



## **Statement of Investment Policies and Procedures**

Approved:  
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# Section 1 – Overview

## 1.1 Purpose of Statement

This Statement of Investment Policies and Procedures (the “Policy”) has been prepared by the Trustees of the OPSEU Pension Plan Trust Fund. It provides the framework for the investment of the Assets of the OPSEU Pension Plan (the “Plan”), 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 invest the assets of the plan (the “Fund”) with the care, diligence, and skill that a prudent person would use in making investments on behalf of another person. In investing 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, approved and reviewed from time to time, 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 the 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, and 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 OPSEU Pension Plan Trust Fund (the "Trustees") are responsible for the overall management of the Plan and the Fund. The Plan permits the Trustees to delegate certain duties and responsibilities to Management and provide Management with the power to sub-delegate. The Trustees provide oversight and maintain responsibility over any delegated responsibilities.

The Trustees have retained the following duties and responsibilities:

- Overall responsibility for the Plan's investments;
- Comply with all applicable Legislation and Regulations;
- Establish written investment policies and procedures including this SIP&P;
- Define the terms of reference for the Standing Committees of the Board of Trustees (Investment Committee, Audit Committee, Administration Committee, Governance and Compensation Committee, and the Adjudication Panel)
- Appoint the members of all committees of the Board;
- Appoint and monitor Board advisors;
- Approve the Asset Mix and Investment Structure, in consultation with the Investment Committee;
- Appoint the Investment Managers in consultation with the Investment Committee.

## 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 actuarial valuation, is (net of all expenses) 6.75% nominal and 4.00% real. The Trustees recognize that this return objective necessitates the assumption of some investment risk. 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 is directly related to market conditions, the asset mix, the investment structure and the use of active investment management. Volatility may be impacted further by leverage employed by certain Investment strategies. Nonetheless, the expected volatility of the Fund 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:

- (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
- (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, US Equities, EAFE<sup>1</sup> 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)

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<sup>1</sup> Europe, Australasia and Far East

## Section 3 – Asset Mix and Diversification Policy

### 3.3 Asset Mix (cont'd)

The following asset mix was approved in 2008 as part of this policy:

Asset Categories	Long Term Asset Mix
Equity	51.3%
Fixed Income	16.7%
Inflation Hedging	32.0%
<b>Total</b>	<b>100.0%</b>

In addition, the following long term targets have been set for these asset classes:

Private Equity – 10%

Infrastructure – 15%

The Fund's current allocation to Infrastructure and Private Equity is significantly below the target allocations. Given the nature of these asset classes, a Board-approved 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 policy.

## **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**

- (a) Equities – The Fund may invest in 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 – The Fund may invest in direct and indirect interests in long-term infrastructure investments.
- (c) Real Estate – The Fund invests in direct and indirect interests in private real estate and public real estate securities.
- (d) Fixed Income – The Fund will invest in debt securities of government and corporate entities.
- (e) Real Return Bonds – The Fund will invest in debt securities with cash flow streams linked to Inflation.
  
- (f) The Fund may invest in the following derivative securities: Swaps, Forwards, Futures and Options for the purpose of managing its exposure to interest rates, currencies, securities and financial markets. Where the use of derivative securities is authorized in specific Investment Counsel Agreements, these agreements also specify the acceptable instrument(s), limit the proportion of the portfolio that may be so allocated, and detail the purpose of their use and other criteria.

### **4.3 Borrowing**

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

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**

Should a conflict arise between the provisions of this Policy, and the provisions of a Pooled Fund's investment policy, the Investment Manager will notify the Trustees in writing, detailing the nature of the conflict and the Investment Manager's recommended course of action. Provided that the Investment Manager has notified the Trustees of any such conflict, the terms of the Pooled Fund instrument shall prevail over this Policy from the date of such notification.

#### **4.5 Consideration of environmental, social and corporate governance (ESG) factors**

Where they may affect shareholder value, ESG considerations are among the factors which the Investment Managers should be aware of when selecting investments. This will be done to the extent possible, depending on the asset class and investment style employed.

#### **4.6 Liquidity**

Investment of the total Plan assets is undertaken with a view of providing 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 total Fund will be measured by Staff on a regular basis against a Composite Benchmark Portfolio, detailed in the supporting “Benchmark Policy”.

The Performance Measurement Policy sets out the guidelines that apply in the calculation of performance returns at OPTrust.

### **5.2 Standard of Professional Conduct**

The Code of Ethics and Standards of Professional Conduct of the CFA Institute shall apply to all Investment Managers, but shall not prevail over any requirement or standard contained in this Policy or any Investment Counsel Agreement that is more favourable to the Trustees.

The Investment Manager will manage the assets of the Plan 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 Plan, the investment manager will also 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:

- (a) The Trustees of the Fund;
- (b) All Investment Managers;
- (c) All employees or agents retained by the Trustees or Administrator who provide services to the Plan; and
- (d) Any employee or agent retained by those listed in (a) to (c) who provide services to the Plan.

Any person listed above must disclose any material interest in, or involvement with, any transaction or property related to the Plan's investments that would result in any potential or actual conflict of interest.

Without limiting the generality of the foregoing, a conflict of interest arises when one of the individual's governed by these guidelines:

- (a) Receives a benefit, other than a pension benefit, from any Asset held in the Fund;
- (b) Contracts with the issuer of any Security owned by the Fund in such a manner that the individual would obtain a material interest in the operations of the Fund;
- (c) Is a member of the Board of Directors of any corporation; or
- (d) Has significant holdings in the securities of any corporation.

A conflict of interest will not arise when one of the aforementioned individuals receives a benefit which accrued by virtue of his being a Member of the Plan.

The person listed above shall disclose, in writing, the nature and extent of the conflict to the Chair of the Board of Trustees, in writing, at the earliest of the following times:

- (a) Upon becoming aware of the conflict;
- (b) At the first instance in which the matter and issue was discussed;
- (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 discussed;
- (d) After becoming a party to a contract at the issue of securities owned by the Fund such that the individual obtains material interest in the operations of the Fund.

The person disclosing the conflict may continue his or her activities with respect to the issue and conflict only with the unanimous approval of the Trustees.

## **Section 6 – Administration**

### **6.2 Ethical Wall**

On June 27, 2007 the Board of Trustees adopted a policy (the “Ethical Wall Policy”) establishing an ethical wall of confidentiality within OPTrust.

The purpose behind the Ethical Wall Policy is to create physical and procedural barriers designed to; i) protect against violations of securities laws regarding insider trading and; ii) assist in compliance with confidentiality arrangements with external parties entered into from time to time.

The implementation of the Ethical Wall creates effective information barriers between OPTrust personnel as required and is administered by the CIO or his/her designees.

### **6.3 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 their applicable Regulations.

All loans will be made in accordance with the terms of the Securities Lending Agreement (SLA) entered into between the Trustees 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 lenders to recall all shares before the record date so that proxy votes can be executed by OPTrust.

### **6.4 Proxy Voting**

OPTrust is committed to encouraging companies and organizations to adopt policies and practices that enhance long-term performance. The Trustees recognize that environmental, social, and governance factors may affect the performance of our investment portfolios and their consideration is therefore required in meeting their fiduciary obligations. OPTrust encourages responsible corporate behavior through its Proxy Voting Guidelines.

Stock ownership rights, such as proxy voting, are financial assets and enable the Trustees to influence high-level decisions regarding the companies in which they invest. OPTrust will exercise its voting rights in a manner that is consistent with its Proxy Voting Guidelines. OPTrust engages an external proxy voting service provider to assist with share voting.

## 6.5 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 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 the **Real Estate Investments Valuation Policy** and the **Valuation Guidelines for Real Estate Investments**.
- (e) Private Equity and Infrastructure - Investments in Private Equity and Infrastructure will be valued using the Board-approved valuation 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.

## 6.6 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 (Canada).

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 related party, provided that those securities are acquired at a public exchange recognized under the Pension Benefits Standards Act and Regulations (Canada).

## 6.7 Policy Review

It is the intention of the Trustees to reassess this Policy at least annually. However, if at any time an 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 Trustees in writing.

## Appendix A – Glossary

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

**"Administrator"** means the person or persons that administer the pension Plan.

**"Advisor"** means the person or persons that have been contracted to provide advisory services to the employees or Board of Trustees of the OPSEU Pension Plan.

**"Asset"** means anything having exchange value that is owned by the OPSEU Pension 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.

**"Chair"** means the member of the OPSEU Pension 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.

**"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.

**"Diversification"** means the spreading of risk by investing assets in different categories of investments.

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

**"Equity"** means the ownership interest possessed by a shareholder in a corporation - stocks as opposed to Bonds.

**"ESG"** is the term used to describe environmental, social and corporate governance factors (such as climate change, toxic chemicals, human rights, human capital, board composition or executive compensation). They tend to relate to qualitative objectives 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 OPSEU Pension 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.

**"Income Trust"** means an investment structured as a trust that invests in income-producing assets where the revenues, net of expenses, are distributed to investors.

**"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.

**"Investment Manager"** means an investment counsellor who is an individual or company with the responsibility for providing investment advice to clients and executing investment decisions.

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

**"Liquidity"** refers to a measure of the ability (i.e., efficiency and time required) to convert assets into cash or cash equivalents without significant loss.

**"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.

**"Member"** means a person,

- (a) Who is required to join the Plan; or
- (b) Who is not required to join the Plan, but entitled to join the Plan and has elected to do so, but does not include a former member.

**"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.

**"Policy"** means the Statement of Investment Policies and Procedures (SIP&P) for the OPSEU Pension Plan.

**"Pooled Fund"** means a type of fund where an Investment Manager invests the combined assets of several clients in a single portfolio. Sometimes called a "commingled fund."

**"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 a Bond where the Bond coupon and maturity payment vary according to future Inflation rates.

**"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.

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

**"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 OPSEU Pension Plan Board of Trustees.

**"Warrant"** means a type of Security, usually issued together with a Bond or Preferred Stock, that entitles the holder to buy a proportionate amount of Common Stock at a specified price, usually higher than the market price at the time of issuance, for a period of years or to perpetuity.