

## Transcript of Panel Discussion on Responsible Investing and the Western Pension Plan – May 2022

My name is Cara Bourdeau and I work at Western providing support to various employee programs, including the pension plans. I'll be moderating today's session and I'm very pleased to be joined by our panelists.

You received a link to their full bios as part of the confirmation for this session, so I'll just give brief introductions. Tom Keenleyside is our Associate Director of Investments here at Western. Tom and his team are part of the in-house investment expertise, which among other activities, supports the Western pension boards. Eric Mooney is an investment solutions executive from Sun Life. Sun Life is our record keeper and the custodian of the assets for the pension plans. Our team works closely with Sun Life and the administration of the plans, and as members of the plan, I hope everyone joining us is familiar with their personal accounts. We're also joined by Ryan Pollice, principle in the investment consulting practice at Mercer Canada. Mercer is the external investment consultant to the Academic and Administrative Pension Boards. Ryan and his colleagues play an active role providing research and support to the Western pension boards.

Just for some background I'd like to note that Western has 2 pension plans, an academic plan and an administrative plan, and participating members are the members of faculty and staff of Western, Huron and Brescia. Each of the pension plans has a pension board that governs the plan, and the 2 boards generally work together as a joint board. The boards each have 4 elected members, as well as 3 members appointed by the University, who are common to both boards. The boards make the decisions about what investment options to offer under the plan, and they decide on which investment managers to hire to do the investing for us. Each of us, as a member of the plan needs to choose how to invest our account from among the options that are made available.

Today's session will focus on the investment landscape and be a mix of sharing by our panel, and hearing from the audience. Once you've gone to menti.com and added the code, you will find an option to engage in Q&A, which will remain available throughout the session. Please feel free to add your questions as they occur to you, and we'll do our best to get to them at the end of the session.

Let's start with a test poll to make sure that folks are getting connected. So I'm one of those people who's always talking about the weather. So as we straddle seasons, I'm wondering what your favorite season is. I know we're in the showers and flowers season, right now, and nice to see things starting to green up. And, I'm seeing the votes rolling in. So this is wonderful. Again, if you're just joining us go to menti.com, and use the code on the top of the screen to engage. We're just over half of our participants having voted, so I'm going to give you just another second here. Make sure we've got good connection ... and that looks good. Thanks for participating.

So now that we've got most folks connected with menti let's jump into our first poll. So we have a better idea who has joined us today. We're looking for what best describes your current relationship with Western. So a member of faculty, staff, or other. Just seeing those votes rolling in.

Great. So we have a lot of staff representation today. So whether our faculty members are being quiet on Menti, or we've got mostly staff with us. This is great. Thanks for your votes and our next question: How interested are you in the way their Western pension plan is invested?

Very interested, somewhat interested, or not interested? I'm gonna guess that by virtue of you joining us today, you have at least a little bit of interest, but your interest overall, may be very different in your interest in engaging with those investment options on the plan. So give you a chance to consider. Good, so we've got lots of very interested and some somewhat interested. So again, not a big surprise.

As we head into the next polling question, we do a couple of new people who have joined us. If you are just joining, if you can log into Menti.com and use the code on the top of your screen to join us, we'd love to have your votes and Q&A.

This next question invites you to share what comes to mind for you when you hear the phrase responsible investing. Your answers are going to build a word cloud, and you can submit up to 3 responses. One or 2 words per response is usually best. So, I'll give you a little extra time on this one. Whatever pops to mind. The larger the words appear, it means, the greater the number of participants who have identified that same connection.

Note, it takes a little longer to type in your answers and give this one some thought. I'll give you a few more seconds here. Great! Lots coming up. Give another 10 seconds here for votes. I'm glancing away as I've got the poll results over here on my side. Seeing that "ethical" large in the middle, I think that was the very first word to pop up for us. And probably no surprise because I really think, for most of us, our experience with this topic has probably rooted historically in this concept of ethical investing or around ethics. Seeing lots of sustainable, sustainability, environmental. Evidence-based, I like that. Renewable, engaged, governance, not too risky. So we've got some great language coming up there. Appreciate your participation in that.

That's excellent! Eric, I'm wanting to turn over to you. Seeing these responses, I imagine many of these really resonate with you. I'm wondering if you can describe responsible investing through the Sun Life lens for us.

Yeah and thanks for having me here, Cara, today. You know we always say that if you were to ask 10 people what responsible investing meant to you, you would get 10 different answers. And we do see a wide range and a wide degree of responses here on the screen. For us, the way we look at things at Sun Life, responsible investing can be a process, or it can be a product. And generally, you know, they have different approaches, different motivations, but generally the process we refer to is ESG integration.

So the E stands for environmental, S stands for social, and the G stands for governance. So when we talk about ESG integration, it's about how investment managers look at those 3 factors, incorporate that into their investment analysis before making a decision, how that influences their buy/sell decisions, whether they're buying/selling a stock or bond, and how this influences them as an owner of a security with their active ownership principles, whether they're engaging with company management, or how they're voting on the proxy side. That's by far the most common approach -- would be ESG integration on our platform -- though we certainly do have products as well for people. So historically we saw the word ethical there on the screen and historically that's been the main focus, or the earlier type of products available, are socially responsible investing funds. So we do have screened and divestment

style funds on our platform. So the socially responsible investing funds would screen out companies that are alcohol, gambling, tobacco, or weapons manufacturers. The other style of the divestment sell funds would be the fossil fuel free funds which avoid investing in oil and gas producers.

What we've seen now, recently on the product side of things, is the emergence of a new category. Instead of screening or divestment funds, which seeks to avoid something, these new funds are sustainability focused, seek to go towards something. Whether that's companies that offer best in class ESG principles as to how they're running their business or they're more thematic style funds like a sustainable infrastructure fund or green bond fund. So that's how we think about it and how we've segmented our platform is ESG integration is really at the heart of what we do, since it represents the bulk of our assets. But then we also have product, under screening or divestment or sustainability focused types of funds.

Great thanks for that introduction, Eric. And, Ryan perhaps you can touch on the evolving role that you see E, S & G playing in investing through Mercer. Thanks, Cara. ESG is becoming a significant force for investment decision makers, but also corporate boards in senior management as they think about long term strategies. ESG investing evolved from socially or ethical investing philosophies into a more distinct form of responsible investing. And while earlier approaches used exclusionary screening and value judgments to shape their investment decisions, ESG investing has been spurred on by shifts in demand from across capital markets. And I think it's really important to note that it's ultimately driven by both the search for better, long term financial value and risk management and the pursuit of better alignment of values. So while ESG is not a new phenomenon in the corporate and investment worlds, the way it's applied and embraced is changing and it's changing fast. Pressure from key stakeholders and prospective government regulations are helping to drive ESG commitments. However, companies are also more practically looking to embed ESG as part of their core business strategy. Just as companies are increasingly focused on embedding ESG as core value drivers, investors are looking to incorporate ESG data to gain a fuller understanding of the companies in which they invest. So as an illustration of the growing role of ESG investing, consider the following: in 2006, thirty pension funds and other asset owners, representing 2 trillion in assets founded the United Nations backed principles for responsible investment. Today investors representing more than a 120 trillion have committed to these principles. In a recent global survey, approximately 55% of investment management firms now employ dedicated ESG professionals. This has increased significantly over the last few years and it's all the more significant when you think that this is a base of virtually fifteen years ago. And finally, as it relates to engagement and proxy voting. Most recently the 2021 proxy voting season saw record support for shareholder proposals on environmental and social issues. Thanks, Ryan. You identified the principles for responsible investment and the growth in signatories.

I'm wondering if you can provide an example of one of the principles.

Yeah, happy to. So the UN principals for responsible investment are a voluntary set of guidelines or principles that any signature or signatory commits to upholding. So there's 6 principles in sum and the basis is really that signing institutions, be they investment managers, pension funds, what have you, are really committing to evolve their approaches and practices over time. So principle 1 states, we will incorporate ESG issues into our investment analysis and decision making processes. And principle 2, on the engagement front, focuses on being active owners. And incorporating ESG issues into their

ownership policies and practices, and that could include proxy voting if you're an equity investor, or for all investors it could include engaging with boards or senior management on more strategic matters.

Great. Thanks, Ryan. Eric, Ryan has mentioned a couple of times now around proxy voting as a way to influence company behavior. Since Western doesn't hold the assets that we invest in directly, we don't engage in the proxy voting ourselves, but Sun Life may do this directly, or influence the investment managers and their voting. So I'm wondering if you can just describe Sun Life's approach to this. Of course, so ultimately in proxy voting, the discretion is up to the fund manager to decide how to vote the proxies.

So Western wouldn't have that discretion. At Sun Life, part of our governance work is understanding all the fund managers on our platform. What are their proxy voting policies? And we review them and compare them and look for industry best practices. And then we do have tools available to us through ISS to provide us proxy voting results where we can look at how the managers have been voting on specific issues – inline with management, against management, against what ISS recommends they should be voting - and drill down on to certain issues if we have to. We view this role for us, when we do review their policies, is to engage with managers, if necessary, to where we know there are weaknesses, or maybe inconsistencies, or areas that that wouldn't be best practices. So we have had some conversations with managers on our platform to talk to them with their policies and areas, saying, 'you know we see a lot of managers having X in your policy, and you don't exactly have that. Can you explain why and is this something you're looking at changing?' So we do view our role as a very important one to talk to fund managers. Given that we have 25 different managers on our platform, we can bring to them a lot of best practices.

Great, thanks Eric. And Tom, now we have some background from Ryan and Eric, can you share how responsible investing is currently incorporated into the Western pension plans?

Sure. Thanks, Cara. Responsible investing has been formally part of the Western Pension plans investment policy since 2007. However, the language, it's not directive. Rather, it allows managers to make all decisions and incorporate ESG as they see fit. We do have our offer stand alone socially responsible investment option. And we've been doing that since 2008. To gain exposure to that fund, members have to select it as part of their investment mix. It's not part of our more popular diversified and balanced options. Further to Eric's introduction, this fund has some screening and divestment. However, the manager makes real effective use of active ownership and engagement with the companies, and looks for ways to influence them and improve their ESG impact. We also monitor ESG as part of our due diligence process. Now this helps us identify ESG related problem areas before they escalate and see how managers are addressing these risks. It also lets managers know that ESG risk is an area focus for us, and that this alone could have a positive influence and help guide their decisions. Lastly, when we look to add new managers, new strategies, we are considering ESG strengths and ESG risk management, which should over time add value in this area.

Great. Thanks, Tom. So that helps set the stage a little bit more for us to dive a little deeper.

So let's go back to the poll and I'd ask our audience to just do a check-in on how familiar we are with the common factors behind responsible investing. These are the environmental, social and governance factors. I'm looking for you to rate your familiarity from 'not at all familiar' to 'very familiar'. Think a few more seconds here as the polls come in. It's actually a much closer race than I had anticipated from

what we're seeing so far. Great, we got a couple more coming in. So it's really quite close, actually. I was voting that environmental would win by a landslide.

But, Eric, I'm wondering if you can comment on how these responses line up against what you're seeing in your research at Sun Life in terms of plan member awareness and interest.

Yeah, and typically I would expect to see environmental as the number one issue as well. We did a similar survey, and a similar questionnaire, with about 400 of our plan members in April of 2021, and the top issue raised by them was human rights followed by a tie for second with strength of management, which is more of a G issue, and then protecting the environment which was tied for second, was third, and that's an E issue. So what we do see sometimes is that as headline in the news change, plan members awareness, or the areas in which they want to focus more or care more about, does change as well. You know, you think about April 2021 it was a bit earlier in the pandemic, there was a lot of focus on how are companies taking care of their employees and treating their stakeholders in the environment. So we do think that having a broader approach in thinking about the E, the S and the G, rather than a siloed approach via a product, makes a lot of sense. As the responses to this may change in relation to what's currently in the news. That makes a lot of sense, Eric. Thank you. And Ryan, I'm wondering what you're seeing at Mercer in terms of areas of focus or themes for engagement on ESG. Yeah, so our starting point in terms of how we bring forth our best ideas to our clients is: What are our own investment beliefs, or how do we view the world? And ultimately we approach ESG as taking a broader view of risks and opportunities. One that gives more active and formal consideration of ESG is more likely to create and preserve long term investment capital and it's really those beliefs that have kind of driven our approach to how we conduct manager research, for example. And we've been focusing on ESG in our manager research process since 2012. Now, sponsors of pension plans are in different stages of their journey to embed ESG. Some are still forming beliefs on ESG. What is it? What does it mean to their organization and the management of their pension fund? Some have established beliefs, and are now establishing policies and governance frameworks to oversee ESG. And others are further along, having established processes to implement ESG integration into fund portfolio monitoring. And they're formalizing ESG as part of how they go about selecting fund managers. You know these are the core challenges that we aim to support our clients on. While also trying to stay ahead of the curve. For example, in areas such as climate change, we focused on developing different scenario analysis tools to understand how the pathways to a lower carbon economy may take place, and not only what the physical impacts of climate change may be, but how policy and technological shifts may impact capital markets and investors. And we've also focused more on fund managers and the culture of those fund managers. So just as we can think about diversity, equity, inclusion, and in companies that a fund may invest in, we can think about those same issues when it comes to a fund manager themselves and the team that's responsible for managing assets. So we're probing into that a little bit more to understand how that dynamic influences results and process.

And Eric, I'm wondering if you can share a little bit about Sun Life's sustainability work and maybe your new evaluation framework.

Of course. Sustainability is something that's always been important to Sun Life. We have a 3 pillar plan on financial security, healthier lives and sustainable investing. And as I'm on the investment solutions team within group retirement services, we naturally focus in on the sustainable investing pillar of that. So as a result of this, we have built our own enhancement to our governance process with our own

proprietary ESG evaluation framework where we assess managers and understand how they integrate ESG. We review their policies, their resources, their process, and how they act as active owners. This has led us to launching new material to help support sponsors in this. With reporting on our opinions on fund managers, and how well they do integrate ESG. And also now launching information for plan members as well. So we have launched a new website that's available under the My Sun Life site under the resource center on sustainable investing. That will be more of an Esg: 101 type of website which will reinforce the various types of approaches, how fund managers do integrate ESG, along with some articles and resources if you are interested in learning more. So we're going to continue to grow this and expand this evaluation framework, so we can continue to provide more reporting to our clients and our plan members on how managers are integrating on ESG. Thanks, Eric. So I think what i'm hearing from both of you is that the idea of sustainability and responsible investing is a top priority both for the organization, your organizations themselves, as well as the work that you're doing and supporting clients and your product offering.

So that's good to hear that it really is broad sweeping. Tom, I'm wondering if you can touch base on what we're seeing here at Western with responsible investing. I know we're aware that our new strategic plan definitely focuses our attention here. But what actions are underway?

Sure. Speaking just on behalf of Western as the organization, sustainability is very important to Western and it's stakeholders. Some of the more formal action it has taken include: in 2016, Western signed the Paris pledge fraction to mitigate rising global temperatures; 2020 it signed a charter for Canadian universities for investing to address climate change; more recently, in 2022 Western addressed its commitments to sustainability, and it's revised strategic plan highlighting the goals to achieve net zero emissions for campus by 2050 and that work priorities are guided by the United Nations Sustainable Development Goals and the goal of being a global leader in sustainability research. Western is well on its way to achieving this goal. The Times Higher Education impact rankings published just in April, 2022, rank Western University first in Canada, third in the world among 1,500 post-secondary institutions from 110 countries, for making significant progress towards the UN Sustainable Development Goals and towards achieving a more sustainable world by 2030. Western is one of only 2 Canadian universities to place in the top 10 of this year's rankings. Responsible investing is also getting more attention on our pension side. In fact, in the spring of 2021, the academic Pension Board was contacted by a group of about 20 faculty members who were interested in learning more about ESG related work being done by the pension board. The key take away from that interaction was that plan members have a lack of awareness of how ESG is already being integrated into the pension plan, investment options are being measured and that steps should be taken to improve the communication with the plan members in this area. So that's an area our board has been focused on recently. I think it's important just to note that Western pension plans have their own governance structure separate from the university investments and operations. Western's pension boards have been delegated the responsibility of administering the pension plans. This includes making decisions about investment lineup and the extent to which ESG plays a role within the plans investment options. The boards have spent the past year focusing on reviewing and learning and are now interested in hearing more from plan members to help shape their next steps in this area. Hence the session today.

Thanks, Tom. So as the University and the pension plans are well on our way, certainly lots more to come. But we're actively engaged as an organization and again specifically today around the pension plans.

I just wanted to acknowledge that I am seeing questions come into the Q&A. When you're using Menti and you add the question to the Q&A it will disappear from your view. But that means it has been submitted, and it's been logged on my end, so please keep those questions coming. Thanks to those of you who are interacting that way. Appreciate it.

So I know we're hearing more in our community about divestment, and that this is just one of the 3 broad approaches that define contribution pension plans are taking to responsible investing. I'd like to hear a bit more about your experiences with the 3 key approaches of integration, divestment, and sustainability focused funds that Eric mentioned at the start. Where are you seeing the attention these days? And Ryan, maybe we'll start with you this time.

Thanks Cara. So I think from the perspective of a plan sponsor, you know the key concern is about providing a prudent set of investment options that can appeal to a broad range of members in the plan, and we see many plan sponsors formulating a belief that ESG issues can be, but may not always be material to investment, risk and return. And so, in recognition of this belief, plan sponsors are wanting to take steps to ensure that the fund managers that have oversight and care for the assets are accurately evaluating and trying to capture these into their process. Now, it is a complex undertaking. We've talked earlier about how ESG is a rapidly evolving concept and reporting standards and frameworks are still very much in their early stages. But I think plan sponsors have primarily focused on ESG integration. You know again, for the reasons that I previously cited. Taking the view that ESG issues are one of many investment risks that should be properly evaluated. So they're exploring things like 'how is ESG defined by the fund manager?'; 'What internal or external resources did they use to evaluate ESG?'; And 'how do their views on ESG factor into their decisions such as how they value securities, how they construct the portfolio, and how they use their rights and shareholders?'. So this has been the lion's share of activity that we've seen. Now a small proportion of pension plans do offer, or have offered, a divestment focused funds. These tend to be values-based in their approach. And historically plans have offered investment funds, or sorry rather historically plans that have offered these funds generally see low uptake by members. Now this is likely influenced by member inertia. People tend to select their investment fund options, and they may not review them or change them often. However, it is also likely that a divestment fund and the values it seeks to adhere to, may not perfectly align with the members own. And in that respect, it's challenging for plans sponsors to select and offer such funds, given the wide range of opinions on what the term entails. Now that third category of sustainability focus funds are relatively new. Now, while plans have focused on integration, we think that these types of funds will be in greater focus going forward. As these funds focus not only on the risks of mismanaged ESG issues, but also on the opportunistic, or the solution side of environmental and social challenges.

Thanks, Ryan. I'm wondering if you can talk just a little bit more about diversity, equity and inclusion in the manager research, or in the investment firms that you're evaluating, and the role that that plays.

Yeah, so we can think more generally and there's growing empirical research on, (kind of) the impact of diversity of thought and diversity of views, and that that perspective of culture can have on decision making. And so from the perspective of a fund manager, we think about the same thing. Increasingly we see fewer and fewer strategies managed by single portfolio managers. And increasingly more of a team atmosphere in terms of generating ideas and managing portfolios. And we find in in some of the research that we've conducted, is that there seems to be a correlation between (kind of) fund managers

with better diversity or better diversity of opinion. So this could be cultural, linguistic, racial, etc. And these kind of different metrics of how we look at (kind of) diversity overall seem to correlate with performance. So what we're focusing a little bit more on is how fund managers are actively managing (kind of) this part of their business. And in turn, fund managers are looking at this more in terms of the companies in which they invest. Again, if diversity of a opinion and diversity of backgrounds leads to (kind of) a more inclusive environment overall, it may lead to better, long-term strategic decisions and thinking about (kind of) the customer and the products and the services that they bring. So it's an emerging space in our manager research, but I think it's going to be a very important one going forward.

Thanks Ryan. Eric, Ryan had mentioned and offered some insight into the low take up on some of the standalone investment options, which I think is what we've experienced here in the Western plans with our socially responsible global equity fund. I'm wondering if you're seeing a similar pattern with other clients at Sun Life.

Yes, I would say our pattern and experience would. I would completely echo what Ryan had to say.

Most of the focus for our plan sponsors is very much on ESG integration. Like Ryan had mentioned earlier, you have a very wide spectrum of sponsors who are on this journey. We do have some which are very early stage, which we are explaining what ES and G mean. Why it matters? How they should think about it? Should they have a formal policy? And then we have sponsors like Western, which are much more further ahead, and have a much more formal defined process. When it comes to offering specific products in the divestment and screening categories, you know, I took a look at it and plan on member uptake is quite low. In some cases, about a third of the plan sponsors who do offer either a socially responsible investing fund or fossil fuel free fund, have 0 assets in it all together. And generally, you see between 1 and 2% of plan assets end up going into these types of funds, and usually from a member behavior perspective it's a small portion of the portfolio. We see very few members putting all their money into these types of funds. It's more of a dip your toe in the water type of approach. On the sustainability focused side of things, we are seeing more interest, more searches by plan sponsors. But it seems like at this point it's more of a due diligence, understanding what we have, what the funds offer, and considering if they should offer this to their plan members. We haven't seen a lot of uptake yet though, and adoption of adding that to the fund lineups. Though we're certainly looking at adding more funds on to our platform, and continuing the conversation with sponsors. And you know it'll be interesting to see how much this category does grow in terms of adoption by sponsors and adoption by plan members, ultimately.

Yeah, thanks Eric. It's really interesting to see the high levels of interest, but the low level of actual action and take up.

Tom, I'm wondering if you could provide more detail on Western's history, in terms of investment policy and the socially responsible global equity fund that's been available to plan members.

Sure. Historically speaking, the pension boards heard from some plan members that were interested in investing in a way that align with their values. However, the areas of interest were varied, which presented some challenges for the board. The board chose an approach that was a more broad nature, taking the following factors into account. Are they managing risk through diversification? Managing fees and recognizing that too much choice is not optimal. It can lead to a decision paralysis. The result was a single standalone, socially responsible global equity fund which has some screening and divestment, but



also an active ownership component whereby the manager engages with the companies to improve their ESG impact. Eric touched on take up and just to look at the take up of this particular fund - on the Academic board, sorry from the academic members, we've got 206 members that have an allocation to this fund. The average allocation is 24%. 30 of the 206 have about 50% or more allocated (allocation), and 11 of those 30 members have 100% allocation. On the admin side, we have a 198 members that have an allocation to the fund. Their average allocation is slightly less at 18%. 11 of those 189 have a 50% or more allocation, and only 2 of the 11 members have 100% allocation. So to summarize, around 400 members in total. And this is not really high, considering we've got something around 7,000 members. And this is in-line with what Sun Life is seeing for their other clients as Eric touched on.

Thanks, Tom. It's really interesting to see how we're mirroring what's happening in the broader environment. It does sound like we've had interest from pension plan investors to make a difference in the world by directing their investments, and although we've had this option for many years, quite modest take up so this could be a mix of awareness and inertia, and the particular fund not hitting the mark for our plan members as we talked about earlier.

I would like to go to another audience poll. So this one is to learn, have you ever selected investments based on ESG considerations? So for this one you can select up to 2 answers and our results will break down by the response to the very first question, about whether you're, about your relationship, and whether you're faculty, staff, other or unknown. Really interesting to see this coming in so very high around the awareness piece. So I think back to our own efforts as the Pension Plan administration and our work with Sun Life, seeing that that we need to continue to do more to create awareness and communicate with members about the options that are available under the plan. But we're seeing a little bit of activity in terms of choice, and so maybe some of those folks that Tom referenced of our 404 members are on our call today. And interesting to see that some folks are making these decisions outside of the plan. But we also have a good number who haven't made those decisions. I'm curious how many of those are simply not interested or are just creating and building their awareness of this at this time. So really interesting! Eric, any thoughts from you on these results?

Yeah, I'm not really surprised by them. I mean, typically when we survey plan members on a similar type question, the results are quite similar to this. One of the reasons is from our perspective at Sun Life we just haven't provided that information before to plan members. It wouldn't be available to them. We've just started now with this ESG 101 resource on the plan member website. But it doesn't go into fund specific information. We are currently looking at how we can provide this information to plan members. Over the last few months we've been engaged with the client research project to understand their attitudes around sustainable investing and starting to go into more testing different concepts, and how we can present this information to them. From our perspective we have to really be careful on how we present this information to plan members. We don't want to bias their investment decision too much.

What members should be making a decision on, you know, is based on risk, asset allocation, what's the long term performance? What are fees? Responsible investing can definitely be one of these factors, but we don't want to overly bias and influence someone. Most of our plan members do default into the default investment, whether that's a target date, target risk or balanced solution, and that's probably an appropriate investment for most plan members. It would be a pretty bad outcome if, due to responsible investing information, if they left that investment, moved all their money into an international equity

fund, for example. So, we have to be careful that we don't provide too much information to bias them. But then also give them the information that they want to make an informed investment decision.

Thanks, Eric. Yeah it's definitely clear that we need to work on creating a visibility and awareness of the options, but also trying to navigate the right detail and how to share that detail and be mindful of how members are going to use that in the investment decision making process.

Part of our engagement today is to learn about a little bit more from our members and to share with them about the monitoring that is already happening behind the scenes on the plans and the investments across the board, not only on the socially responsible fund. Tom, I'm wondering if you can speak to the manager review process that your team leads because this impacts all of the investment mandates, again, not just the socially responsible fund.

Sure, Western's in-house investment team, and I should also mention, Sun Life's team has a comprehensive monitoring process of all factors, and for all of our managers, all our investments. ESG is just one important area of focus for both teams. Western's team has historically asked questions that touched on ESG but this has evolved into a more in depth and a more formal process. The first phase of the formalization involved a dedicated ESG questionnaire that we would send out in advance of our due diligence meetings. This has since evolved into an even more comprehensive survey that we hope to be delivering through an online survey. The advantage here is that, as we expand our questions, we need a more effective way to manage the data and help our small investment team gain insight, and identify areas of concern more efficiently.

And Tom, I think we started to share a bit more information this past year. When we released our Annual Investment Commentary on the plans we added a section on responsible investing for the first time. So I'm gathering that that's likely to be an ongoing area that we can continue to engage in and disclosed to the Board as these activities evolve. But those overreaching comments that are in that Annual Investment Commentary are partly driven from this due diligence work that your team does through these investment questionnaires. And so I think they, the questionnaires get a sort of broad policy beliefs, and resources, processes that the firms are using.

I'm wondering if you can share one of the more specific questions that you ask in the questionnaires, and maybe give some insight as to why it's being asked.

Yeah, a specific question we ask is for managers to essentially give us proof. So we ask them if they have not made an investment in a company you know, to explain why. And if they've you know reduced their weight, just to give some explanation behind it. So that's I think primarily you know the question, that I think is most relevant. The responses to the to these questions are insightful, because it signals you know whether and how they are actually applying the policy and process when it comes to making these decisions.

Thanks, Tom. Ryan, your team also supports Westerns Joint Pension Board with ESG research and ratings information. Can you share a bit more about Mercer's bandwidth and approach to this.

Yeah. So we have a global team of 233 manager researchers. And so they live and breathe investment manager research, and it's their job to meet with the teams to review kind of philosophy, process, and then kind of execution and implementation. And so, since 2012, and indeed, before that, our approach to manager research has given more kind of explicit consideration to ESG. So in certain asset classes,

mainly those that are less liquid or long horizon type investments, a view on how a manager captures and manages ESG issues is integral to our overall view, and level of conviction in the manager. We're really focused on kind of determining the consistency and the repeatability of a manager's process, and that culminates in a rating as well as a due diligence note that we provide to our clients to help support their own internal processes. So we focus on a mix of qualitative and quantitative data to understand kind of how managers are capturing and reflecting ESG in their process. Now there are some third party ratings that are available, but there's quite a bit of divergence in terms of the rating methodologies that some of these firms employ. And so, while we may look at that type of information to support engagement and discussions with managers, it's not the be all end all and it's not kind of a core component of our overall view of a fund manager.

Thanks, Ryan. And Eric, I know your team is also evaluating against ESG criteria. So I'm wondering if you can speak to Sun Life's ratings process for evaluating the investments that are on your platform.

Yeah. So our job is to monitor and provide and do governance on all the fund managers on our core investment platform that we offer to our clients. Part of this work has historically always been understanding the people, the philosophy, the process, and obviously the performance of the funds. Part of this and as part of this review we'd always collected information on ESG and part of our manager meetings, when we sat down with the managers, we had always talked about it we would never really formalize it as part of our governance process until a few years ago. So in 2020 we did launch our own proprietary ESG evaluation framework, which I briefly mentioned earlier, where we look at the firm's, policies, their investment process and their ownership activities and we have a number of subcategories under those 3 main headings that we evaluate all the fund managers on our core investment platform. We do this to identify who we think are the leaders in ESG integration who are the firms who are developing quite a bit and provide commentary to our clients on this. We do also play an active role in engaging with the managers on our platform. Because we do have 25 different managers and about 140 funds we do see a wide variety of approaches and skills and abilities, and people on, and fund managers on their own journey. So we do also, when we get this information, we come up with our own internal score and we do notice areas of weakness. We can and we have engaged with some of the managers as well, and saying, "You know we think you're a little bit weak on area X. What are you doing to improve this as well?" So it is something that we are looking at building and growing and continuing with. We did launch it in 2020; This year we'll be enhancing it to include climate risk analysis. So we have sent out a questionnaire to all of our managers to get their responses of understanding how they're looking at climate risk in terms of their investment process. And ESG has really turned to something where now it is part of all, it's always been part of our questionnaires we've sent out, now it's a standing item on all the manager meetings, where we probably spend a good portion of all the time meeting when we do meet with them, understanding how they're improving what they're doing, what is new, and really being a focal point of all the conversations that we do have.

Okay, so, what I'm hearing is that there isn't just one tidy source of information lots of different rating systems, different criteria, different results and even for the same investment. So I think it's important that the pension boards are supported by this variety of research to help them with their decisions. Although it sounds like it may lead to more questions rather than answers. But I think, as you said, this is still new and evolving so there's maybe some sense of hope that ESG reporting and monitoring will continue to move more from niche to mainstream and that the information and I guess the reporting will become more transparent and more readily available.

I'd like to go back to the polls. I'm curious to hear from our audience about their priority between the environmental, social, and governance areas. So you can rank these in order of importance to you using the dropdown menu on your screen. As you select your first choice you'll have a box that will open for your second and third. And so far we're still seeing environment at the top; give just a few more seconds here for votes to roll in. We're still seeing the environmental at the top of the list, and I can't help but wonder if that's partly due to the longevity of environmental being on our radar and the visibility that it's had but happy to see some interest across the board. I think it's probably reflective of the broader social consciousness and holding businesses accountable in a variety of ways.

Ryan do you want to share about some of the trends or themes that you're seeing?

Yeah, I think we can think about some of the issues and events that have taken place over the last few years, and I think you know, draws nice parallels in terms of what we're seeing a focus on. So I think, in the case of COVID what we've experienced is a few different things. So one, the trend of kind of tele-health and virtual care. Some of the kind of trends that ESG-focused investors had been focused on for quite some time and kind of what impact that's going to be on kind of traditional brick and mortar businesses. But also, I think, COVID made companies acutely aware of their dependence, and in some cases the fragility of their supply chains. And so I think, from the perspective of ESG-focused investors supply chain has been a key focus for quite some time in particular concerns about potential human rights abuses and labor conditions. And so I think the kind of stresses placed on supply chains have focused investors more on how are companies managing these issues. And indeed, we're seeing companies that have better management of this this element outperforming their peers. You know, the Russian invasion of the Ukraine, again geopolitical issues, but from the perspective of an ESG-focused investor it has brought to bear kind of some important considerations. So, of course, investors are thinking about country specific exposures, and wanting to avoid exposure to you know Russia, for example. For some it's raised the issue of kind of potential exposure to controversial weapons. And then I think, given the impact that the current war is having on commodity markets, in particular, it is kind of an interesting issue from an ESG perspective given that sectors, like defense and energy, are increasingly seen as kind of key sectors for domestic security reasons. So energy and food price shocks raise questions about what that's going to mean for markets overall and managing many short-term stresses on those elements, while at the same time thinking about longer term transitions to a lower carbon economy, for example. So, while issues like rising energy prices may in some cases expedite the transition to a greener economy in particular in areas such as Europe, it's also calling upon kind of, you know, potential increased needs for domestic energy production. And with that I think investors are focused on kind of not only near-term production, but also still on their longer-term focus on transitioning and managing the risks brought forth by climate change.

Thanks Ryan. Yeah it's interesting, and scary, I think, to see all the real-world real-time examples that we have of how these E, S and G factors are filtering through the markets, and our day to day lives.

Tom, I'm wondering if you can explain how the pension oversight fits within the University's governance structure. I know you touched a little bit on this earlier.

Yeah, sure. The Western pension boards are subcommittees of the University's Board of Governors. They are fiduciaries tasked with acting in the best interest of plan members and have the goal of prioritizing the opportunity for plan members to save adequately to meet their retirement needs; so this is separate from the University's goals and associated initiatives. There is some overlap about the

operational level, in particular, in the area of investments. The University's Operating and Endowment investments and the Western pension plans use the same investment team, the same external investment consultants, and in some cases have the same investments. So the manager selection and due diligence process are aligned and so is the belief that ESG is an elevated risk factor that needs to be managed.

Thanks, Tom. So we've heard about where the Western pension plans are currently with respect to responsible investing and part of the purpose of the panel discussion today is to learn more from our plan members about their interest in this area when it comes to investing their Western pension savings. So, I'm going to go back to another polling question here. So for this one the question is "To me, responsible investing within the Western pension plans is...", and to rate very important, important, or not important, or unsure how I feel. And we're seeing those coming in. So some degree of importance, so far, for most of the folks on the line with us, and we've got a few people who aren't quite sure yet, and we've got someone who's indicated not important at all for them. So this is helpful. Good to see some engagement. And again, I think maybe not surprising that this session would attract folks who maybe have a keener interest in seeing this.

So going to our next question. The next few questions actually are going to focus our attention on a number of statements about whether or how to approach ESG in the Western pension plans. So you can indicate whether you strongly disagree up to strongly agree, or somewhere in the middle. If you're completely neutral and have no preference, you can choose number 3. This first one is, I prefer ESG to be integrated across all investment options in the Western pension plans. Again, this would take it out of the control or hands of a member to make a decision for a particular fund, and it would apply a process across all the investment options. Just give us a few more seconds here for the last votes. So we're seeing just on the "agree" side of neutral for integration, which would be across the board, and we'll move on to our next statement. I prefer an option to choose a fund that avoids certain sectors. As a reminder, this would align with a divestment approach where you avoid whatever it is that's been identified as undesirable. This would be similar to the approach taken with our Socially Responsible Global Equity Fund; that has some divestment of assets. And seeing a little bit more favorable here for people to have an option rather than it be fully integrated, and apply across the board. And just give another second here for any last votes and we'll go to our next question. So this one is, I prefer an option to choose a fund that invests in companies making a positive contribution towards sustainable development goals. So again, this would require the active choice of a member but would give the option, and it would align with the option we heard about of sustainability focused funds that's actively choosing to invest in companies that are making a positive contribution to sustainability. And interesting, we're seeing even stronger support for this more proactive approach to where people would want to direct their money. Great thanks for that. And we've got one more here the last option is that you don't feel this should be a consideration in the choice or approach of managing the investments within the Western pension plan. I think, as we have more options for saving and investing outside of the plan, members may feel that either they can access options that better align to their preferences, or that this simply isn't an area that they want to consider when it comes to their investment decisions so we're down on the other side of the spectrum here with strongly disagree. But clearly we're not right at the line. So we do have some folks kind of looking to see that this is not something that's being mandated through their plan. So thanks for these opinions we appreciate you weighing in.

Eric, what have you seen in terms of these priorities with other similar pension plans in Canada?

Yeah, I think we've seen similar thoughts and comments from plan members as well. If I think about that first question that you asked, we asked a very similar one in our survey that we did, and 78% of plan members said they were interested or somewhat interested in responsible investing. The one wrinkle that, I wonder if it would change any of these results, is if you added a question around performance on this because in our survey 80% of plan members said they would want to invest more sustainably as long as it didn't come into an impact to their performance and we have seen some deviations here. If you look at divestment style funds, because you are excluding things, especially in Canada, where oil and gas does represent a large portion of our index, you can go through periods, of time in which divestment style of funds have dramatically underperformed or out-performed; sustainability-focused funds we don't really know yet because there's not a lot of history on the long-term performance of that. But with ESG integration, you know Ryan's mentioned a little bit already, we have seen there's a lot of evidence and research to suggest that ESG integration and following that investment approach, will lead to better, long-term results. Whether that's less risk or higher returns if you think about it you're evaluating more information taking more in, and then better able to manage that downside risk. This is the information we're bringing to plan sponsors and a lot of them do agree with that, then saying performance is important to our plan members. Ultimately, that is the job of our retirement savings plan is to provide for people and set them up to have a retirement income. So we have to make sure that we are investing responsibly, but not at the sacrifice of performance. So integration is, is still for us, clearly the most common approach, that once we layer on the conversation around what does this mean for performance of the funds that are available to plan members it does really free focus back on to ESG integration for plan sponsors.

Thanks, Eric; and Ryan I'm wondering If there are other countries who are ahead of us in this area. Are there folks that we're learning from?

Yeah, I think the history of ESG and responsible investing is longest in Europe, the United Kingdom, as well as Australia. They've generally had about kind of a 10-year head start over us in terms of what we've seen in terms of market adoption and the formalization of ESG by plan sponsors. So in some of those markets, you see plan sponsors kind of moving the needle forward and thinking about kind of not only ESG as it relates to kind of manager reporting requirements, and how they go about selecting managers but ESG is starting to factor into decisions around asset allocation, for example, and the design of default funds, or diversified funds. So, trying to take that view one step forward on topics such as climate change and thinking about what a transition to a low carbon economy may necessitate in terms in terms of portfolio construction. So that's kind of the leading edge that we're seeing in Europe at this time. A little bit of a different regulatory environment over there but we definitely take our cues from those markets when we think about where the market may head.

Thanks Ryan. And I'm just keeping an eye on the time. We've got lots of questions in the Q & A so I want the audience to know that we'll take those away and work on how we can communicate on those areas that are top of mind for you. [see Q&A file for these details]

I would like to just wrap up and turn it back over to our panel. And I'm wondering if we have some very quick comments to close out. Eric, why don't we start with you super quick.

Sure, so I think it's been great to be here today to speak with everyone. It's such a rapidly evolving space and seeing where this is going to go it's going to be incredibly exciting over the next 5 to 10 years. As Ryan mentioned, we can look to Europe and the UK and see where they're at, and kind of chart the path

forward for Canada. Looking at what disclosure and regulations will come out, what information we'll get as Sun Life, what information we can pass on to plan sponsors and plan members. There's going to be a lot coming in that's going to be quite exciting over the next 5 to 10 years.

Thanks, Eric. And Ryan.

Yeah it's a it's a complex issue, as I think we've learned today. From the plan sponsor perspective, it's really about you know how to best manage the plan to account for ESG risks and opportunities while at the same time staying, focused on optimizing outcomes for the participant. And so there's a lot to focus on when it comes to ESG: but it's one factor among many others that need to be considered when kind of delivering and overseeing the plan.

Thanks Ryan. And Tom. I know we'll be taking all of the information gathered today and working to support our pension boards with their next steps. So our journey will continue to evolve that work.

My great thanks to Ryan and Eric and Tom for their knowledge sharing today, and to our entire audience for your engagement and participation.

I do see great questions that have come up and feedback, which will really help to frame the work that the Pension Boards have ahead of them. So I thank you for that.

In terms of a couple of items on next steps: We have mentioned, Eric mentioned a couple of times, that we've released a new page through your plan member site on Sun Life, so you can log in and select in the Resources menu Sustainable investing. And we'll continue to evolve this it really is a 101 at the moment, but an important start. And then in the fall we're expecting to add commentary on responsible investing to the Morningstar Fund Sheets that you're also able to access from your Sun Life account. We're also going to be launching a survey; Sun Life will be launching that on our behalf, I'm anticipating later this month, so we can hear further from you but also from any of our plan members who weren't able to join us today; we want to make sure they aren't left out of the conversation. And then of course all of this goes back to the Joint Pension Board for them to continue their work and determining how best this fits in with their mandate and creating value for your own retirement savings.

Thanks everyone for your time and attention today; I have appreciated it. I wish everyone a great afternoon. Thank you.