduct of the CFA Institute.

Valuation of Investments:

Investments in publicly traded securities will be valued no less frequently than monthly at their market value. Investment in commingled funds holding publicly-traded securities will be valued according to the unit values calculated at least monthly by the Manager, and verified at least annually by an independent third party. If a market valuation of an investment is not readily available, an estimate of fair value will be supplied by the Manager to the Custodian no less frequently than quarterly. Such fair value may be determined by reference to the most recent independent expert appraisal or by other means such as risk-adjusted discounted cash flows or comparison with similar assets, which are publicly traded. In all cases the methodology should be applied consistently over time.

The Managers must notify the Investment Committee and/or staff in there is a revision to previously reported data that materially impacts the value or performance of the assets.

Related Party Transactions:

<u>Related Parties to the Fund</u>:
Transactions on behalf of the Fund may not be entered into with a related party unless:

- the transaction is required for the operation or administration of the Fund and the terms and conditions of the transaction are not less favourable to the Fund than market terms and conditions; or
- the securities of the related party are acquired at a public exchange.

A related party is a person who is an administrator of the Fund including any officer, director or employee of the administrator, or any person who is a member of the Board. It also includes, the Managers and their employees, a union representing employees of the employer, a member of the Fund, 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. Related party does not include the federal government or provincial government agencies.

<u>Related Parties to the Managers</u>:

The securities legislation of certain jurisdictions requires securities dealers to act only in accordance with particular disclosure and other rules. These rules require dealers and advisers to inform their clients of the relevant relationships and connections with the issuer of the securities prior to trading with or advising their clients. Securities laws also require that dealers and advisers that share the same principal shareholder, or officers or partners or directors, disclose details of the relationships and the policies and procedures they have adopted to minimize the potential for conflict in their relationships.

Investment Manager Evaluation:

If the Manager fails to attain the investment objectives outlined in this Statement, the Foundation should expect a satisfactory explanation of the shortfall. If the explanation of the shortfall is not satisfactory, the Foundation may choose to initiate a formal review of the Manager. The intent of such review will be to examine the overall performance of the Managers, and to either confirm their appointment or instigate a competitive process, which may result in the selection of a new Managers.

The Foundation may also decide to replace Managers for reasons not related to investment performance. Such reasons include, but are not limited to, the following:

- significant turnover of the Managers' staff;
- significant change in the Managers' ownership, structure or investment process;
- desire to diversify investment management;
- failure to satisfy the Managers' responsibilities as set out in this Statement.

*** Where a Foundation Policy or Mandate is referenced, the language within the most recent Board approved document will apply and will become integral to this document.**

Dated on the 7th day of September 2022.

Accepted and approved by the Board on September 22, 2022:

McGill University Health Centre Foundation

Erin O'Brien
Chair of the Investment Committee of the
MUHC Foundation

Norman Steinberg
Chair of the Board of Directors of the
MUHC Foundation