

# **Annual Report of the Independent Review Committee of the Embark Student Corp.**

March 12<sup>th</sup>, 2024

Dear Plan holder,

In accordance with **National Instrument 81-107 *Independent Review Committee for Investment Funds*** (“NI 81-107” or the “Instrument”), Embark Student Corp. (the “Manager”) established an Independent Review Committee (the “Committee” or “IRC”) for the plans (the “Plans”). The IRC has functioned in accordance with the applicable securities laws and is composed of three individuals, each of whom is independent of the Plans, the Manager and each entity related to the Manager (as defined in the Instrument).

The IRC is pleased to publish its annual report to Plan holders, covering the period from January 1, 2023 to December 31, 2023 (the “Reporting Period”).

## **Mandate of the IRC**

In accordance with the Instrument, the mandate of the IRC is to consider and provide recommendations to the Manager on conflicts of interest matters to which the Manager may be subject when managing the Plans. A conflict-of-interest matter is defined as a situation where a reasonable person would consider a manager to have an interest that may conflict with the Manager’s ability to act in good faith and in the best interest of the Plans. The Manager is required under the Instrument to identify potential conflicts of interest inherent in its management of the Plans, develop written policies and procedures guiding its management of those conflicts and request input from the IRC on those written policies and procedures.

When a conflict matter arises, the Manager must refer its proposed course of action in respect of such conflict to the IRC for its review. While certain matters require the IRC’s prior approval, in most cases the IRC will provide a recommendation to the Manager as to whether, in the opinion of the IRC, the Manager’s proposed action provides a fair and reasonable result for the Plans. For recurring conflict of interest matters, the IRC can provide the Manager with Standing Instructions (“SI”) that enable the Manager to proceed with certain matters without having to refer them to the IRC each time for approval, providing the Manager deals with the conflicts in accordance with the SI.

The IRC is empowered to represent the best interest of the plans in any matter where the Manager has referred a conflict-of-interest matter to it. Where a conflict is referred to the IRC, its responsibility is to determine whether the Manager’s proposed course of action provides a fair and reasonable result for the Plans.

## **Composition of the IRC**

The members of the IRC over the reporting period, and their principal occupations, are as follows:

<b>Name and municipality of residence</b>	<b>Principal Occupation</b>	<b>Term of Office</b>
Chair, Don Hathaway, Stratford, Ontario	Corporate Director and risk management advisor	Initial Appointment: June 1, 2017, for a period of three years.  Renewed for a period of three years with effect from June 1, 2023.
Ann Harris, Toronto, Ontario	Securities Compliance Professional, former regulator with IROC & ex-Chief Compliance Officer	Initial Appointment: May 1, 2013.  Resigned effective April 30, 2023.
Jane Depraitere, Burlington, Ontario	Business and management consultant. Director.	Initial Appointment: May 1, 2023.  For a three (3) year period to May 31, 2026
Audrey Robinson, Burlington, Ontario	Investment professional, Board director	Initial Appointment: October 21, 2022, until May 31, 2025

Ann Harris resigned effective April 30, 2023. As part of its succession process, the IRC reviewed several candidates. On April 24, 2023, the IRC met and appointed Jane Depraitere to the IRC effective May 1, 2023, until May 31, 2026.

## **Compensation and Indemnification**

### **Review of Compensation**

At least annually, the IRC reviews its compensation considering the following:

- the nature and extent of the workload of each member of the IRC, including the commitment of time and energy expected from each member;
- the number of meetings required by the IRC including special meetings to consider conflict issues brought to the Committee;
- industry best practices, including industry averages and surveys on IRC compensation; and,
- the complexity of the conflict issues brought to the IRC.

After a review of the above factors, the IRC determined that its compensation was satisfactory, and no changes were recommended.

## **Members' Fees**

In aggregate, the Embark IRC members and Independent Review Inc. as the Secretariat were paid \$104,741.15 during the Reporting Period, plus applicable taxes.

## **Indemnities Granted**

The Plans and the Manager have provided each IRC Member with a contractual indemnity in keeping with NI 81-107. No indemnities were paid to the IRC Members by the Plans or the Manager during the Reporting Period.

## **Disclosure of IRC Member Holdings**

As of December 31, 2023, the:

- IRC Members did not beneficially own, directly or indirectly any interests in the Manager;
- IRC Members' interests in a company or person that provides services to the Manager or any Plan, if any, were insignificant; and,
- IRC Members were not subscribers of any of the Plans.

## **Recommendations and Approvals**

**On January 27, 2023**, the Manager proposed increasing the management fee paid by the Flex First Plan ("FSSP) from 1.3% to 1.49% per annum effective January 1, 2023. After reasonable enquiry and based on the information provided to the IRC by the Manager (both verbally and in writing) prior to and during the meeting, the IRC determined that the Manager's proposed course of action to increase the management fee for the FSSP to 1.49% provided a fair and reasonable result for the fund.

**On October 13, 2023**, the Manager proposed to merge the Family Single Student Plan ("FSSP") and the Flex First Plan ("FFP") into the newly created Embark Student Plan ("ESP"). The Manager also launched the Embark Select Conservative Portfolio ("ESCP") as a low-risk alternative to the Embark Student Plan for reasons set out below. In order to effect the merger, the IRC had to consider six conflict of interest matters:

- i. *Proposed a change to the management fee.* ESP charges a regular management fee of 1.65% versus the FSSP fee of 0.99%. The Manager proposed that the FSSP plan holders who elect to move to the ESP receive a rebate to reduce the management fee of 1.65% to the fee charged to FSSP unitholders of 0.99% at least until January 1, 2026.

The FFP has several features that are an economic liability to the Manager. The Manager offered an incentive to the FFP unit holders to move to the ESP. The Manager calculated that the value of these features to the plan holders will require a permanent management fee rebate of 1.16% from the 1.65% fee charged by ESP. At the point of plan transfer that would reduce the management fee to a net management fee of 0.49%. The fee rebate on FSSP may be repealed after January 1, 2026 but extends indefinitely on FFP.

After reasonable enquiry and based on the information provided to the IRC by the Manager (both verbally and in writing) prior to and during the meeting the IRC determined that:

- The Manager's proposed course of action to provide a rebate to the FSSP to reduce the

management fee to 0.99% for a period of at least two years provided a fair and reasonable result for the FSSP.

- The Manager's proposed course of action to provide a rebate to the FFP to reduce the management fee by 1.16% on a permanent basis provided a fair and reasonable result for the FFP.
- ii. *Changing sub-advisors.* The Manager had five sub-advisors for the FSSP and the FFP. The Manager proposed the consolidation of all its assets in the ESP and Embark Select Conservative Plan ("ESCP") with one sub-advisor, BMO Global Asset Management. The conflict of interest arises as there will be a material decrease in the sub-advisory fees paid by the Manager. After reasonable enquiry and based on the information provided to the IRC by the Manager (both verbally and in writing) prior to and during the meeting, the IRC determined that the Manager's proposed course of action to terminate all the sub-advisors and appoint BMO Global Asset Management as the sub- advisor to ESP and ESCP provided a fair and reasonable result for FSSP and FFP.
- iii. *Changes to the Fundamental Investment Objective of FSSP and FFP.* The investment objective of ESP provides that investments become more conservative the closer the student gets to the age of attending post-secondary education. This represented a change in the fundamental investment objectives of FSSP and FFP and as such, represents a conflict of interest. After reasonable enquiry and based on the information provided to the IRC by the Manager (both verbally and in writing) prior to and during the meeting, the IRC determined that the Manager's proposed course of action to change the fundamental investment objectives of FSSP and FFP to those of ESP provided a fair and reasonable result for each of the plans.
- iv. *Suitability consideration.* As required by securities regulation, each plan holder selects a risk profile from low to high. The risk profile for ESP is considered low to medium. In converting the FSSP and FFP plan holders, the Manager must meet the Know Your Customer ("KYC") regulations and ensure that the risk profile is matched in the new ESP. Some plan holders in FSSP and FFP have a low risk profile. Currently, the construction of the ESP does not have a low risk profile. To meet the regulatory requirements and the timeline, the Manager launched ESCP as a low-risk alternative to the ESP. Those plan holders whose Know Your Customer profile reflects a low-risk category will be moved into the ESCP. Those who present a low to medium, medium, medium to high or high-risk profile will go into the appropriate plans in the ESP. After reasonable enquiry and based on the information provided to the IRC by the Manager (both verbally and in writing) prior to and during the meeting, the IRC determined that the Manager's proposed course of action to review the risk profile of all the subscribers who had a Know Your Customer profile that was low risk and move them to the a higher risk profile if they agreed or alternatively, upon the conversion, be moved to the ESCP as described above, provided a fair and reasonable result for the FSSP and FFP plan holders.
- v. *Determination of votes by each Plan.* The Manager had to consider the methodology for calculating the number of votes per plan holder for each of FSSP and FFP. This methodology was important as it impacted which plan holder(s) would get to vote and what weight their vote would carry. The determination of the methodology created a conflict of interest.

For FSSP, the Manager proposed that one unit would equal one vote.

For FFP, the Manager proposed that it would calculate voting units based on a plan holder's Total Contribution Goal ("TCG"). TCG determines the initial sales charges that subscribers pay up front and therefore, directly correlates not only with a plan holder's total savings commitment for the life

of the plan, but also with the dollar amount of sales charges each plan holder has already paid-up front as a reflection of that savings commitment.

After reasonable enquiry and based on the information provided to the IRC by the Manager (both verbally and in writing) prior to and during the meeting, the IRC determined that the above-noted methods for determining voting rights provided a fair and reasonable result for the FSSP and FFP plan holders.

- vi. *Determination of plan holders of record* The Manager proposed excluding the following plan holders of record from receiving plan holder communications. These subscribers have effectively withdrawn their money for post-secondary education purposes.

These plan holders include:

- Matured plans that have existed for greater than three (3) years; and,
- Where the value of such plans falls below \$10.00.

After reasonable enquiry and based on the information provided to the IRC by the Manager (both verbally and in writing) prior to and during the meeting, the IRC determined that the Manager's proposed course of action to determine the plan holders of record as set out above provided a fair and reasonable result for the Plans.

### **Standing Instructions Approved**

The IRC has two (2) Standing Instructions ("SIs"). The Manager can proceed with the specific action(s) set out in an SI without having to refer the conflict-of-interest matter or its proposed action to the IRC, provided that the Manager complies with the terms and conditions of the SI. The SIs required the Manager to comply with its related policy and procedures and to report periodically to the IRC.

The Manager relied on the SIs during the Reporting Period. The Manager has confirmed to the IRC that for the Reporting Period it has complied with the requirements of the SIs.

#### **Standing Instruction No. 1: Omnibus**

This SI deals with several conflicts of interest matters including:

1. Charging (or increasing the charge to) a Plan for the costs of services provided or arranged for by the Manager, in addition to charging the Plan a management fee.
2. Allocating shared expenses among different Embark Plans within the same group of Embark Plans.
3. Allocation of investments among Embark Plans in a group of Embark Plans and among Embark Plans.
4. Correcting portfolio pricing errors.
5. Correcting other material subscriber account errors.
6. Soft Dollar arrangements and Best Execution.
7. Marketing a Plan through distributors, whether related to the Manager or not, where the Manager provides incentives to the distributors to sell the Plan.
8. Favoring certain investors to obtain or maintain their investment in a Plan.
9. Voting proxies or taking other corporate action on securities held by a Plan.
10. Changing Portfolio Advisors.
11. The terms, fees and service levels of outsourced services where the Manager stands to benefit financially from any proposed changes to the detriment of a Plan.
12. Personal Trading by the Manager's staff and accepting gifts.

13. Allocation of income, surpluses and scholarships.
14. Handling complaints.
15. A Embark Plan purchases debt securities issued by a company related to a Portfolio Advisor.
16. A Embark Plan invests in an issuer of which a director, officer or shareholder of a Portfolio Advisor or of a related company is a director or officer, or in which any of such people has a material interest.
17. A Embark Plan purchases or sells securities to or from a company related to the Portfolio Advisor.
18. Services are provided to a Embark Plan by parties who are related to the Manager.

### **Standing Instruction No. 2: Inter-fund Trades**

The Manager did not rely on the SI during the Reporting Period. The Manager has confirmed to the IRC that for the Reporting Period it had complied with the requirements of the SI.

### **The Foundation Plans Served by the IRC During the Reporting Period**

- Family Single Student Education Savings Plan
- Flex First Plan
- Embark Student Plan (*launched effective February 6, 2023*)
- Embark Select Conservative Portfolio (*receipted October 31, 2023*)

This report is available on the Manager's website at [www.embark.ca](http://www.embark.ca) or you may request a copy, at no cost to you, by contacting the Plans at (905) 270-8777 or 1 800 363 7377 or by emailing the Plans at [contact@embark.ca](mailto:contact@embark.ca). This document and other information about the Plans are available on [www.sedarplus.ca](http://www.sedarplus.ca) under the "Search SEDAR+" section, and then by inputting the name of each individual Plan.

Yours truly,

*"Don Hathaway"*

Don Hathaway, Chair

**Ann Harris serves as a member of the Independent Review Committees for the following funds:**

Investment Funds that are reporting issuers managed by Caldwell Investment Management Limited

Investment funds that are reporting issuers, managed by Embark Student Corp.

**Audrey Robinson serves as a member of the Independent Review Committees for the following funds:**

Investment funds that are reporting issuers, managed by Educators Financial Group Inc.

Investment funds that are reporting issuers, managed by Russell Investments Canada Limited.

Investment funds that are reporting issuers, managed by Embark Student Corp.

Investment funds that are reporting issuers, managed by Ninepoint Partners LP.

**Jane Depraitere serves as a member of the Independent Review Committees for the following funds:**

Investment funds that are reporting issuers, managed by Embark Student Corp.

**Don Hathaway serves as a member of the Independent Review Committees for the following funds:**

Investment funds that are reporting issuers, managed by Embark Student Corp.