

Minutes of the Finance, Audit, and Risk Committee Meeting

February 24, 2022 3:00pm – 5:00pm (ET) | Virtual

Committee members in attendance	
Nancy Hill, Chair Maxime Belletête Victor Benz	Danny Chui (ex-officio) Steve Vieweg Chris Zinck
Regrets	
J. Malone, RBC PH&N Investment Counsel	
Presenter	
Zdravko Kukolic, RBC PH&N Investment Counsel	
Staff and support	
Roseanne Gauthier Gerard McDonald Derek Menard	Mélanie Ouellette Heidi Theelen

1. Call to order and approval of agenda

N. Hill, FAR Committee Chair, welcomed all participants and reminded the committee members of the new Board document platform application and some of the uses, after which she called the meeting to order at 3:02pm (ET).

Moved and seconded

THAT the agenda be approved.

Carried

2. Last meeting review

a) Approval of minutes

The minutes were pre-circulated. No feedback or comments were received.

Moved and seconded

THAT the minutes from December 14, 2021 be approved.

Carried

b) Review of action table

The action table was reviewed.

3. Review of annual and Q4 investment performance reports

D. Menard introduced Z. Kukolic, the RBC PH&N Investment Counsel, substituting J. Malone who is unable to attend the committee meeting.

Z. Kukolic presented the pre-circulated 2021 annual and last quarter investment performance reports noting that maintaining a well-diversified portfolio is key to keeping a stable investment performance in the present rising interest rate environment. Engineers Canada had a solid return at 9.3% in another challenging year and over the long term, we are to expect a modest return of an average of 6 to 8% from the fixed income portion of investments.

Z. Kukolic presented a historical view with the pre-circulated graph that exemplifies Engineers Canada and their RBC counsels' low and steady investment approach that is preferred, with the long-term range of 20 years indicating a slow rise of 6% in return.

In summary, Z. Kukolic noted that, overall, 2021 was a strong year for developed equity markets, particularly in the U.S. and Canada. Strong corporate profits helped drive a V-shaped recovery in earnings, which benefited stocks and helped drive a record high amount of flows into equities. Approximately 10% of U.S. stocks declined by 35% or worse from their highs in 2021, which is a good reminder that stocks with high valuations and momentum, and are considered to be popular trades, are a real risk. Rising inflation drove the outperformance in commodities (with the exception of gold) and government bond total returns, as well as the outperformance of both the energy and financial sector as evidenced by the performance of Canadian equities this year.

Z. Kukolic did insert that Responsible investment (RI) continues to grow in importance in Engineers Canada portfolio and that RBC is committed to embedding environmental, social, and governance (ESG) considerations into Engineers Canada's investment decision-making processes. These investments choices prevent the choosing of unethical or questionable origins of funds, such as, for example, funds related to tobacco products, gambling, weapons, companies with bad environmental impacts or even data breaches.

Z. Kukolic thought it prudent to inform the committee members about the effect of the recent Russian invasion of Ukraine noting that even though Engineers Canada holds international holdings, three of the four overseas funds do not have any Russian exposure. The one fund, which is 40% of this fund, has a 1.7% Russia exposure. This would translate to actual amounts of about \$5,000 or \$6,000 in actual dollars, a very small exposure to Russia. Z. Kukolic added that although the Russian invasion of Ukraine will have an immediate impact on the investments in general, armed conflicts and acts of war rarely have a world financial influence and have, in actuality, a minimal effect on investments in the long term.

4. Review of Q4 2021 financial statements

- **Statement of operations**

The financial statements final quarter of 2021 were presented by D. Menard who noted that the Q4 revenue came in above forecast due to Engineers Canada investment portfolio income coming in higher than expected by \$482K. He noted that operating expenses came in 8% below forecast due to small variances in several operating initiatives. As well, delays that occurred on consulting and translation services provoked a \$111K variance in the projects expenses for the Competency-Based Assessment Project, which is expected to be completed in March 2022.

D. Menard completed his report summarizing that for fiscal 2021 Revenue came in higher at \$3.4M than the 2021 budget, and that the National Program revenue came in \$2.4M higher mainly due to the PEO portion of the TD program, and the investment income came in \$1M higher than Budget.

- **Statement of financial position and reserves**

D. Menard noted that the total amount of cash and investment of \$19.7M, was decreased by \$1.4M since September 2021 due to limited cash collections in the last quarter as a significant amount of Engineers Canada National insurance program revenue in Q4 (\$1.1M) is accrued Manulife life insurance program) and only paid in Q2 of 2022.

Other amounts reported are the account receivable balance increase of \$600K due the accrual of the Manulife Life insurance program revenue for the April to December period and the decrease of \$600K deferred contributions from regulator instalment payments for dues.

- **Reserves**

Engineers Canada total reserves at the end of December were \$20.6M, \$14.1M of which are unrestricted.

5. Review of corporate risk profile

H. Theelen presented the change that had been made to the corporate risk profile by the CEO. The Committee accepted the edits proposed, and requested the following:

- Briefing Note 5.1 – Next steps, page 2: To add an ‘s’ to Register so that it reads “Corporate Risk Registers”.
- Corporate Risk Profile (*Operational Risk*) - 3. Roles and Responsibilities: Ensure to add 'quarterly reviews' in the appropriate sections.
- Corporate Risk Profile (*Operational Risk*) - 4. Schedule: Ensure to add 'quarterly reviews' in the table.
- Corporate Risk Profile (*Operational Risk*) - 3. Roles and Responsibilities: To add more clarity over the roles and responsibilities of the Board, FAR and CEO.
- Corporate Risk Profile (risk register templates): Clarify language and description for the definition of existing controls.
- Accreditation Risk (*Board Risk*) - Potential event(s) Bullet 3: To add background regarding the academic assessment process.
- Accreditation Risk (*Board Risk*)- Existing Controls Bullet 2 and 3: To clarify in detail the meaning of both bulleted subjects.
- Accreditation Risk (*Board Risk*) - Evidence: To have embedded links in the chart and/or appendices when referring to documents.
- Accreditation Risk (*Board Risk*) - Residual Risk Bullet 3: That the CEO provides information on the use of consultants and RFPs in place of CEAB volunteers in order to accelerate the improvements being made to the accreditation process (does not include visits).
- Women in Engineering (*Board Risk*) - Existing Controls Bullet 4: That the CEO provides information on the need of adding an internationally trained working group to Engineers Canada.

Staff will make the amendments, and the Corporate risk profile will be sent to the Board for approval at its April meeting.

ACTION: The CEO to provide information on whether or not RFPs could be used to alleviate the CEAB from some work (excluding visits) in support of mitigating the residual risk to staff for confirmation of what has been done OR exploration with recommendation on a possible way forward OR clarification of the residual risk for April Board meeting.

ACTION: The CEO to provide information on whether or not there could be some work conducted directed to increasing internationally-trained women as a feeder group.

ACTION: Moving forward, staff to use presentation method of each risk instead of a briefing note for FAR meetings.

ACTION: Moving forward, to add linked footnotes to proof and reports when referencing evidence or data, when publicly-available.

ACTION: Staff to update the Corporate risk profile, incorporating the details above.

6. Work plan review

The work plan was reviewed, with no questions or changes proposed.

7. Other business

The only final business was a reminder from D. Menard to the committee members that Board Policy 5.3, *Financial Condition*, was being reviewed as part of the February Board meeting materials, in case the

members wanted to review it before the meeting.

8. Next meetings

The next committee meetings are as follows:

- March 16, 2022 (Virtual)
- May 12, 2022 (Virtual)

9. Meeting review

A roundtable presented positive reviews regarding the meeting; the consensus being that the chair aided in keeping a good flow of discussion. It was suggested that for certain topics (e.g. the review of the Corporate Risk Profile), a presentation would enhance members' better understanding of a subject better than a briefing note.

10. Closing

With no further business, the meeting was closed at 4:45pm ET.