



Responsible Investing Guidelines

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Introduction

As a steward of our clients' capital, Vestcor has a fiduciary responsibility to make investment decisions according to client guidelines and objectives.

While an investor's fiduciary responsibility is typically thought of as making investment decisions to maximize the highest possible risk adjusted return, Vestcor feels that as a long-term investor it is important to explicitly recognize environmental, social, and governance (ESG) issues as part of our investment process.

This document outlines the framework used by Vestcor, under the direction of our Responsible Investment Committee, for incorporating principles around ESG information and investor stewardship in the management of investment portfolios on behalf of clients. It describes the general principles used by Vestcor and will be updated periodically as conditions warrant.

These guidelines include information concerning our core principles, objectives, and approach to responsible investing. In all cases, these guidelines are implemented with consideration of the following two objectives that form the basis of the investment policies and procedures for our client's funds under management:

- Maximize risk adjusted long-term investment returns, and
- Protect accumulated assets.

Core Principles

Vestcor holds the following core principles in implementing our responsible investing framework on behalf of our clients:

1. Incorporation of ESG Information in the Investment Process – Vestcor incorporates Environmental, Social, and Governance information within its investment processes as a tool to manage risks and improve the investment decision making process.
2. Active Ownership and Engagement – Vestcor pursues an agenda of active ownership through the voting of proxies for public market equity holdings, the participation on Advisory Boards for private assets, and in certain cases through a course of direct engagement with portfolio companies (and industry groups) either directly or via industry peer group relationships such as PIAC or the CCGG.
3. Transparency – Vestcor provides transparency on both our ESG engagement and proxy voting approach through these guidelines. More detailed information on these elements is proactively made available to clients and stakeholders.

Objectives

As a long-term investor across many asset classes and markets, Vestcor is committed to an approach that maximizes long term value for the ultimate benefit to our funds under management. As such, the use of Environmental, Social and Governance (ESG) information serves an important role in the management of portfolios to better assist investment staff in identifying investment opportunities and in the management of both short-term and long-term investment risks. In particular, understanding of the risks around carbon exposure within our investment portfolio will assist in managing risks around a global energy transition, while strong corporate governance is well recognized as contributing to better corporate performance from a variety of perspectives and therefore long-term investment returns.

This interest is shared across several peer institutional pension fund managers and is manifested in several industry groups and associations as outlined in the Reference Section of this document. Vestcor has been and remains an active member in both the Pension Investment Association of Canada (PIAC)¹ and the Canadian Coalition for Good Governance (CCGG)², including endorsing the CCGG Stewardship Principles³. These organizations provide an excellent platform for us to be able to collaborate with other peer institutions and to actively engage in investee companies. They also act as an excellent resource in helping develop best practice governance guidelines and are utilized by Vestcor to help with our activities and direction in implementing our Responsible Investing Guidelines.

¹ www.piacweb.org/home.html

² www.ccg.ca/

³ ccgg.ca/stewardship-principles-endorsers/

Vestcor's Approach to Responsible Investing

Vestcor manages client portfolios with the objectives to:

- Maximize risk adjusted long-term investment returns, and
- Protect accumulated assets.

As such, Vestcor's approach to Responsible Investing is intended to better facilitate our understanding of the investment environment, including both opportunities and risks faced in the process of making investment decisions and managing portfolios. Vestcor's approach to responsible investing therefore focuses on:

- Active ownership and shareholder engagement to promote effective corporate governance and industry best practices with respect to disclosure.
- Incorporation of ESG information in order to make more informed investment management decisions and to better manage both short-term and long-term investment portfolio risks.
- Transparency and reporting of responsible investing activities.

Active Ownership and Proxy Voting

Proxy voting is the most prominent means through which an investor can participate in the corporate governance process. Active shareholder engagement allows investors to encourage companies to adopt strong governance practices that facilitate a long-term, sustainable approach to value creation and risk management. Vestcor believes that strong corporate governance results in improved long-term outcomes for investors and other stakeholders, and therefore uses the proxy voting process to promote strong governance at all companies in which we are an investor and have the ability to vote proxies. Vestcor uses Glass-Lewis as a service provider to its proxy voting process.

Vestcor invests in financial securities by three means:

- Directly held shares,
- Derivative contracts, and
- Via external managers.

The proxy process for each of these – in addition to methods specific to private market investments - is outlined below.

Directly Held Shares

For directly held shares, Vestcor votes all shares proxies after consideration of the specific merits of each issue. The principles that guide decision making in specific proxy voting situations are described below in the "Proxy Voting Guidelines" section of this document. These guidelines are intended to be prescriptive and applied globally but are subject to interpretation to ensure consistency of individual proxy voting results with Vestcor's *Responsible Investing Guidelines*.

Derivative Based Exposure

While derivative-based exposure, in certain circumstances, provides for a cost-efficient means of gaining exposure to various markets, it unfortunately does not provide for the ability for Vestcor to vote proxies of underlying securities. The physical securities are typically held by the counterparty to the derivative transaction.

Through discussions with several of our derivative counterparties we have found that they typically do not play an active role in the proxy process and therefore take a neutral stance by abstaining from the voting process. That being said, Vestcor may look to consult with our counterparties from time to time to make sure they are fully aware and have plans to act with respect to any potentially contentious proxy issues that may arise.

External Managers

Vestcor utilizes the services of external managers for specific limited mandates. In these cases, Vestcor will actively review and discuss the manager's proxy voting process during the initial due diligence process before a manager is retained.

Where appropriate, Vestcor also requires external managers to submit its proxy voting history to us on an annual basis which is subsequently reviewed by Vestcor management (the President or Designate).

In specific circumstances Vestcor also reserves the right to discuss our view on a particular proxy related issue with an external manager in advance of a voting deadline. In addition, Vestcor management meets with each external manager at a minimum on an annual basis. These meetings provide an opportunity for Vestcor to discuss proxy voting issues with the manager.

Private Equity and Real Assets

Investments in private equity and private real assets generally take the form of either limited partnership interests in funds managed by third party general partners, co-investments or as direct investments.

Investment decisions within a limited partnership are made by fund managers. As such, Vestcor does not have input into the investment decision making, but rather, selects the underlying manager. As part of our manager selection process, we gather specific information from managers on their responsible investing processes and related record. This is one of the elements that we will consider, amongst others, prior to making a commitment to a limited partnership.

Following our commitment, we monitor investment activity closely through quarterly and annual reporting, periodic manager meetings, participation at fund annual general meetings and in some cases participation on fund advisory boards. As part of our monitoring practice, we review managers' investment decision making process and related reporting on environmental, social and governance issues and will focus our discussions with managers on such issues when we feel the situation is warranted.

Co-Investments generally follow the same approach as investments in limited partnerships. The primary difference is that we have visibility into the underlying investment immediately. We are generally not involved in the management of the underlying business but monitor the activities of the managing partner closely to ensure environmental, social and governance issues are appropriately managed.

In the case of direct investments, we have a greater influence on the practices of the underlying business and exercise this role via active participation in board and committee processes.

Proxy Voting Guidelines

The following guidelines are used by Vestcor in voting shareholder proxies for publicly traded equities for which Vestcor has a direct ownership interest. These are intended to be Principles as opposed to rigid rules and are also intended to apply on a firm wide basis wherever possible.

That being said, there will arise from time-to-time situations in which such guidelines may not adequately handle specific matters that arise in the governance of certain firms. We encourage feedback from any company management or related director on these matters as it relates to application of our voting policy via the email address proxyvoting@vestcor.org.

Principles

While Vestcor uses Glass Lewis as a proxy voting advisor, it is always the case that proxies are voted in a manner that is intended to be broadly consistent with the following principles:

1. Equal treatment (e.g. voting rights, attributes, and information disclosures) for all shareholders,
2. Effective independent best practice governance and disclosure practices.
3. A long-term value creation and sustainability focus.

Effective Governance

Proxy voting is the primary means through which shareholders can express views on the management of the firm. Proxy voting is not, however, a vehicle for shareholders to exercise direct control over company operations. Vestcor supports resolutions that enable a strong and independent board of directors to exercise control over the management of the firm and act in the firm's best interests. Vestcor generally supports proposals for greater board independence.

Long-Term Focus

Vestcor's clients are typically long-term, multi-generational pools of capital. Consequently, Vestcor takes a very long-term perspective in the management of client portfolios and in making any specific investment decision or portfolio allocation. As such, Vestcor does not automatically adversely react to situations from companies that make individual decisions that are not completely in agreement with our Responsible Investing Guidelines, but instead we seek to exercise proxy voting rights and active ownership to ensure our voice is heard to maintain focus on long-term value creation.

Sustainability

Companies that perform better on various ESG metrics are – all else equal – likely to be better value creators and consequently less risky in the long run. Vestcor uses ESG information from a variety of industry related service providers to enable all Vestcor portfolio managers and analysts to make informed decisions as to the long-term risks and potential rewards of any investment.

Consideration of Shareholder Proposals

Vestcor will consider Shareholder Proposals where appropriate in the context of these guidelines and will usually also engage with and consider the positions of other like-minded long-term focus pools of capital (such as other pension funds or endowments), in particular around issues related to greater disclosure on environment and social issues.

Direct Communication and Active Dialogue

In certain cases, Vestcor may also seek to – individually or jointly with industry peers – communicate directly with portfolio companies or with industry groups and associations that have influence over the corporate governance procedures of companies. Vestcor has historically been and continues to be an

active member of such groups as the Canadian Coalition for Good Governance (“CCGG”) and the Pension Investment Association of Canada (“PIAC”), both of which serve essential roles in encouraging strong governance practices among companies. Nonetheless, our active membership and participation in these organizations does not limit us from a more direct engagement process such as a submission of a formal letter or request, requesting a meeting with company management, or filing a shareholder resolution.

Integration of ESG Criteria in Investment Decision Making

As mentioned in the Introduction, the investment policies for our funds under management outline two main objectives:

- Maximize risk-adjusted long-term investment returns, and
- Protect accumulated assets.

This means that Vestcor portfolios are not managed with a view toward enacting social change, as in most cases we believe that the laws and regulatory agencies of the specific countries in which we invest are the most adept to deal with social issues within those countries. However, Vestcor does believe that responsible corporate behavior is related to both good long-term corporate performance and overall sustainability, and therefore Vestcor actively makes use of information related to environmental, social and particularly governance quality in the management of all internally managed portfolios.

In general, all Vestcor's internal investment staff have access to and make use of a variety of ESG data sources from multiple providers to supplement their own due diligence in the management and monitoring of portfolios and during the investment decision making process. Such information, particularly as it pertains to governance quality and environmental risks, are embedded in the process at the discretion of Portfolio Managers and Analysts to allow the strategy to achieve its goals of maximizing risk adjusted returns and protecting accumulated assets. While the ultimate inclusion of ESG information will vary from asset class to asset class, each internal investment team will report to the Responsible Investing Committee on at least an annual basis as to the use of such ESG information in the management of all the team's internally managed strategies during the year.

Transparency and Reporting

- Vestcor recognizes the importance of transparency in the Responsible Investing process.
- Investment teams report to the Responsible Investing Committee on at least an annual basis on the use of ESG related information in the application of Vestcor's Responsible Investing Principles in the portfolio management process during the year.
- The Responsible Investing Committee then reports to Management on a total portfolio basis all activities related to Responsible Investing during the year.
- This committee report will be used to provide both Board and client reporting at year end.
- While Vestcor does not publish the entirety of its Proxy Voting record publicly, this information is provided to Management, the Board and to Stakeholders who request such information at least annually.

Vestcor Roles and Responsibilities

Board of Directors

The Board of Directors is required to approve and oversee the Responsible Investing Guidelines.

Management

Management ensures that the guidelines approved by the Board of Directors are implemented and managed, and that all required systems and procedures necessary to implement the guidelines are available to staff.

Responsible Investment Committee

The Responsible Investing Committee meets at least annually under the direction of the Chief Investment Officer and has a mandate to review all activities related to responsible investment, including by (but not limited to) receiving a report from each investment team summarizing how ESG considerations were considered within the management of portfolios during the period under review. The committee will also review ESG data sources for applicability to Vestcor's investment process and make recommendations to Management when new systems or data are required for the implementation and management of the Responsible Investing Guidelines.

Investment Staff

To comply with this document, the Vestcor Investment Team will actively use ESG information to manage risk more effectively within investment decisions and the portfolio management process. Internal investment teams (Equity, Fixed Income, Real Assets and Quantitative Investing) will report to the Responsible Investing Committee on at least an annual basis the use of ESG related information within the management of the teams' portfolios during the year.

Board Support Services and Stakeholder Relations

These Vestcor Teams act as an intermediary between our various client and stakeholder groups, and the Vestcor Responsible Investment Committee with respect to ESG related inquiries and communications.

Client Specific Applications

While this document outlines Vestcor's approach to Responsible Investing, it is possible that specific stakeholder or client groups may wish to pursue an alternative approach (either via customized implementation of specific areas of the policy or through the development of an entirely unique approach).

In such situations, Vestcor will attempt to collaborate with the client in the development and implementation of the approach, although the direct and indirect costs of such a strategy will need to be undertaken entirely by the client requesting the modified approach.

Other Considerations

As identified earlier, these guidelines have been prepared based on our understanding of best practices in the institutional investment management industry and we feel that this approach of active shareholder engagement will lead to better long term ESG outcomes for both our client portfolios and more wide-ranging general global sustainability initiatives.

Appendix: CCGG's Seven Stewardship Principles

Institutional investors are encouraged to apply the following stewardship principles: ⁴

Principle 1 – Develop an approach to stewardship

Principle 2 – Monitor companies

Principle 3 – Report on voting activities

Principle 4 – Engage with companies

Principle 5 – Collaborate with other institutional investors

Principle 6 – Work with policy makers

Principle 7 – Focus on long-term sustainable value

⁴ cgg.ca/download/4066/

References

Active Vestcor Membership

Pension Investment Association of Canada (PIAC) www.piacweb.org/home.html

Canadian Coalition for Good Governance (CCGG) www.ccg.ca

Institutional Limited Partners Association (ILPA) connect.ilpa.org/home

Other Institutional Resources

Council of Institutional Investors www.cii.org

Task Force on Climate-related Financial Disclosures (TCFD) www.fsb-tcfd.org

Focusing Capital on the Long Term (FCLTGlobal) www.fcltglobal.org