

Responsible Investment Process Guidance

1. General

Responsible Investment (“RI”) is now a standard practice for pension plans throughout the world. The Pension Plan of the United Church of Canada’s (the “Plan”) approach to RI is aligned with the the United Church’s overarching RI Guiding Principles and the Plan’s Statement of Beliefs and Guiding Principles.

The Pension Plan’s RI Policy is articulated in its Statement of Investment Policies and Procedures (“SIPP”). The SIPP specifies in Section 11 that:

“The Pension Board’s approach to RI includes the integration of environmental, social and governance (ESG) factors, engagement, proxy voting and specified exclusions.”

It should be noted that the application of the RI Policy will vary depending on a number of considerations such as the anticipated impact on investment quality, yield and diversification, and cost to the Fund. However, one of Plan’s Beliefs and Guiding Principles states that RI actions can advance the values expressed by the church and church partners while generating good financial returns.

Where the Plan’s stakeholders have ESG-related concerns regarding specific companies or industries, such concerns can be addressed to the Executive Officer, Ministry and Employment or the Chair of the Pension Board. It will be determined whether these concerns relate specifically to any of the Fund’s holdings and whether these concerns have already been identified.

This process document outlines the approach taken to implement each of the key aspects of the Plan’s RI Policy; ESG Integration, Engagement, Proxy Voting and Exclusions.

2. ESG Integration

Within the scope of fiduciary obligations to plan members, investment in entities which embrace and demonstrate responsible ESG practices will be taken into consideration. In accordance with the Plan’s SIPP, each Investment Manager is expected to incorporate ESG considerations into their investment process.

The Plan evaluates the integration of ESG of its Investment Managers using annual questionnaires, and by reviewing UN PRI assessments and ongoing engagement activities. Evaluations, including recommendations for action, are completed by staff and reported to the Investment Committee. Where the Investment Committee deem efforts to be insufficient, it will request staff to engage with the Investment Manager to encourage better ESG integration in the investment process. A persistent deficient level of ESG integration can lead to the termination of an Investment Manager. The Investment Committee will report on level of ESG integration in its quarterly reports to the Pension Board.

3. Engagement

The United Church’s RI Guiding Principles and the Plan’s Statement of Beliefs and Guiding Principles mention engagement as important method to be active stewards of contributors’ capital. The Pension Board takes this commitment seriously and will encourage invested companies to improve their practices in areas that reduce investment risk and align with church beliefs. Engagements are conducted by a service provider and may be done directly or in co-operation with other investors. Annually, the service provider provides an engagement plan that is reviewed by the

Investment Committee and then forwarded to the Pension Board for approval. Staff will then approve engagements in line with the annual plan. Staff will report to the Investment Committee and Pension Board on engagement activities quarterly.

4. Proxy Voting

The Pension Board views proxy voting to be an important component of Responsible Investment and the Proxy Voting Approach is set out in the SIPP (Section 10). Proxy voting can be an integral part of engagement with corporations, and voting can encourage enhanced transparency and management of ESG issues. When engagement has not been successful, the fund may sponsor or co-sponsor shareholder proposals if the proposal addresses a material weakness in the corporation's ESG performance and this weakness is a significant concern based on the values expressed by the church or its partners. Staff will approve filing of shareholder proposals in these circumstances.

The Plan uses a proxy voting service provider to vote shares held in separate accounts but not in pooled funds. The Investment Committee will review the voting policy of the service provider and then forward to the Pension Board for approval. Where there are deviations, staff will instruct the service provider how to over-ride any deviations. The Investment Committee will review the quarterly voting reports provided by the voting service provider to evaluate completeness and quality of the service.

In the case of investment in pooled funds or other partnership interests, the Proxy Voting approach is not enforceable. However, staff will review quarterly the voting record of the pooled fund investment manager and report any material deviations to the voting policy to the Investment Committee.

The Investment Committee will report quarterly to the Pension Board on proxy voting activity noting any deviations and any filed shareholder proposals.

5. Exclusions

The United Church has identified several business activities that are considered inconsistent with United Church values. Securities of companies engaged in these areas have been excluded as candidates for investment. These exclusions are outlined as follows:

- A. Investments shall not knowingly be made in any company or entity that derives 10% or more of its annual revenues from the following areas of activity:

Tobacco:

- i. the manufacture of tobacco products including cigarettes, cigars, chewing tobacco or smokeless tobacco;
- ii. the supply of tobacco-related products or services, including those that facilitate the consumption of tobacco, such as pipes, or specialized materials.

Gambling:

- i. the operation and/or ownership of gambling establishments including casinos, racetracks, off-track betting parlors and other gambling and betting enterprises;
- ii. the manufacture of specialized equipment, or supporting products and services used exclusively for gambling.

Adult Entertainment:

- i. the production of adult entertainment including media and/or the ownership/operation of adult entertainment establishments.

Antipersonnel weapons:

- i. the manufacture of key and dedicated components for anti personnel mines;
 - ii. the manufacture of small arms including "assault-type" automatic and semiautomatic weapons, firearms, etc., and/or their key components;
 - iii. military weapon systems and/or tailor-made components of these weapons including
 - bombs, missiles, armaments, ammunition, grenades, warheads, etc.;
 - offensive weapon systems, such as tanks and other assault vehicles;
 - iv. tailor-made products and/or services that support military weapon systems;
 - v. non-weapon related tailor-made products and/or services provided to the military industry including:
 - technology and networks systems designed to facilitate mass- personal surveillance tailored for government or military use, including products that facilitate identity management or, biometric identification solutions for defence applications.
- B. Investments shall not knowingly be made in any company or entity that derives 25% or more of its annual revenues from the following areas of activity:
- i. the distribution and/or retail sale of tobacco products;
 - ii. the distribution of adult entertainment materials;
 - iii. the distribution and/or retail sale of small arms and/or key components.
- C. Commingled public equity and real estate funds are exempt from the above restrictions if specifically authorized and the aggregate exposure of companies otherwise prohibited does not exceed 10% of the value of the fund.
- D. Commingled private equity pools are exempt subject to periodic reporting of any investment in the above specified industries.

Compliance with these exclusions shall be the responsibility of the Investment Manager. Quarterly compliance reporting is required from all Investment Managers, except for private equity or real estate pools. Staff will review and any deviations to the exclusion policy will be reported to the Investment Committee.

6. Summary of Responsibilities

Staff

- Evaluate Investment Manager (IM) questionnaires and report to Investment Committee
- Approve engagements in line with engagement plan and report to Investment Committee and Pension Board
- Review quarterly voting record of pooled fund IM and report any material deviations to the voting policy to the Investment Committee
- Review exclusion deviations from IM quarterly compliance and report to the Investment Committee

Investment Committee

- Review results of IM questionnaires and any staff recommendations
- Review annual engagement plan
- Review engagement activities reported by staff
- Review voting policy of proxy voting service provider
- Review proxy votes executed quarterly for separate accounts and pooled fund deviations
- Review any deviations to the exclusion policy from IM quarterly compliance
- Report quarterly to the Pension Board on ESG integration of IMs, engagement activities and proxy voting results

Pension Board

- Respond to any raised concerns on specific companies or industries
- Approve annual engagement plan
- Approve annual proxy voting policy of service provider
- Review engagement activities reported by staff
- Review quarterly report from Investment Committee on ESG integration of IMs, engagement activities and proxy voting results