



## Policies, Procedures and Guidelines

Complete Policy Title:

**Statement of Investment Policies and Procedures**

Policy Number (if applicable):

**The Master Trust for the Contributory Pension Plan for Salaried Employees of McMaster University Including McMaster Divinity College and the Contributory Pension Plan for Salaried Employees of McMaster University Including McMaster Divinity College 2000**

Approved by:

**Board of Governors**

Date of Most Recent Approval:

**October 26, 2023**

Date of Original Approval(s):

**June 13, 2002**

Supersedes/Amends Policy dated:

October 28, 2021

Responsible Executive:

**Associate Vice-President and Chief Financial Officer (CFO)**

Enquiries:

[University Secretariat](#)

**DISCLAIMER:** *If there is a Discrepancy between this electronic policy and the written copy held by the policy owner, the written copy prevails*

---

## Contents

Section 1—Overview.....	3
1.1 Purpose of Statement .....	3
1.2 Background of the Plans .....	3
1.3 Plan Profiles.....	3
1.4 Objective of the Plans .....	4
1.5 Investment Objective, Beliefs, Risk Appetite.....	4
1.6 Delegation of Responsibility and Administration.....	5
Section 2—Asset Mix and Diversification Policy.....	8
2.1 Investment Objectives - Portfolio Return Expectations.....	8
2.2 Investment Risk Tolerance - Expected Volatility .....	8
2.3 Management Structure .....	8
2.4 Asset Mix – Risk Limits .....	8
Section 3—Permitted and Prohibited Investments.....	10
3.1 General Guidelines .....	10
3.2 Permitted Investments.....	10
3.3 Minimum Quality Requirements for Bonds .....	12
3.4 Maximum Quantity Restrictions .....	12
3.5 Prior Permission Required .....	13
3.6 Prohibited Investments.....	13
3.7 Securities Lending.....	14
3.8 Borrowing.....	14
3.9 Liquidity .....	14
3.10 Environmental, Social and Governance .....	14
3.11 Conflicts Between the Policy and Pooled Fund InvestmentPolicies .....	15

Section 4—Monitoring and Control.....	16
4.1 Performance Measurement .....	16
4.2 Compliance Reporting by the Fund Manager .....	17
4.3 Standard of Professional Conduct .....	17
Section 5—Administration.....	18
5.1 Conflicts of Interest.....	18
5.2 Related Party Transactions.....	19
5.3 Selecting Fund Managers.....	20
5.4 Monitoring of Fund Managers .....	20
5.5 Dismissal of a Fund Manager.....	20
5.6 Voting Rights.....	21
5.7 Valuation of Investments Not Regularly Traded .....	21
5.8 Policy Review .....	21
5.9 Asset-Liability Review.....	22

## Section 1—Overview

---

### 1.1 Purpose of Statement

This Statement of Investment Policies and Procedures (the ‘Policy’) is intended to set out the investment framework which shall apply at all times for the Contributory Pension Plan for Salaried Employees of McMaster University, including McMaster Divinity College and the Contributory Pension Plan for Salaried Employees of McMaster University, including McMaster Divinity College 2000 (collectively the ‘Plans’).

This Policy is based on the ‘prudent person portfolio approach’ to ensure the prudent investment and administration of the assets of the Plans (the ‘Fund’) within the parameters set out in the Pension Benefits Act (Ontario) and the regulations thereunder.

### 1.2 Background of the Plans

McMaster University was established in 1887 by the bequest of William McMaster and is a university incorporated under the laws of the Province of Ontario, which provides operating grants annually to the University.

The University sponsors defined benefit pension plans into which its contributions and the employees' contributions are deposited. These contributions are made bi-weekly and are remitted before the end of the following month to the Plans' trustee.

Retiree benefits are paid from the Plans. Also paid from the Plans are termination and death benefits, trustees' fees, audit fees, actuaries' fees, investment counsel fees, consultants' fees, filing fees and administrative and other related costs.

### 1.3 Plan Profiles

#### (a) Contributions

The Plans are contributory. Each member is required to contribute in accordance with the Plan Text and limited by specified maximums, as applicable.

#### (b) Benefits \*

The amount of annual pension payable to most members will be:

- (i) 1.4% of Best Average Salary up to the Average Year's Maximum Pensionable Earnings times years of pensionable service, plus
- (ii) 2.0% of Best Average Salary in excess of the Average Year's Maximum Pensionable Earnings times years of pensionable service up to the maximum pension limits for an RPP as specified in the Income Tax Act.

---

\* Unifor Unit 1 members who were hired on or after May 1, 2010 benefits are calculated using 1% and 1.6%.

## **1.4 Objective of the Plans**

The objective of the Plans is to provide participants with defined pension benefits based on a best average salary and with indexation of retirement benefits, as defined in the Plan text for the Contributory Pension Plan for Salaried Employees of McMaster University Including McMaster Divinity College, Registration Number 0215400 (“Plan Text”) and in the Contributory Pension Plan for Salaried Employees of McMaster University Including McMaster Divinity College 2000, Registration Number 1079920 (“Plan 2000 Text”). It is important to set up an appropriately diversified asset mix in order to ensure continued prudent and effective management of pension fund assets.

## **1.5 Investment Objective, Beliefs, Risk Appetite**

### ***Funding Objectives***

The Plans’ funding objectives are to:

- (a) Focus on maintaining a going concern funded ratio between 90-110%,
- (b) Manage the volatility of contributions, and
- (c) Reduce the likelihood of material solvency payments and target to maintain the solvency funded ratio above 85% at all future actuarial valuation dates.

### ***Investment Objectives***

The investment objective of the Plans’ investments is to earn a return sufficient to keep the Plans sustainable over the long term, while keeping benefit levels and contribution rates stable. This requires an appropriate balance between risk and return.

### ***Risk Appetite***

Based on the characteristics of the Plans, the Committee has determined that the Plans have a high risk appetite as a function of University’s Enterprise Risk Management (ERM) framework, however the Plans have a medium risk appetite as a function of pooled assets for investment risk as demonstrated by the approved asset classes, investment targets and limits within this policy.

Note: The University’s ERM categorizes level of risk as a function of the annual available expendable resources (AER), with high and medium risk appetite defined as 10% and 5% respectfully of that balance. The Plans asset value is significantly larger than AER and therefore the Plans risk exposure using plan assets as the basis is medium.

### ***Investment Beliefs***

The Pension Trust Committee (“Committee”) has, from time to time, reviewed and confirmed its investment beliefs which take into consideration the types of investments and associated risks that are aligned with investment objectives and risk appetite.

As part of a recent asset-liability study that was completed for the Plans in 2023, a risk diagnosis was conducted reviewing the impact of the current and alternative asset mixes on contributions, solvency funding and going concern funding.

Commensurate with the liability profile and funding position of the Plans, and long-term time

horizon, the Committee has determined and confirmed that the Plans remain well positioned, and continue to have the ability to invest based on a long-term approach and accept a higher degree of investment risk.

The following were also used as inputs into this determination:

- (a) A focus on the going concern liability position of the plan versus solvency liability position;
- (b) The actuary's smoothed asset approach in valuing the plan's liability position;
- (c) Diversifying return-seeking assets in order to position the Plans to earn additional investment income in a risk-monitored framework; and
- (d) Managing the duration of the fixed income portfolio to reduce interest rate risk and the probability of solvency shortfall.

## **1.6 Delegation of Responsibility and Administration**

The University is the legal administrator of the Plans and is therefore responsible for all matters relating to the administration, interpretation and application of the Plans, including developing, monitoring and amending this Policy. The Committee, a standing Committee of the University's Board of Governors, has been formed for the purpose of assisting the University with the administration of the Plans.

Overall responsibility for the Plans ultimately rests with the Board of Governors of the University. The Committee assists the Board in fulfilling its fiduciary responsibilities. As well, other suppliers assist the University as described below.

- (a) **The Committee will:**
  - (i) Recommend to the Board of Governors general pension investment policy and annually review the Statement of Investment Policies and Procedures;
  - (ii) Monitor the performance of the Fund;
  - (iii) Monitor and review performance of Investment Consultants and Fund Managers:
    - 1. Make recommendations to the Board of Governors with respect to situations of deviation or proposed deviation by Fund Managers from the Policy;
    - 2. Make recommendations to the Board of Governors on the appointment of, mandates for and replacement of such Investment Consultants and Fund Managers.
  - (iv) Monitor the annual calculation of the "Net Interest on the Fund" and the "Annual Pension Increase";
  - (v) Discuss and promote awareness and understanding of the Plans by members of the Plans and persons receiving benefits under the Plans;

- (vi) Comment and make recommendations to the Planning and Resources Committee on:
    - 1. The performance and appointment of the Actuary; and
    - 2. The actuarial methods and assumptions used in determining the financial condition of the Plans and the contributions to the Plans.
  - (vii) Comment and make recommendations to the Planning and Resources Committee on proposed changes to the Plans' Texts, and propose changes to the Plans' Texts; and
  - (viii) Monitor at least annually all fees and the administrative expenses paid from the Plans, and determine whether they are appropriate. Changes in the nature and structure of administrative expenses paid may be approved by the Board of Governors only if recommended by the Pension Trust Committee as a result of a ballot of all Committee members.
- (b) **The Fund Manager(s) will:**
- (i) Invest the assets of the Fund in accordance with this Policy;
  - (ii) Notify the Committee, in writing, of any significant changes in the Fund manager's philosophies and policies, personnel or organization and procedures; and
  - (iii) Meet with the Committee as required and provide written reports regarding their past performance, their future strategies and other issues requested by the Committee.
- (c) **The Custodian/Trustee will:**
- (i) Maintain safe custody over the assets of the Plans (i.e. both segregated and pooled mandates);
  - (ii) Execute the instructions of the University and the Fund Manager(s); and,
  - (iii) Record income and provide monthly financial statements to the University as required.
- (d) **The Actuary will:**
- (i) Perform actuarial valuations of the Plans as required or as directed by the Committee;
  - (ii) Advise the Committee on any matters relating to the Plans' design, membership and contributions; and,
  - (iii) Assist the Committee in any other way required.
- (e) **The Investment Consultant will:**
- (i) Assist in the development and implementation of this Policy;
  - (ii) Monitor the performance of the Fund and the Fund Managers on a quarterly basis,

and advise the Committee on such performance;

- (iii) Monitor funding and performance objectives on a quarterly basis;
- (iv) Monitor the Fund Managers' quarterly compliance reports;
- (v) Support the Committee on matters relating to investment management and administration of the Fund.

(f) **The Accountant will:**

- (i) Provide annual audited financial statements of the Plans.

(g) **University Management will:**

- (i) Ensure compliance with legal and University requirements;
- (ii) Execute decisions made by relevant governing bodies;
- (iii) Work closely with consultants, custodian, actuary and the investment managers, as appropriate including documenting the investment managers' mandates;
- (iv) Determine appropriate rebalancing strategy, as necessary, as outlined in Section 2.4 (d);
- (v) Review the expenses of the Plans; and
- (vi) Maintain all documents and make them available upon request.

The Board of Governors has the authority to retain other consultants/suppliers, as it deems necessary from time to time.

## **Section 2—Asset Mix and Diversification Policy**

---

### **2.1 Investment Objectives - Portfolio Return Expectations**

The Fund will be managed on a going-concern basis. The primary objective is to ensure that the benefits defined in the Plans can be paid.

The secondary performance objective is to outperform a benchmark portfolio constructed from rates of return (including income) of the Standard & Poor's Toronto Stock Exchange Composite Index (S&P/TSX Composite Index) MSCI All Country World Index (MSCI ACWI Index), the FTSE TMX Universe Bond Index, the FTSE TMX Long Term Bond Index, the Investment Property Databank (IPD) Canada Property Index and a customized CPI + 5% index, in proportion to the weights indicated in Section 4.1 (a) and calculated over rolling four-year time periods.

### **2.2 Investment Risk Tolerance - Expected Volatility**

The expected volatility of investment returns for the Fund is directly related to the asset mix strategy; specifically, the balance between Canadian equities, foreign equities, Canadian bonds and Real Assets. Volatility is inherent in investing and will be managed according to the minimum and maximum asset mix ranges as outlined in Section 2.4. It is expected that the volatility of Fund returns should be similar to the volatility of the Total Combined Fund Benchmark Portfolio set out in Section 4.1.

It is reasonable for a strategic policy asset mix designed for long-term investing to accept short-term market volatility and to accept a moderately higher degree of liquidity risk due to the Plans' high ratio of active members versus inactive members. The Committee will further monitor the volatility of the Fund and underlying Fund Managers on an ongoing basis.

### **2.3 Management Structure**

To reduce the overall volatility of returns and to reduce the risk that active managers will underperform market index returns, a hybrid management structure has been adopted for the Fund consisting of a combination of active and passive specialist equity, bond and currency overlay managers, subject to Section 2.4 (a). McMaster University will focus on retaining managers it considers best placed to meet its investment objectives. This may lead to specialist regional and/ or global managers being retained.

### **2.4 Asset Mix – Risk Limits**

#### **(a) Overall Asset Mix**

The benchmark portfolio is representative of the long-term asset mix policy for the Fund as set out by the Board of Governors. Investment specific limits are set forth in Section 3. The Total Fund benchmark portfolio and asset mix guidelines (by market value) are set out below:

**Total Fund Asset Mix (Long-term)**

	<b>Min</b>	<b>Target</b>	<b>Max</b>
Equities and Real Assets	55	70	85
Total Fixed Income	15	30	45
		<b>100</b>	

**Total Fund Benchmark Portfolio by Asset Class (Long-term)**

<b>Assets*</b>	<b>Minimum (%)</b>	<b>Benchmark (%)</b>	<b>Maximum (%)</b>
Canadian Equities	3	5	10
Global Equities	25	40	55
Real Assets	3	20	30
Return Seeking Bonds	0	5	10
Universe Bonds	3	5	10
Long Term Bonds	15	25	30
Cash and Short-term	0	0	10
		<b>100</b>	

\*A total of 50% +/- 5% of the Total Fund's foreign currency exposure shall be hedged to the Canadian Dollar.

**(b) Transition Asset Mix**

The long-term policy mix contains allocations to asset classes (real estate and infrastructure, return seeking fixed income etc.) that take longer to implement. The Plan investments will be subject to a transition benchmark portfolio for performance measurement purposes. For benchmarking purposes, the benchmark portfolio mix will be adjusted as new investments are funded, subject to the constraints set forth in the Long-term Total Fund Asset Mix noted above. Updates to the Transition Asset Mix will occur annually as required.

**Total Fund Asset Mix (Transition Asset Mix)**

	<b>Min</b>	<b>Target</b>	<b>Max</b>
Equities and Real Assets	50	68	80
Total Fixed Income	20	32	50
		<b>100</b>	

**Total Fund Benchmark Portfolio by Asset Class (Transition Asset Mix)**

<b>Assets*</b>	<b>Minimum (%)</b>	<b>Benchmark (%)</b>	<b>Maximum (%)</b>
Canadian Equities	8	11	18
U.S. Equities	15	23	25
Non-North American Equities	10	17	20
Global Equities	0	8	14
Real Assets	5	9	15
Universe Bonds	5	7	20
Long Term Bonds	15	25	30
Cash and Short-term	0	0	10
		<b>100</b>	

\*A total of 50% +/- 5% of the Total Fund's foreign currency exposure shall be hedged to the Canadian Dollar.

**Categorizations per Pension Benefits Act**

The target asset mix for each category listed in subsection 76(12) of the Regulations to the Pension Benefit Act (Ontario) is as follows:

Category	Long-term Benchmark Portfolio (%)	Transition Benchmark Portfolio (%)
1. Insured contracts		
2. Mutual or pooled funds or segregated funds		
3. Demand deposits and cash on hand		
4. Short-term notes and treasury bills		
5. Term deposits and guaranteed investment certificates		
6. Mortgage loans		
7. Real estate	10	1
8. Real estate debentures		
9. Resource properties		
10. Venture capital		
11. Corporations referred to in subsection 11(2) of schedule III to the federal investment regulations		
12. Employer issued securities		
13. Canadian stocks other than investments referred to in 1 to 12 above	5	11
14. Non-Canadian stocks other than investments referred to in 1 to 12 above	40	48
15. Canadian bonds and debentures other than investments referred to in 1 to 12 above	30	32
16. Non-Canadian bonds and debentures other than investments referred to in 1 to 12 above	5	
17. Investments other than investments referred to in 1 to 16 above	10	8

Note that the full allocation made to items 7, 14, 15 and 17, and 60% of the allocation made to item 13 are accessed via pooled funds. Investments referenced in item 17 are made to infrastructure.

**(c) Manager Compliance**

The Fund Managers shall comply with restrictions imposed by Federal or Provincial legislation and regulations, as well as with their respective Investment Mandates. Should a Fund Manager wish to deviate from the mandate established with the University, they must contact, in advance, the Treasurer, who will solicit approval from the Board of Governors. Should there be a sudden change in market conditions that causes the allocation to be in breach of the parameters specified in such mandate, the Fund Manager will immediately either seek the necessary approval to remain in breach of the mandate, or take corrective action and contact the Treasurer, who will inform the Board of Governors. The Treasurer will report all such occurrences and their resolution to the Committee.

**(d) Manager Rebalancing Guidelines**

The asset classes of the Plans shall be rebalanced to within the minimum and maximum ranges around benchmark (taking into consideration transaction costs, liquidity and transition to Real Assets) when, at the end of any quarter, any one of the asset classes outside of these ranges as indicated in Section 2.4 (a).

## Section 3—Permitted and Prohibited Investments

---

### 3.1 General Guidelines

The investments of the Fund must comply with the requirements and restrictions imposed by the applicable legislation, including but not limited to the requirements of the Pension Benefits Act (Ontario), the Income Tax Act (Canada), and any relevant regulations.

### 3.2 Permitted Investments

In general, and subject to the restrictions noted below, the Fund may invest directly or via pooled funds in any of the asset classes and in any of the instruments listed below.

#### (a) Canadian and Foreign Equities

- (i) Common and convertible preferred stock listed on a recognized exchange;
- (ii) Debentures convertible into eligible common or convertible preferred stock;
- (iii) Rights, warrants and special warrants for eligible common or convertible preferred stock;
- (iv) Instalment receipts and American and Global Depository Receipts;
- (v) Units of real estate investment trusts (REITs) listed on a recognized exchange;
- (vi) Units of income trusts domiciled in jurisdictions that provide limited liability protection to unitholders;
- (vii) Units of limited partnerships which are listed on a recognized exchange; and,
- (viii) Private placements of equities, where the security will be eligible for trading on a recognized exchange within a reasonable and defined time frame and subject to Section 3.4.

#### (b) Bonds

- (i) Bonds, debentures, notes, non-convertible preferred stock and other evidence of indebtedness of Canadian, foreign or supranational issuers whether denominated and payable in Canadian dollars or a foreign currency;
- (ii) Mortgage-backed securities, guaranteed under the National Housing Act;
- (iii) Term deposits and guaranteed investment certificates; and,
- (iv) Private placements of bonds and asset backed securities subject to Section 3.4.

(c) **Cash and Short Term Investments**

- (i) Cash on hand and demand deposits;
- (ii) Treasury bills issued by the federal and provincial governments and their agencies;
- (iii) Obligations of trust companies and Canadian and foreign banks chartered to operate in Canada, including bankers' acceptances;
- (iv) Commercial paper and term deposits;
- (v) Deposit accounts of the custodian can be used to invest surplus cash holdings; and,
- (vi) Repurchase Agreement transactions for cash management purposes, with transactions limited to counterparties with a minimum BBB credit rating at the time of the transaction.

(d) **Derivative Instruments**

Derivatives are to be used primarily for defensive purposes, including currency hedging. The use of derivative instruments which would be contracted on a leveraged basis is prohibited. Investment Funds that invest in derivatives must comply with all applicable statutory provisions and regulations, including the Prudent Person Rule, and must be invested and managed in accordance with regulatory derivatives best practices.

The following uses of derivative instruments for defensive purposes are permitted:

- (i) Covered put and/or call options with respect to publicly traded securities that are held in the portfolio;
- (ii) The Manager of an index portfolio may utilize fully backed (i.e. non-leveraged), derivative strategies designed to replicate the performance of specific market indices; and,
- (iii) Currency futures contracts and forward contracts whose use is restricted to reducing risk as part of a currency hedging strategy. Within pooled funds, the Fund Managers' policy on derivatives will take precedence.

(e) **Real Assets**

- (i) Direct real estate and direct infrastructure investment via independently managed pooled funds, limited partnerships or specialist corporate structures (i.e. LLCs). The mandate of each fund, partnership or corporate structure will vary with the long-term goal of assembling a diversified real estate portfolio.
- (ii) Permitted and prohibited investments in real assets will be governed by the terms and conditions set out in the respective pooled fund contract, Offering Memorandum, Trust Agreement or similar document that is applicable to each Investment Manager.

### 3.3 Minimum Quality Requirements for Bonds

(a) **Quality Standards**

Within the investment restrictions for individual portfolios, all portfolios should hold a prudently diversified exposure to the intended market.

- (i) The minimum quality standard for individual bonds and debentures is ‘BBB’ or equivalent as rated by a Recognised Bond Rating Agency, at the time of purchase.
- (ii) The minimum weighted average rating of the overall bond portfolio must be ‘A’, or better.
- (iii) The minimum quality standard for individual short term investments is ‘R-1’ or equivalent as rated by a Recognised Bond Rating Agency, at the time of purchase.

(b) **Rating Agencies**

For purposes of this Policy, the following shall be considered ‘Recognized Bond Rating Agencies’:

- (i) Dominion Bond Rating Agency;
- (ii) Standard & Poor’s;
- (iii) Moody’s Investors Services; and
- (iv) Fitch Ratings (foreign issuers only).

Should the rating on a short-term or bond investment fall below the minimum standards outlined above, the Fund Manager must immediately notify the Treasurer and communicate the action that is to be taken. The Treasurer must report all such occurrences and action undertaken to remedy the situation to the Committee.

### 3.4 Maximum Quantity Restrictions

While specific restrictions are reflected in the individual manager mandates, the following restrictions are to be respected<sup>†</sup>:

(a) **Equities**

- (i) No one equity holding shall represent more than 10% of the market value of any one manager’s equity portfolio;
- (ii) No one equity holding shall represent more than 10% of the voting shares of a corporation;
- (iii) No one equity holding shall represent more than 10% of the available public float of such equity security;
- (iv) Private placements can be held to a maximum of 10% of the equity portfolio; and,
- (v) No more than 15% of the market value of the equity manager’s portfolio shall be invested in Royalty or Income Trusts.

---

<sup>†</sup> In the case of pooled fund investments, the pooled fund investment guidelines/restrictions shall apply.

- (b) **Bonds and Short-Term Securities**
- (i) Except for federal bonds and provincial bonds having at least an A credit rating, no more than 10% of a manager's bond portfolio may be invested in the bonds of a single issuer and its related companies;
  - (ii) Except for federal and provincial bonds, no one bond holding shall represent more than 10% of the market value of the total outstanding for that bond issue;
  - (iii) No more than 10% of the market value of a manager's bond portfolio shall be invested in bonds rated 'BBB' or equivalent and no bond rated 'BBB' or equivalent shall exceed 3% of the market value of the portfolio;
  - (iv) No more than 20% of the market value of a manager's bond portfolio shall be invested in bonds denominated in a currency other than Canadian dollars;
  - (v) No more than 20% of the market value of a manager's bond portfolio shall be invested in bonds of foreign issuers;
  - (vi) Private placements and asset-backed securities can be held to a maximum of 15% of the bond portfolio; and,
  - (vii) Restrictions (iii), (iv) and (v) do not apply to Return Seeking Bond mandates.

### **3.5 Prior Permission Required**

Subject to applicable legislation and regulations, any other investments are permitted provided that the Fund Manager has obtained prior written permission from the Board of Governors upon recommendation of the Committee:

### **3.6 Prohibited Investments**

The Fund Managers shall not:

- (a) Invest in companies for the purpose of managing them;
- (b) Purchase securities on margin or engage in short sales, except in the case of a unleveraged synthetic index strategy where the manager will utilize futures contracts and short-term securities to attempt to create returns that match those of a specified index;
- (c) Invest in securities that would result in the imposition of a tax on the Fund under the Income Tax Act (Canada) unless they provide a prior written acknowledgement to the Committee that such investments will result in a tax and receive prior written permission for such investments from the Board of Governors;
- (d) Invest in any securities issued by McMaster University or its affiliated entities; or
- (e) Make any investment not specifically permitted by this Policy or the Fund Manager's investment mandate.

### **3.7 Securities Lending**

Defined securities held by the Plans may be loaned by the Trustee under a properly approved contract with the University.

The investments of the Fund may be loaned for the purpose of generating revenue for the Fund, subject to the provisions of the Pension Benefits Act (Ontario), the Income Tax Act (Canada), and applicable regulations.

Such loans must be secured by cash and/or readily marketable government bonds, treasury bills and/or letters of credit, discount notes and banker's acceptances of Canadian chartered banks. The amount of collateral taken for securities lending should reflect best practices in local markets, but should be at least 105% under an enhanced indemnity arrangement. The market value relationship between collateral and securities on loan must be calculated at least daily. For equity loans, high quality, liquid equities may also be accepted as collateral.

If the Fund is invested in a pooled fund, security lending will be governed by the terms and conditions of the pooled fund contract.

### **3.8 Borrowing**

The Plans shall borrow money only for the purpose of covering a short-term contingency and the borrowing is for a period that does not exceed ninety days, subject to the Pension Benefits Act (Ontario), the Income Tax Act (Canada) and the written permission of the Board of Governors.

### **3.9 Liquidity**

The Plans shall maintain assets that are sufficiently liquid in order to make necessary payments to members when required and to enable other changes, as required.

#### *Liquidity Risk*

The Plans' liquidity requirements primarily relate to pension payments. The Plans have a high a ratio of active members versus inactive members, as such the Plans' cash payment requirements in the normal course of events remains low.

### **3.10 Environmental, Social and Governance**

"ESG" refers to the environmental, social and governance factors, including government/public policy and disclosure concerns, relevant to an investment that may have a financial impact on that investment. The university has a fiduciary duty to act in the long-term interests of the beneficiaries of the Plans. The Plans' investment portfolio managers determine the stock holding of each fund. Where relevant and material to the assessment of investment value and mitigation of investment risk, ESG factors should be evaluated alongside other considerations by the Plan's investment managers in the exercise of their delegated duties. The university does not impose specific constraints on portfolio investments on the sole basis of ESG factors.

### **3.11 Conflicts Between the Policy and Pooled Fund Investment Policies**

While the guidelines in this Policy are intended to guide the management of the Fund, it is recognized that, due to the use of pooled funds, there may be instances where there is a conflict between this policy and the investment policy of a pooled fund. In that case, the pooled fund policy shall dominate. However, wherever such a conflict results in non-compliance with the Policy, the Fund Manager must report this conflict explicitly in its quarterly compliance report.

## Section 4—Monitoring and Control

### 4.1 Performance Measurement

Evaluation of investment performance will be made by the Committee and will take place semi-annually based on the results at June 30 and December 31.

#### (a) Total Fund Benchmark

The primary performance objective of the Fund is to earn a rate of return that exceeds the rate of return on a benchmark portfolio over a four (4) year period. The benchmark consists of the following market index total returns weighted as indicated:

Benchmark	Long-term Mix Weight (%)	Transition Mix Weight (%)
S&P/TSX Composite Index	5.0	11.0
S&P500 Index		5.0
Russell 1000 Index (Hedged)		18.0
MSCI EAFE Index (Cdn. \$)		17.0
MSCI ACWI (Cdn. \$)	40.0	8.0
FTSE TMX Universe Bond Index + 1%	5.0	0.0
FTSE TMX Universe Bond Index	5.0	7.0
FTSE TMX Long Term Bond Index	25.0	25.0
IPD Canada Property Index	1.0	1.0
CPI + 5%	19.0	8.0
Total	<b>100.0</b>	<b>100.0</b>

Total rate of return of the benchmark is the time-weighted rate of return based on the change of market value including realized and unrealized gains and losses and including income from all sources.

The Plans are currently undergoing a transition to its Total Fund Asset Mix as outlined in Section 2.4. The transition mix will be used as the benchmark as the starting point of the transition to long-term mix. The Total Fund Benchmark will be updated on a periodic basis to reflect the progress of this transition. Once the transition has been completed the long-term mix will be used as the benchmark.

#### (b) Fund Managers

The primary objective of the active managers is to earn a rate of return that exceeds the total rate of return<sup>2</sup> on a benchmark portfolio over a four (4) year period or, in the case of passive managers, to earn a rate of return that approximates the returns earned on the relevant market indices, within agreed tracking variance ranges. A secondary objective is to achieve, over a four (4) year period at least second quartile performance compared to a performance measurement service pension data base.

The managers' benchmarks and performance objectives are set out in more detail in their Investment Mandates. These may be amended, recognizing that at all times the Fund must be managed in accordance with the asset mix guidelines and permitted and prohibited investments set out in Sections 2 and 3.

In addition to assessing performance relative to the Benchmark Portfolio, the Committee will examine risk factors and performance by asset class.

#### **4.2 Compliance Reporting by the Fund Manager**

Each Fund Manager must submit a compliance report each quarter to the Treasurer. The compliance report should indicate whether or not the manager's portfolio was in compliance with this policy during the quarter.

In the event that the Fund Manager's portfolio is not in compliance with this policy, the Fund Manager is required to detail the nature of the non-compliance and to recommend an appropriate course of action to remedy the situation, to the Treasurer, who will inform the Committee. Minor deviations from the policy that require immediate action can be approved by the Treasurer, who will inform the Committee.

#### **4.3 Standard of Professional Conduct**

The Fund Managers are expected to comply at all times and in all respects with the Code of Ethics and Standards of Professional Conduct as promulgated by the CFA Institute or to a standard that is the equivalent of, or higher than that of the CFA.

The Fund Managers will manage the assets with the care, diligence and skill that a fund manager of ordinary prudence would use in dealing with pension plan assets. The Fund Managers will also use all relevant knowledge and skill that they possess, or ought to possess, as prudent fund managers.

## Section 5—Administration

---

### 5.1 Conflicts of Interest

#### (i) Definition

For the purpose of this statement a conflict of interest is defined as any event in which any employee of, or member of, or consultant to:

- (a) Board of Governors,
- (b) Planning and Resources Committee,
- (c) Audit Committee,
- (d) Pension Trust Committee,
- (e) Actuary,
- (f) Fund Manager(s),
- (g) Custodian/Trustee, and/or
- (h) Consultant

or any directly related party may gain a financial or other advantage from knowledge of, or participation in, an investment decision of the fund, or a circumstance that could reasonably be interpreted as impairing his/her ability to render unbiased and objective advice or to fulfil his/her fiduciary responsibilities to act in the best interest of the beneficiaries of the Plans.

It is not possible to anticipate in advance, in this statement, the multitude of situations which can arise. All persons listed above must, therefore, be cognizant of the possibility that conflicts, or perceived conflicts, may arise and must make timely and full disclosure in accordance with generally accepted concepts of fiduciary responsibilities and in accordance with the procedures set forth below:

#### (ii) Responsibilities

This standard applies to the persons named in Section 5.1(i) above in the execution of their responsibilities under the Pension Benefits Act (Ontario) (the “Affected Persons”).

**(iii) Disclosure**

In the execution of their duties, the Affected Persons shall disclose any material conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased advice, or to make unbiased decisions, affecting the administration of the Plans' assets.

Further, it is required that no Affected Person shall make any personal financial gain (direct or indirect) because of his or her fiduciary position. However, normal and reasonable fees and expenses incurred in the discharge of his/her responsibilities are permitted if documented and approved by the University.

No Affected Person shall accept a gift or gratuity or other personal favour that is material, from a person with whom the Affected Person deals in the course of performance of his or her duties and responsibilities for the Plans.

It is incumbent on any Affected Person who believes that he or she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation in writing to the Chair of the Committee within three business days after the individual becomes aware of the conflict of interest. The disclosure should also be made orally if awareness of the conflict occurs during the discussion of Plans' business.

The Committee, in turn, will decide what action is appropriate under the circumstances but, at a minimum, will table the matter at the next regular meeting of the Committee.

Normally, the individual disclosing the conflict of interest shall withdraw from the meeting during discussion of and vote on the issue causing the conflict of interest. The individual may be permitted, at the Committee's request, to participate in the discussion but he/she shall not be present for the vote.

The disclosure of a conflict of interest, the name of the individual declaring the conflict and the manner in which the conflict was resolved will be recorded in the minutes of the Committee.

## **5.2 Related Party Transactions**

Related party transactions are permitted for the Plans, subject to the following conditions:

- (a) Any transaction that is required for the operation or administration of the Plans under terms and conditions that are not less favourable to the Plans than market terms and conditions and such transaction does not involve the making of loans to, or investments in, the related party; or
- (b) Any transaction, where the combined value of all transactions with the same related party is nominal or the transaction(s) is immaterial to the Plans.

For the purposes of this section, only the market value of the combined assets of the Plans shall be used as the criteria to determine whether a transaction is nominal or immaterial to the Plans. Transactions less than 3% of the combined market value of the assets of the Plans are considered nominal. Two or more transactions with the same related party shall be considered a single transaction.

### **5.3 Selecting Fund Managers**

In the event that a new Fund Manager must be selected or additional Fund Manager(s) added to the set of existing fund managers, the Committee will undertake a Fund Manager search with the assistance of a third-party investment consultant. The criteria used for recommending the selection of a Fund Manager to the Board of Governors will be consistent with the investment and risk philosophy set out in Section 1.5 (Investment and Risk Philosophy).

### **5.4 Monitoring of Fund Managers**

At least semi-annually, the Committee will monitor and review the:

- (a) Assets and net cash flow of the Plans;
- (b) Fund Manager's staff turnover, consistency of style and record of service;
- (c) Fund Manager's current economic outlook and investment strategies;
- (d) Fund Manager's compliance with this Policy and their Investment Mandate, where a Manager is required to complete and sign a compliance report; and
- (e) Investment performance of the assets of the Plans in relation to the rate of return expectations outlined in this Policy.

### **5.5 Dismissal of a Fund Manager**

The Committee shall consider from time to time whether a Fund Manager's investment performance or any other circumstances may warrant recommendation to the Board of Governors of the introduction of a probationary period or a change in Fund Manager(s). Such circumstances would include but not be limited to:

- (a) Significant turnover in staff of Fund Manager(s);
- (b) Change in ownership of Fund Manager(s);
- (c) Failure of the Fund Manager(s) to satisfy all of the responsibilities set out in Section 3 of this Statement or set out in the Manager's Investment Mandate;
- (d) Desire to diversify the management of the Pension Fund or to add another Fund Manager(s).
- (e) Unsatisfactory performance and/or compliance in relation to the performance standards specified in Sections 3 and 4 of this Policy.

## **5.6 Voting Rights**

The Board of Governors has delegated voting rights acquired through the investments held by the Plans to the custodian of the securities to be exercised in accordance with the Fund Managers' instructions. Fund Managers are expected to exercise all voting rights related to investments held by the Fund in the interests of the Plans' members. The Fund Managers shall provide their proxy voting policies to the Treasurer.

Further, the Fund Managers must maintain records documenting how they voted and whether ESG was factored into the proxy voting decision making process and must advise the Treasurer regarding their voting on any unusual items or items where they vote against management, at least on an annual basis.

At least annually, each Fund Manager shall provide Treasury with a report of proxy voting actions and how ESG factored into the voting.

At least annually, a summary report of investment manager proxy voting action and how ESG factored into the voting shall be provided to the Planning and Resources Committee of the Board of Governors.

The Board of Governors reserves the right to take back voting rights of assets held in segregated portfolios for specific situations.

## **5.7 Valuation of Investments Not Regularly Traded**

The following principles will apply for the valuation of investments that are not traded regularly:

**(a) Equities**

Average of bid-and-ask prices from two major investment dealers, at least once every calendar quarter.

**(b) Bonds**

Same as for equities.

**(c) Mortgages**

Unless in arrears, the outstanding principal plus/minus the premium/discount resulting from the differential between the face rate and the currently available rate for a mortgage of similar quality and term, determined at least once every calendar quarter.

**(d) Real Assets**

A certified written appraisal from a qualified independent appraiser at least every two years.

## **5.8 Policy Review**

The Policy may be reviewed and revised at any time, but it must be formally reviewed by the Committee, the Planning and Resources Committee and by the Board of Governors at least annually.

## **5.9 Asset-Liability Review**

An Asset-Liability Study will be considered by the Committee every three to five years. A new Asset-Liability Study may be undertaken if any of the following events occur:

- (a) The sponsor's risk posture changes significantly;
- (b) There are significant changes to pension legislation or regulations that affect the key metrics used in making decisions in the Asset-Liability Study or should affect the asset allocation in the future;
- (c) Capital market conditions change significantly such that the assumptions embedded in the Asset-Liability Study are no longer reasonable;
- (d) There are changes in the Plan's benefits or liability structure; or
- (e) New methodologies emerge that appear to improve the usefulness of Asset-Liability studies.