



STATEMENT OF INVESTMENT POLICIES AND PROCEDURES

Policy of the Board of Trustees

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Section 1 – Overview

1.1 Purpose of Statement

This *Statement of Investment Policies and Procedures* (the “Policy”) provides broad investment policies and procedures for the management of the assets of the OPSEU Pension Plan Trust Fund (the Fund”). This Policy provides the framework for the investment of the Fund, which are the assets of the OPSEU Pension Plan (the “Plan” or “OPTrust”). The Plan is registered under the *Pension Benefits Act Ontario* (“PBAO”; #1012046) and the *Income Tax Act (Canada)* (“ITA”).

This Policy is based on the “prudent person portfolio approach” which requires that the Trustees ensure that the assets of the Plan are invested with the care, diligence and skill that a prudent person would use in making investments on behalf of another person. In monitoring the investment activities of the Fund, the Trustees are required to use all relevant knowledge and skill they possess or ought to possess by reason of their profession, business or calling.

This Policy is supported by other Board of Trustees policies that support the day-to-day management of the Fund.

1.2 Plan Profile

The Plan is governed by the *OPSEU Pension Act, 1994* and Fund investments must be selected and held in accordance with the criteria and limitations set forth herein and in accordance with all relevant legislation, including the PBAO, ITA as well as the *Trustee Act* (Ontario).

The Plan and Fund were established pursuant to a Sponsorship Agreement and a Trust Agreement, both of which are between the Ontario Public Service Employees Union (“OPSEU”) and the Province of Ontario (the “Province”).

The Plan is a contributory, defined benefit pension plan. Benefits are based on years of credited service and a member’s best 60 consecutive months of salary. Pensions, including deferred pensions, are indexed to the Consumer Price Index for Canada to a maximum of 8% per year, with any excess carried forward to future years.

OPSEU and the Province are equally represented on the Board of Trustees and share equal responsibility for Plan funding.

Section 2 – Fund Governance

2.1 Responsibilities of the Trustees

The Trustees of the Plan (the "Trustees") are responsible for monitoring the overall management of the Plan and the Fund and have delegated authority for the operation of the Plan and the Fund to the President and CEO, who also has the formal role as Plan Manager, with the power to sub-delegate. The Trustees provide oversight and monitor any delegated responsibilities. In particular, the Trustees have retained the following duties and responsibilities relating to the investments of the Plan to:

- Develop and approve Board governance policies, such as on confidentiality, code of conduct, and any other policy needed to implement the roles and responsibilities of the Board
- Appoint, direct, compensate and evaluate all external expert advisors to the Board
- Approve the Statement of Investment Policies and Procedures
- Approve the Statement of Responsible Investing Principles (SRIP)
- Approve Investment Policy Guidelines
- Approve Proxy Voting Guidelines and implementation protocols
- Approve the long term asset allocation policy targets and annual investment pacing plans and any changes to these targets and plans
- Approve the appointment, retention and termination of the custodian Approve the appointment, retention and termination of external investment managers
- Approve any investments outside of the scope of approved investments
- Approve policies on subsidiaries
- Develop and use a regular monitoring program to ensure that the OPTrust is achieving its strategic, operational, investment performance, financial and risk objectives
- Require that management have in place an adequate process to ensure compliance with all applicable laws, regulations and rules and monitor compliance

The Trustees may seek input from management through the President and CEO, the relevant Committee(s), and external advisors, as required in the execution of their duties and responsibilities.

Section 3 – Asset Mix and Diversification Policy

3.1 Portfolio Return Requirements

The Fund's minimum required long-term rate of return, established through the most recent actuarial valuation, is (net of all expenses) 6.50% nominal and 4.00% real. The Trustees recognize that this return objective necessitates that some investment risk is assumed. The Plan's current financial condition and membership profile suggest that the Fund can tolerate some interim fluctuations in market values and rates of return in order to achieve the long-term return objective.

3.2 Expected Volatility

The volatility of the Fund's return is directly related to market conditions, the asset mix, the investment structure and the use of active investment management. Volatility may be further impacted by leverage employed by certain Investment strategies. Nonetheless, the expected volatility of the Fund's return over a long-time horizon should be similar to the volatility of the target asset mix portfolios as set out in the *Asset Mix Policy*.

3.3 Asset Mix

In setting the Fund's asset mix, the Trustees have considered the following factors, among others in the context of general economic conditions:

- (a) The nature of the Plan's liabilities;
- (b) The possible effects of inflation or deflation;
- (c) The expected total return of the portfolio;
- (d) Liquidity; and
- (e) The characteristics of different asset classes, their relationships to each other and their risk and return characteristics in an asset liability framework.

The following asset classes have been defined as part of the ***Asset Mix Policy***:

Equities

Canadian Equities, U.S. Equities, EAFE¹ Equities, Emerging Markets Equities, Private Equity

Fixed Income

Canadian Long Bonds, Canadian Mid Bonds, Canadian Short Bonds, Cash

Inflation Hedging

Real Estate, Infrastructure, Real Return Bonds ("RRBs"), Commodities-Energy

¹ Europe, Australasia and Far East

3.3 Asset Mix (cont'd)

The following long-term asset mix was approved by the Trustees in 2009 following the completion of an Asset/Liability Study.

Asset Class	Long-Term Asset Mix Target
TOTAL EQUITY	40.0
Canadian Equity	10.0
U.S. Equity	1.5
International Equity	5.7
Emerging Markets Equity	7.8
Private Equity	15.0
INFLATION HEDGING	37.5
Real Return Bonds	2.5
Real Estate	15.0
Infrastructure	15.0
Commodities - Energy	5.0
FIXED INCOME	22.5
Long-term Bonds	20.0
Cash	2.5
TOTAL	100.0

The Fund's current allocation to Infrastructure and Private Equity is significantly below the target allocations. Given the nature of these asset classes, a long-term investment pacing plan is being used to reach the Fund's target allocation to them over time.

Specific strategies for the implementation of each asset class shown above are detailed in internal policy documents which include a rebalancing strategy.

Section 4 – Investment Guidelines

4.1 General Guidelines

The investments of the Plan's assets must comply with the requirements and restrictions set out in the PBAO and the Regulations.

4.2 Asset Categories

The Fund may invest in any or all of the following asset categories and subcategories of investments:

- (a) Equities – Public and private equities through securities such as common stocks, preferred stocks, private placements, rights, installment receipts, warrants, income trusts, securities convertible into equity and limited partnerships.
- (b) Infrastructure – Direct and indirect interests in long-term infrastructure investments.
- (c) Real Estate – Direct and indirect interests in private real estate and public real estate securities.
- (d) Fixed Income – Debt securities of government and corporate entities.
- (e) Real Return Bonds – Debt securities with cash flow streams linked to Inflation.
- (f) Commodities – Derivatives reflecting the energy component of the S&P GSCI. All investments are subject to the derivatives provision in (g) below.
- (g) Derivative securities as follows: Swaps, Forwards, Futures and Options for the purpose of managing its exposure to interest rates, currencies, commodities, securities and financial markets.

4.3 Borrowing

The Trustees are empowered to borrow funds, if necessary, of a short-term nature to resolve any short-term cash-flow requirements and/or to avoid a distress sale of securities, subject to the PBAO and the Sponsorship and Trust Agreements.

Borrowing in respect of a specific investment is permitted, subject to the limits set out in investment policies approved by the Board of Trustees.

4.4 Conflicts between the Policy and Pooled Fund Policies

Investment management agreements between the Fund and an investment manager in respect of a pooled fund shall conform to this Policy. However, circumstances may arise in which the investment policy of a pooled fund conflicts with this Policy, and, in these cases, the following procedures shall apply:

- (a) The investment manager shall notify the Fund of any such conflict within ten (10) days of the date that the conflict arises;

- (b) The President and CEO shall consider recommending to the Trustees whether to modify this Policy to accommodate the pooled fund's investment policy, and, if so, for what period of time, or not; and
- (c) If the Trustees determine not to modify this Policy, the Fund shall terminate the investment management agreement with the pooled fund's investment manager.

4.5 Consideration of Environmental, Social and Governance (“ESG”) factors

The Fund is committed to responsible investing and is a signatory to the United Nations' Principles for Responsible Investment (“UNPRI”). The Fund's commitment to responsible investing includes compliance with the Fund's Statement of Responsible Investing Principles (“SRIP”), recognizing that ESG factors can affect the financial performance of an investment of the Fund and, as such, are part of the Plan's approach to investment management.

Where material, ESG considerations are among the factors that internal and external investment managers should consider when selecting investments on behalf of the Fund in all asset classes. The approach to ESG integration in the investment process will, however, vary both between and within asset classes based upon a number of factors, including the degree of control exercised by the Plan, contractual restrictions and the nature of the investment.

The Plan requires both its internal and external investment managers to comply with the SRIP.

4.6 Active Ownership

OPTrust takes a responsible stewardship approach to ownership by monitoring companies within its portfolios, actively voting at all company meetings, and engaging with investee companies and other entities in order to improve corporate ESG performance. Active ownership is practiced by investment teams across asset classes, to the extent possible and in accordance with the SRIP.

Proxy voting is a key component of active ownership with publicly listed investee companies. As part of OPTrust's efforts to ensure good corporate governance practices at the companies in which OPTrust invests, the Plan's shares will be actively voted according to OPTrust's *Proxy Voting Guidelines* which outline expectations for: the composition of boards of directors, executive compensation, shareholders rights, and the management and disclosure of material social and environment issues.

OPTrust may use one or more external proxy voting advisory firms to provide research and to assist with share voting. OPTrust staff work closely with the voting firm(s) and monitor the vote record to ensure that the guidelines are complied with. OPTrust's proxy voting record is reported to the Trustees on a semi-annual basis.

OPTrust may engage with investee companies either directly or in collaboration with other investors if monitoring has identified an ESG concern. Regulators and policy makers are also engaged, primarily through organizations of which OPTrust is a member, to ensure that

the perspectives of shareholders with a long-term view are maintained when policies and laws are revised or introduced.

4.7 Liquidity

Investment of Fund assets is undertaken with a view of providing for sufficient liquidity to enable the Plan to meet all of its obligations as they become payable.

Section 5 – Monitoring and Control

5.1 Performance Measurement

The performance of the Fund will be measured on a regular basis against a Composite Benchmark Portfolio, detailed in the Fund's *Benchmark Policy* and in accordance with the *Performance Measurement Policy* which sets out the guidelines that apply in the calculation of performance returns.

Where appropriate, as part of the ongoing performance measurement process undertaken by management, investment strategies and performance will also be monitored.

5.2 Standard of Professional Conduct

The *Code of Ethics and Standards of Professional Conduct* of the CFA Institute shall apply to all internal and external investment managers, but shall not prevail over any requirement or standard contained in this Policy or any *investment management agreement* that is more favourable to the Fund.

The Plan's external investment managers are required to manage the assets of the Fund with the care, diligence and skill that a prudent person skilled as a professional investment manager would use in dealing with pension plan assets on behalf of plan members. In managing the assets of the Fund, the investment manager is also required to use all relevant knowledge and skill that it possesses or ought to possess as a professional investment manager.

Section 6 – Administration

6.1 Conflicts of Interest

These guidelines apply to the following persons and firms (“Covered Persons”):

- (d) The Trustees;
- (e) All external investment managers;
- (f) All employees of the OPTrust and all agents or advisors (other than an investment manager) retained by the Fund who provide services to the Fund; and
- (g) Any employee or agent retained by those listed in (a) to (c) who provide services to the Fund.

Covered Persons are required to act in the best interests of the Plan and its members. Accordingly, no Covered Person may: (a) exercise his or her powers in respect of the Plan in his or her own interest or in the interest of a third person; or (b) act on behalf of the Plan in a situation of conflict or potential conflict between his or her personal interests and his or her duties with regard to the investment of the Plan.

Every Covered Person must disclose any direct or indirect material interest in, or involvement or association with, any transaction or property related to the Fund's Assets that would result in any actual, potential or perceived conflict of interest.

Employees must disclose a conflict of interest or a potential conflict of interest to the President and CEO, who must take appropriate steps to ensure that all applicable policies and legal requirements are adhered to. The President and CEO must disclose any such conflict or potential conflict and the steps taken to address the conflict or potential conflict to the Chair and Vice-Chair of the Board.

If an external investment manager has a conflict or a potential conflict of interest, then the external investment manager must disclose any such conflict to the Chief Investment Officer of the Fund, who shall report any such conflict to the President and CEO. The President and CEO and the CIO shall then ensure that all applicable policies and legal requirements are adhered to. The President and CEO must disclose any such conflict or potential conflict and the steps taken to address the conflict or potential conflict to the Chair and Vice-Chair of the Board.

A Trustee shall disclose the nature and extent of his or her conflict or potential conflict to external Board legal counsel, the Chair and the Vice-Chair of the Board of Trustees at the earliest of the following times:

- (a) Upon becoming aware of the conflict or potential conflict;
- (b) At the first instance in which the matter or issue is raised;
- (c) At the first instance in which he or she knows or ought to have known that he or she has an interest in the matter;
- (d) After becoming a party to a contract with the issuer of any security owned by the Plan such that the individual obtains a material interest in the operations of the Plan.

If either the Chair or Vice-Chair has a conflict or a potential conflict of interest, then the Chair or Vice-Chair, as the case may be, shall report his or her conflict to external Board legal counsel and the Chair or Vice-Chair, as the case may be, in accordance with the procedure set out above.

The disclosure must be made orally if the knowledge of the conflict or potential conflict arises in the course of a discussion at a meeting and in such case shall be entered in the minutes of the meeting.

If a conflict is disclosed at a meeting of Trustees, the Trustee disclosing a conflict or potential conflict may only continue to participate in the meeting dealing with the matter if:

- (a) Board legal counsel advises that it is appropriate for the Trustee to continue to attend the meeting, the remaining unconflicted Trustees form a quorum for the purposes of the Board or Committee meeting and, after discussion of the conflict, decide through a formal vote to consent to have the conflicted Trustee(s) participate in the discussion of the agenda item;
- (b) The conflicted Trustee(s) agrees to attend and participate in the discussion of the agenda item
- (c) If, as a result of disclosure of a conflict of interest, quorum for the committee meeting is lost, then the remaining unconflicted Trustees shall report on the matter in question to the Board of Trustees as a whole at the next meeting of the Board of Trustees. At that meeting, the Board of Trustees will deliberate upon and make a decision about the matter in question.

Unless there is such an agreement for the conflicted Trustee(s) to attend and participate in the discussion, the Trustee must not discuss the matter with any other Trustee or otherwise attempt to influence the decision of another Trustee in relation to the matter.

A conflicted Trustee is not, under any circumstances, permitted to vote on an agenda item in which they have a conflict, whether actual or potential.

If a Trustee becomes aware of a conflict of interest at any time other than during a meeting, then the conflict must be immediately disclosed to external counsel, the Chair and the Vice-Chair and then recorded at the opening of the next meeting at which the Trustee attends.

In addition to the above-noted requirements, the requirements of the policy on *Conflict of Interest for OPT Trustees, Designated Employees and Related Entities* shall govern, as applicable.

6.2 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 PBAO, the federal investment regulations, the ITA, and any additional applicable Regulations.

All loans will be made in accordance with the terms of a securities lending agreement (“SLA”) entered into between the Fund and the agents appointed to administer the securities lending program, and any other lending agreements entered into between such agent and a borrower of securities.

All loans must be secured by cash or securities collateral. Securities collateral obtained must be high quality, readily marketable securities. The amount of collateral taken for securities lending should reflect best practices in local markets, but shall have a market value of at least 102% of the outstanding market value of the loaned investments (marked-to-market daily).

The lending agreements require the agent to recall shares on loan on a best effort basis so that proxy votes can be executed by OPTrust.

6.3 Valuation of Investments Not Regularly Traded

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

- (a) Equities (other than private equity) - Average of bid-and-ask prices from two independent calculation agents, at least once every month.
- (b) Bonds - Same as for equities.
- (c) Mortgages - Unless in arrears, the outstanding principal plus/minus the premium/discount resulting from the differential between face rate and the currently available rate for a Mortgage of similar quality and term, determined at least once every month.
- (d) Real Estate - Investments in Real Estate will be valued using the valuation methodology and frequency reflective of the investment’s carrying value and in accordance with a Board approved methodology.
- (e) Private Equity and Infrastructure - Investments in Private Equity and Infrastructure will be valued using the valuation methodology in accordance with a Board approved methodology.
- (f) Province of Ontario non-marketable debentures held by the Fund will be valued from time to time, but at least on the last business day of every calendar quarter, based on the values of marketable Bonds with similar coupon rates, quality, duration and term.

6.4 Related Party Transactions

The OPTrust complies with legislation with respect to related party transactions as defined in Schedule III of the *Pension Benefits Standards Regulations, 1985*.

The following related party transactions are permitted where the terms and conditions of the transaction are not less favourable to the Plan than market terms and conditions:

- (a) Any transaction that is required for the operation or administration of the Plan;
- (b) Any transaction the value of which is nominal, or which is immaterial to the Plan (two or more transactions with the same related party shall be considered a single transaction for the purposes of determining whether a transaction is immaterial); and
- (c) Any purchase of securities of a related party, provided that those securities are acquired at a public exchange recognized under the *Pension Benefits Standards Act, 1985* and *Regulations (Canada)*.

For greater certainty, any related party transaction must be disclosed to and approved by the Board of Trustees.

6.5 Policy Review

It is the intention of the Trustees to reassess this Policy at least annually. However, if at any time an external investment manager feels that its objectives or requirements cannot be met, or that the requirements or restrictions are imprudent, or that the Policy restricts performance, the investment manager should immediately notify the President and CEO in writing.

Appendix A – Glossary

As used in this *Statement of Investment Policies and Procedures* for the Plan:

"Asset" means anything having value that is owned by the Plan.

"Bond" means any interest-bearing or discounted government or corporate security that obligates the issuer to pay the bondholder a specified sum of money, usually at specific intervals, and to repay the principal amount of the loan at maturity.

"Cash Equivalents" are assets that are readily convertible into cash, such as money market holdings, short-term government bond, or Treasury bills, marketable securities and commercial paper. Cash equivalents are distinguished from other investments through their short-term existence.

"Chair" means the member of the Plan Board of Trustees who presides over its meetings.

"Common Stock" means the units of ownership of a public corporation where owners typically are entitled to vote on the selection of directors and other important matters as well as to receive dividends on their holdings, and in the event that a corporation is liquidated, the claims of secured and unsecured creditors and owners of Bonds and Preferred Stock take precedence over the claims of those who own common stock.

"Commodities - Energy" include crude oil, gasoline, heating oil, and natural gas, as defined by the S&P GSCI.

"Consumer Price Index (CPI)" means the Consumer Price Index for Canada as published by Statistics Canada under the authority of the *Statistics Act (Canada)*.

"Coupon Rate" is the interest rate on a debt Security the issuer promises to pay to the holder until maturity, expressed as an annual percentage of face value.

"Custodian" means a bank or other financial institution that among other things keeps custody of stock certificates and other assets of a mutual fund, individual or corporate client.

"Debenture" means a general debt obligation backed only by the integrity of the borrower and documented by an agreement called an indenture.

"Duration" means the weighted-average time (in years) to cash flow recovery.

"Equity" means the ownership interest possessed by a shareholder in a corporation or similar entity.

"ESG" is the term used to describe environmental, social and governance factors that may be material to long-term financial performance (such as climate change, toxic chemicals, human rights, labour relations, board composition, and executive compensation). They tend

to relate to qualitative criteria not readily quantifiable in monetary terms, or to externalities not well captured by market mechanisms.

"Forwards" means any over-the-counter ("OTC") contract, which calls for the delivery of an underlying asset, for a specified price (the forward delivery price), to be delivered at contract maturity.

"Fund" means Assets of the Plan.

"Futures" means any exchange-traded contract, which calls for the delivery of an underlying asset at a predetermined maturity date, for a pre-specified price (the futures delivery price), to be delivered at contract maturity.

"Index" means a statistical composite that measures changes in the economy or in financial markets, often expressed in percentage changes from a base year or from the previous month.

"Inflation" means the rise in the prices of goods and services.

"Infrastructure" means equity or equity related investments that have characteristics similar to the long-term liabilities of OPTrust.

"Market Value" means the most probable price that would be obtained for property in an arm's length sale in an open market under conditions requisite to a fair sale, the buyer and seller each acting prudently, knowledgeably and willingly.

"Mortgage" means a debt instrument by which the borrower (mortgagor) gives the lender (mortgagee) a lien on property as security for the repayment of a loan.

"OPSEU" means the Ontario Public Service Employees Union.

"Options" means any contract granting the purchaser of the contract, the right, but not the obligation, to exercise or fulfil the terms and conditions specified in the contract.

"Passive Investment Manager" means an Investment Manager who manages the investments of a fund whose portfolio attempts to match the performance of a broad-based index or combination of broad-based indices.

"Plan" means the OPSEU Pension Plan.

"Preferred Stock" means a class of capital stock that pays dividends at a specified rate, usually does not have voting rights and that has preference over Common Stock in the payment of dividends and the liquidation of assets.

"Private Equity" Equity or equity related securities that are not normally listed or freely tradable on an exchange.

"Private Placement" means the private sale of stocks, Bonds or other investments directly to an institutional investor.

"Proxy" means the written power of attorney given by shareholders of a corporation, authorizing a specific vote on their behalf at corporate meetings.

"Real Estate" as defined by the Real Estate Investment and Management Guidelines, as adopted by the Trustees.

"Readily Marketable" means the following assets, denominated in Canadian or U.S. dollars:

- (a) Cash;
- (b) Widely-traded debt instruments having a rating of single A (or the equivalent) or higher from a recognized, widely followed North American credit rating agency;
- (c) Commercial paper rated A-1 or R-1 or the equivalent by a recognized, widely followed North American credit rating agency;
- (d) Acceptances of banks and trust and loan companies whose short-term deposits are rated A-1 or R-1 or the equivalent by a recognized, widely followed North American credit rating agency; and
- (e) High quality common and preferred shares.

"Real Return Bonds" means Bonds where the Bond coupon and maturity payment vary according to future Inflation rates.

"S&P GSCI" is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.

"Securities Lending Agreement" means an agreement entered into by the Trustees and a borrower of the securities outlining the terms of the loan.

"Security" means any document, instrument or writing commonly known as a Security and includes a share of any class or series of shares or a debt obligation of a corporation, a certificate evidencing such a share or debt obligation and a Warrant.

"Short-term Instruments" represent investments that mature within twelve months or less

"Sponsorship Agreement" means the agreement dated April 18, 1994, between the Crown and OPSEU, providing for the establishment of the Plan.

"SRIP" is the Statement of Responsible Investment Principles which outlines OPTrust's commitment and approach to responsible investment.

"Swaps" means any private agreement between two parties to exchange cash flows at certain times in the future according to some pre-specified formula.

"Trust Agreement" means the agreement made October 25, 1994 between the Crown and OPSEU.

"Trustees" means the Board of Trustees of the Plan.