



Policies, Procedures and Guidelines

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**Statement of Investment Policies and
Procedures**

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**McMaster University Contributory Pension
Plan for Hourly-Rated Employees**

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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 Hourly-Rated Employees of McMaster University Including McMaster Divinity College (the ‘Plan’).

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

1.2 Background of the Plan

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 the Plan, which is a defined benefit pension plan into which its contributions and the employees' contributions are deposited. These contributions are made biweekly and are remitted before the end of the following month to the Plan's trustee.

As directed by the McMaster University Hourly Pension Plan Retirement Committee (the ‘Committee’), the University contracts with third parties to provide trustee, custodial, investment management, actuarial, and consulting services.

Retiree benefits are paid from the Plan. Also paid from the Plan are termination and death benefits, trustees' fees, audit fees, actuaries' fees, investment management fees, consultants' fees, filing fees and other related costs as approved by the Committee.

1.3 Plan Profile

(a) Contributions

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

The University will pay the balance required to provide the cost of benefits. The minimum University contribution each year is an amount equal to the contributions made by the Plan members during the year.

(b) Benefits

For service prior to January 1, 1986, the amount of annual pension will be the pension earned to December 31, 1985 increased in accordance with periodic amendments thereafter.

For service after December 31, 1985, the amount of annual pension payable to a Plan member will be:

- (i) 1.4% of Best Average Earnings up to the Average Year's Maximum Pensionable Earnings times years of Credited Service, plus
- (ii) 2.0% of Best Average Earnings in excess of the Average Year's Maximum Pensionable Earnings times years of Credited Service.

The amount by which twice the Plan member's required contributions with interest exceed the commuted value of the Member's benefit shall be paid to the Plan member. Pensions in payment after January 1, 2003, will be increased by the excess over 6% of

the 5 year average return on the Fund, subject to a maximum increase equal to the change in the CPI for the previous Plan year.

1.4 Objective of the Plan

The objective of the Plan is to provide participants with defined pension benefits based on a Best Average Earnings and with potential indexation of retirement benefits, as defined in the Plan Text. It is important to set up an appropriately diversified asset mix in order to ensure continued prudent and effective management of the Fund.

1.5 Investment Objectives, Beliefs and Risk Appetite

Funding Objectives

The Plans' funding objectives are to:

- (a) Manage the volatility and level of contributions;
- (b) Maintain benefit security, and
- (c) Reduce the likelihood of special 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 Plan 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 Plan, the Committee has determined that the Plan has a moderate risk appetite for investment risk, as demonstrated by the approved asset classes, investment targets and limits within this policy.

Investment Beliefs

The Hourly Pension 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.

The Committee recognizes that, based on historical data and on forecasted returns, the asset classes most likely to produce the greatest return in excess of inflation over time are also likely to exhibit the most volatility. Conversely, the asset classes likely to be the least volatile are likely to produce the lowest returns over time. The investment philosophies and strategies must take into account both return and risk objectives.

Therefore, it is reasonable to adopt a long-term asset mix strategy with an appropriate equity content that is well diversified.

1.6 Delegation of Responsibility and Administration

The University is the legal administrator of the Plan and is therefore responsible for all matters relating to the administration, interpretation and application of the Plan, including developing, monitoring and amending this Policy. The Committee assists the University with the administration of the Plan.

Overall responsibility for the Plan 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 Board of Governors will:

- (i) Determine the level of the University's contribution to the Plan on the recommendation of the Planning and Resources Committee and in accordance with the guidelines set out in the Hourly Pension Plan text;
- (ii) Consider items endorsed by the Planning and Resources Committee and approve where appropriate;
- (iii) Be responsible for the delegation of any responsibilities not specifically mentioned.

(b) The Planning and Resources Committee of the Board of Governors will:

- (i) Consider recommendations by the Committee concerning the level of the University's contribution to the plan and endorse those recommendations to the Board of Governors where appropriate;
- (ii) Consider items brought forward by the Committee for approval and endorse recommendations to the Board of Governors where appropriate.

(c) The Committee will:

- (i) Approve and make recommendations where necessary to the Planning and Resources Committee regarding changes to the Investment Manager(s), Custodian/Trustee, and Investment Consultant;
- (ii) Monitor and review performance of the Investment Manager(s) on a qualitative and quantitative basis at least semi-annually;
- (iii) Review the Fund's performance on a quarterly basis, and approve situations of deviations or proposed deviation by the Fund Manager from the Policy to the Planning and Resources Committee;
- (iv) Discuss and promote awareness and understanding of the Plan by Members of the Plan and persons receiving benefits under the Plan;
- (v) Review the Statement of Investment Policy and Procedures (the "Policy") at least annually, make changes, and endorse to the Planning and Resources Committee for approval as required;

- (vi) Review the actuarial valuation, changes in methods and assumptions and its impact upon the Plan, and endorse to the Planning and Resources Committee for approval;
 - (vii) Review the financial statements and endorse to the Planning and Resources Committee for approval;
 - (viii) Approve and recommend to the Planning and Resources Committee proposed changes to the Plan text;
 - (ix) Consider other matters as may be referred to the Committee by the participating unions, Planning and Resources Committee or the Board of Governors;
- (d) **The Investment Manager(s) will:**
- (i) Invest the assets of the Fund in accordance with this Policy and applicable legislation;
 - (ii) Notify the Committee, in writing, of any significant changes in the Investment Manager's philosophies and policies, personnel or organization and procedures;
 - (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; and
 - (iv) Provide semi-annual compliance reports that confirms that the Manager has complied with the Policy or identifies areas of non-compliance.
- (e) **The Custodian/Trustee will:**
- (i) Maintain safe custody over the assets of the Plan;
 - (ii) Execute the instructions of the University and the Investment Manager(s); and,
 - (iii) Record income and provide monthly financial statements to the University as required.
- (f) **The Actuary will:**
- (i) Perform actuarial valuations of the Plan as required;
 - (ii) Advise the Committee on any matters relating to the Plan design, membership and contributions;
 - (iii) File appropriate documents and reports with relevant authorities; and
 - (iv) Assist the Committee in any other way required.

- (g) **The Investment Consultant will:**
- (i) Assist in the development and implementation of this Policy;
 - (ii) Monitor the performance of the Fund and the Investment Managers and advise the Committee on such performance;
 - (iii) Monitor the Investment Managers' compliance reports;
 - (iv) Support the Committee on matters relating to investment management and administration of the Fund; and,
 - (v) Meet with the Committee as required.
- (h) **University Management will:**
- (i) Comment and make recommendations to the Planning and Resources Committee on the appointment of the Actuary;
 - (ii) Ensure the plan's administration complies with all applicable legislation and regulations;
 - (iii) Make recommendations to the parties to the collective agreements regarding amendments to the plan text;
 - (iv) Perform any duties or obligations not noted above and as described in Article 13 – *Administration of the Plan* of the Plan text.

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 Plan 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), the Standard & Poor's 500 Index (S&P 500 Index), the Morgan Stanley Capital International Europe, Australasia and Far East Index (MSCI EAFE Index) and the FTSE Canada Universe Bond Index 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 and Canadian bonds. 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.

The Committee will monitor the volatility of the fund and underlying manager(s).

2.3 Management Structure

The Committee believes that an Investment Manager with an active mandate can reduce portfolio risk below market risk and potentially add value both through security selection and asset allocation strategies.

2.4 Asset Mix

(a) Overall Asset Mix

The benchmark portfolio is representative of the long-term asset mix policy for the Fund as set out by the Committee. The Total Fund benchmark portfolio and asset mix guidelines (by market value) are set out below:

Assets	Minimum %	Benchmark %	Maximum %
Canadian equities	10	20	30
U.S. equities	8	18	28
Non-North American equities	<u>7</u>	<u>17</u>	<u>27</u>
Total equities	35	55	70
Bonds	25	45	65
Cash and Short-term	<u>0</u>	<u>0</u>	<u>10</u>
Total Fixed Income	30	<u>45</u>	65
Total		<u>100</u>	

The actual asset mix at any time may deviate from the Benchmark indicated above. The manager shall monitor and adjust the asset mix to ensure that the actual asset mix stays within the ranges as indicated by the minimums and maximums specified.

The Investment Manager shall comply with restrictions imposed by federal or provincial legislation and regulations.

(b) Categorization per Pension Benefits Act

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

Investment Category	Target Allocation
Insured contracts	0.0%
Mutual or pooled funds or segregated funds	0.0%
Demand deposits and cash on hand	0.0%
Short-term notes and treasury bills	0.0%
Term deposits and guaranteed investment certificates	0.0%
Mortgage loans	0.0%
Real estate	0.0%
Real estate debentures	0.0%
Resource properties	0.0%
Venture capital	0.0%
Corporations referred to in subsection 11(2) of Schedule III of the PBSR	0.0%
Employer issued securities	0.0%
Canadian stocks	20.0%
Non-Canadian stocks	35.0%
Canadian bonds and debentures	45.0%
Non-Canadian bonds and debentures	0.0%
Other investments	0.0%

The minimum rating for the target investment allocation of Canadian fixed income securities is BBB (or equivalent), as rated by at least one Recognized Bond Rating Agency as defined in section 3.4 (b). Notwithstanding this target, actual quality requirements and permitted ranges shall be determined by the Investment Manager(s) responsible for implementation of the strategy.

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 Ontario Pension Benefits Act, the federal Income Tax Act (Canada) and any relevant regulations.

3.2 Derivatives, Options and Futures

The pooled funds may utilize derivatives, options or futures if their policies permit. The derivatives instruments allowable under the Policy may be used only when they are regularly traded upon a recognized marketplace. Any investment in derivative securities shall be solely for non-speculative and non-leveraged purposes.

3.3 Permitted Investments

In general, and subject to the restrictions noted below, the Fund may invest 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 common or convertible preferred stock;
- (iii) Rights, warrants and special warrants for common or convertible preferred stock;
- (iv) Instalment receipts and American and Global Depository Receipts; and,
- (v) 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; and,
- (vi) Canadian income trusts which provide provincially-legislated limited liability protection to the unitholders.

- (b) **Bonds**
- (i) Bonds, debentures, notes, non-convertible preferred stock and other evidence of indebtedness of Canadian and non-Canadian 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; and,
 - (v) Deposit accounts of the custodian can be used to invest surplus cash holdings
- (d) **Derivative Instruments**
- The use of derivative instruments which would be contracted on a leveraged basis is prohibited.
- The following uses of non-leveraged derivative instruments for defensive purposes are permitted:
- (i) Puts, calls, options, option contracts and futures or options on future contracts on securities that are permissible investments in accordance with this Statement;
 - (ii) The Investment 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,
- (e) **Other Investments**
- Following appropriate consultation with and approval by the Committee, investment may be made in:
- (i) Futures and options;
 - (ii) Pooled or mutual funds holding otherwise eligible investments, including any fund sponsored by the Investment Manager for the client's benefit;
 - (iii) Foreign investments other than U.S. and international equities as provided for above;
 - (iv) Real estate;
 - (v) Mortgages, including index-linked mortgages; and,

- (vi) Index-linked annuities.

Such approval will be considered to be in effect until written notice has been received that it has been rescinded by the Committee.

3.4 Minimum Quality Requirements

(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 Recognized Bond Rating Agency, at the time of purchase.
- (ii) The minimum 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 Recognized Bond Rating Agency, at the time of purchase.

(b) Rating Agencies

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

- (i) Dominion Bond Rating Agency;
- (ii) Standard & Poor’s; and,
- (iii) Moody’s Investors Services.

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

3.5 Maximum Quantity Restrictions

The following restrictions are to be respected:

(a) Equities

- (i) No one equity holding shall represent more than 10% of the market value of any one Investment 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 Investment Manager’s

portfolio shall be invested in Royalty or Income Trusts

(b) Bonds and Short Term Securities

- (i) Except for federal and provincial bonds, no more than 10% of an Investment 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 an Investment 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 an Investment 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 Investment Manager's bond portfolio shall be invested in bonds of foreign issuers; and,
- (vi) Private placements and asset-backed securities can be held to a maximum of 15% of the bond portfolio. The Investment Manager will advise the Committee when this category exceeds 10% of the bond portfolio.

3.6 Prior Permission Required

The following investments are permitted provided that the Investment Manager has obtained prior written permission from the Committee:

- (a) Investment in any asset or security previously disqualified by the Committee by written notice to the Investment Manager;
- (b) Direct investments in a Canadian resource property;
- (c) Direct investments in mortgages;
- (d) Direct investments in any one parcel of real property;
- (e) Direct investments in venture capital financing; and,
- (f) Investments in a pooled fund with objectives that conflict with this Policy;

3.7 Prohibited Investments

The Investment 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) Make any investment not specifically permitted by this Policy or the Investment Manager's investment mandate.
- (d) Invest in any securities issued by McMaster or its affiliates; or
- (e) Make any investment not specifically permitted by this Policy or Investment Manager's investment mandate.

3.8 Securities Lending

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, and provided that appropriate controls are in place and there is an indemnity by the custodian against all losses as a result of the custodian's securities lending program.

Such loans must be secured by cash and/or readily marketable high quality bonds, treasury bills, and/or letters of credit, discount notes and bankers' acceptances of Canadian chartered banks. The amount of collateral taken for securities lending should reflect best practices in local markets, but should be a market value of at least 105% of the market value of the loaned securities under an enhanced indemnity agreement. The market value relationship between collateral and securities on loan must be calculated at least daily.

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

3.9 Borrowing

The Plan 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 and the prior written permission of the Board of Governors, endorsed by the Committee.

3.10 Liquidity

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

The Investment Manager is expected to have sufficient liquid assets to enable payment of the Plan's promised benefits in a timely manner.

3.11 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 Plan. The Plan’s Investment Manager(s) determine the stock holding of the 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.

3.12 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 Investment 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 quarterly based on the results at March 31, June 30, September 30, and December 31.

(a) **Total Fund Benchmark**

The primary objective of the Fund is to earn a rate of return that exceeds the rate of return on the benchmark portfolio over rolling four-year time periods plus 0.75%. The benchmark consists of the following market index total returns weighted as indicated:

Benchmark	Weight (%)
S&P/TSX Composite Index	20
S&P 500 Index (Cdn.\$)	18
MSCI EAFE Index (Cdn.\$)	17
FTSE Canada Universe Bond Index	<u>45</u>
Total	<u>100</u>

A secondary objective of the Fund is to achieve, over a four (4) year period at least second quartile performance compared to a performance measurement service pension database.

Total rate of return is the time-weighted rate of return, before fees, based on the change of market value including realised and unrealised gains and losses and including income from all sources.

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 Investment Manager

The Investment Manager(s) must submit a compliance report on a semi-annual basis to the Committee. The compliance report should indicate whether or not the manager's portfolio was in compliance with this Policy during the previous six months.

In the event that the Investment Manager's portfolio is not in compliance with this Policy, the Investment Manager is required to detail the nature of the non-compliance in the quarterly compliance report as well as notify the Treasurer and to implement an appropriate course of action to remedy the situation, as soon as practical.

4.3 Standard of Professional Conduct

The Investment Manager(s) 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 Investment Manager(s) will manage the assets with the care, diligence and skill that an Investment Manager of ordinary prudence would use in dealing with pension plan assets. The Investment Manager(s) 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 Policy, a conflict of interest is defined as any event in which any employee or member of or consultant to:

- (a) Board of Governors,
- (b) Planning and Resources Committee,
- (c) Audit Committee,
- (d) The Committee,
- (e) Actuary,
- (f) Investment 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 Plan.

It is not possible to anticipate in advance, in this Policy, 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 Plan’s 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 Plan.

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 Plan 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

For the purpose of this section, a “related party”, “administration”, and a “transaction” in respect of the Plan have the meanings given to such terms in Schedule III of the Pension Benefits Standards Regulations (Canada), as amended from time to time. The following related party transactions are among those permitted for the Plan:

- (a) Any transaction that is required for the operation or administration of the Plan under terms and conditions that are not less favourable to the Plan 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 Plan.

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

5.3 Selecting Investment Managers

In the event that a new Investment Manager must be selected or additional Investment Manager(s) added to the set of existing Investment Manager(s), the Committee will undertake a investment manager search with the assistance of a third-party investment consultant. The criteria used for selecting an investment manager will be consistent with the investment and risk philosophy set out in Section 1.5 (Investment Objectives, Beliefs and Risk Appetite).

5.4 Monitoring of Investment Managers

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

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

5.5 Dismissal of an Investment Manager

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

- (a) Significant turnover in staff of Investment Manager(s);
- (b) Change in ownership of Investment Manager(s);
- (c) Failure of the Investment Manager(s) to satisfy all of the responsibilities set out in Section 3 of this Policy;
- (d) Desire to diversify the management of the Fund or to add another Investment 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 Committee has delegated voting rights acquired through the investments held by the Plan to the custodian of the securities to be exercised in accordance with the Investment Manager's instructions. Investment Managers are expected to exercise all voting rights related to investments held by the Fund in the interests of the Plan Members. The Investment Manager(s) shall provide their proxy policies to the Treasurer.

At least annually, the Investment Manager(s) 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 Committee reserves the right to take-back voting rights of assets held in segregated portfolios for specific situations.

Further, the Investment Managers must maintain records documenting how they voted and will advise the Treasurer if they voted against its own share voting policy.

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 Estate**
A certified written appraisal from a qualified independent appraiser at least every two years.
- (e) **Resource Properties and Venture Capital**
A written market value assessment prepared by party qualified to make such assessments, at least every two years.

5.8 Valuation of Investments

The trustees of the pooled funds shall value the pooled fund units.

5.9 Life Annuities

Nothing in the Policy shall preclude the Fund from purchasing life annuities to secure the pensions of the Members in whole or in part.

5.10 Policy Review

The Policy may be reviewed and revised at anytime, but it must be formally reviewed by the Committee at least annually.