Mepp

Statement of investment policies and procedures

November 2023

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SECTION 1 – OVERVIEW

1.01 Purpose of Statement

The purpose of this policy statement (the Policy) is to provide a framework for management of the pension fund within acceptable risk levels, and to provide the public markets investment managers with a written statement of specific investment guidelines, standards, and objectives. The Policy also outlines the rationale for the Municipal Employees' Pension Plan's (MEPP, the Plan) allocation to private market investments, and the manner in which private market investments will be implemented, monitored and assessed.

The investment policy supports the objectives and principles underlying the funding policy, within the Municipal Employees' Pension Commission's (the Commission) risk tolerances. The funding and investment policies are the key tools available to the Commission for the management of risk and the achievement of the Plan's objectives. The policy is managed through a process that increases the likelihood that the Plan's objectives will be achieved and that risk is appropriately managed.

This Policy is based on the "prudent person portfolio approach" to ensure the prudent investment and administration of Plan assets, subject to applicable legislation.

1.02 Background of the Plan

The Plan was established by a statute of the Province of Saskatchewan. The legal requirements are set out in *The Municipal Employees' Pension Act* (the Act).

The Commission is responsible for the Plan's administration, communication, and investment activities.

1.03 Plan Profile

To establish an appropriate policy for the investment and administration of the assets set aside to fund the obligations under the Plan, it is important to understand the nature of the obligations that are being funded. Accordingly, this section of the Policy summarizes various aspects of the Plan that impact investment return requirements and risk tolerance.

Pension benefits accrued on a money purchase basis prior to July 1, 1973. A defined benefit plan was established for service on and after that date.

The liabilities associated with the Plan are related to the defined benefit plan and annuity underwriting.

The liabilities are administered by the Commission as part of a single fund, the Municipal Employees' Pension Fund (the Fund).

Results from the actuarial valuation (including self-insured annuities) at December 31, 2022 are as follows:

	(millions)
Market Value	$3,252.0
Investment Reserve	122.8
Actuarial Value of Assets	3,374.8
Liabilities	2,208.5
Other Reserves	16.4
Liabilities and Reserves	2,225.0
Surplus	1,149.9

The liability associated with the defined benefit plan dominates the Plan's total liabilities. Month to month, net cash flows are relatively neutral and the Plan remains open to new members. Accordingly, a long-term investment horizon remains appropriate.

Employees contribute a percentage of their salary to the pension fund. The employer contributes an equal amount.

Employees receive benefit payments upon retirement based on their years of contribution to the Plan and the average of their highest three years of salary. Payments to retired workers and/or their dependents are made from monies maintained in the Fund.

1.04 Plan Objective

The Plan's primary purpose is to provide retirement income and pension services to members.

1.05 Investment and Risk Philosophy

The Commission recognizes the importance of the integration of the funding and investment policies. Together, these policies seek to achieve the overall goals of benefit security and contribution stability. Accordingly, the investment beliefs and the risk philosophy reflect these goals.

(a) Investment Beliefs

The Policy sets out the parameters under which the Fund is managed, which are influenced by several basic assumptions about the characteristics and trends in capital markets. The Commission has articulated the following key investment beliefs that shape the Policy:

- Asset allocation is the most important determining factor in the investment performance of the Fund.
- Achieving financial returns involves taking risk. In general, higher risks are rewarded with higher expected returns. Returns may, however, take time to emerge from the underlying risks and risk taking does not guarantee additional returns.
- Asset mix decisions should consider the profile of liabilities and reflect liquidity needs and objectives in managing contribution rates and volatility.
- Diversification across and within asset classes where risk/return profiles are not perfectly correlated provides an opportunity to improve risk adjusted returns. It is recognized correlations can change over time and should be periodically reviewed.
- Exposure to foreign currencies resulting from holding foreign investments is expected to provide diversification benefits. However, Plan obligations are based in Canadian dollars. Accordingly, hedging a portion of the foreign currency exposure is seen as appropriate risk management, where cost effective.
- The investment management structure should be efficient and effective, employing active and/or passive management approaches as appropriate based on the efficiency of markets in which the Plan invests.
- Creating consistent value-add via market timing strategies is difficult. However, an effective implementation strategy can improve the return and risk profile of the Fund; therefore, market conditions, cash flows, liquidity and transaction costs should be considered in circumstances of rebalancing, transition, or implementation.
- Investment opportunities that effectively consider environmental, social and governance (ESG) factors can reasonably be expected to increase the creation of value over longer time frames. It is appropriate for investment managers to consider ESG factors in managing investments.
- Less liquid investments have unique attributes that can provide improved risk adjusted returns, greater diversification and inflation protection, therefore are appropriate investments for the Plan subject to management of liquidity, cost, and administrative and governance constraints.

(b) Investment Philosophy

Plan assets should be prudently managed to assist in avoiding actuarial deficits and excessive volatility in annual rates of return.

(c) Risk Philosophy

To achieve its long term investment goals, which support the Plan's overall objectives of benefit security and stability of contributions, the Plan invests in assets that have uncertain returns (return seeking assets) in addition to assets that are expected to track the growth of plan liabilities (liability hedging assets).

The Commission seeks to reduce the overall level of risk by diversifying across asset classes and by diversifying within each individual asset class.

1.06 Administration

Under the Act, the Commission is responsible for the Plan's administration and investment activities.

Day-to-day administration is provided by the Public Employees Benefits Agency (PEBA). Investment management and custody of the Plan's assets have also been delegated as set out in Section 1.07 of this Policy.

1.07 Delegation of Responsibilities

Overall responsibility for the Plan's assets rests with the Commission. The Commission's responsibilities include setting investment policy, appointment of the custodian, investment managers, actuarial and consulting services, and determining Plan changes.

In completing the above duties a number of responsibilities have been delegated:

(a) The investment managers will:

- Invest the assets of the Fund in accordance with this Policy;
- Meet with PEBA at least annually to review any pertinent developments, part performance and future outlook;
- Provide at least quarterly written reports regarding past performance and other issues as requested;
- Notify PEBA promptly, in writing, of changes in ownership, investment philosophy and processes, key personnel, and organizational structure;
- Notify the Executive Director of Investment Services, in writing, of any legal or regulatory proceedings or charges of which the investment manager may be aware, against the investment manager's firm or investment personnel, or against any sub-advisor or that firms' investment personnel;
- Reconcile their own records with the custodian at least monthly, where applicable;
- File quarterly compliance reports (see Section 4.02); and
- Evaluate and select counterparties.

(b) The Custodian will:

- Maintain safe custody over the Fund assets;
- Execute the instructions of the Commission and any investment manager appointed to manage the assets of the Fund;
- Record income and provide monthly financial statements as required; and
- Report regularly on security lending counterparties the custodian has lent securities to, amounts of such lending positions and the creditworthiness (credit ratings) of the parties to whom securities have been loaned.

(c) The Strategic Consultant will:

- Assist in the development and implementation of this Policy and provide related research; and
- Meet with the Commission as required.

(d) The Private Markets Consultant will:

- Develop and assist in the implementation of an annual private markets investment plan for infrastructure, private equity, private credit and farmland investments based on this Policy;
- Work with PEBA in the recommendation, selection and termination process for private market managers; and
- Meet with the Commission or Private Markets Committee as required.

(e) PEBA will:

- Retain their own investment consultant to monitor the investment performance of the Fund and the investment managers on a quarterly or more frequent basis as required by the PEBA monitoring framework;
- Advise and support the Commission on matters relating to investment management and administration of the Fund, including but not limited to investment policy, appointing and terminating the custodian, investment managers, actuarial and consulting services, and Plan changes;
- Monitor the Plan's asset mix and rebalance between investment managers if necessary;
- Monitor investment manager past performance and risk, reporting to the Commission where targets are not met or other issues arise;
- Monitor and report to the Commission changes in investment manager ownership, investment philosophy and processes, personnel, and organizational structure;
- Monitor investment manager compliance on a quarterly basis;

- Perform day-to-day Plan administration; and
- Attend Commission meetings as required.

The Commission has the authority to retain other consultants and/or suppliers, as it deems necessary from time to time.

SECTION 2 – ASSET MIX AND DIVERSIFICATION POLICY

2.01 Portfolio Return Expectations

The Fund's primary objective is to grow at a rate which exceeds the growth of the Plan's liabilities. To measure the growth of the Plan's liabilities, a proxy that approximates its going-concern pension liabilities behaviour (the Liability Benchmark) has been established. This Liability Benchmark is based on the current actuarial discount rate of 6.5 per cent, as of December 31, 2022, and is reviewed annually and updated as required.

2.02 Asset Mix

To manage future investment risks, the Commission is willing to assume some mismatch risk. Mismatch risks will be accepted and managed by monitoring performance against the Liability Benchmark, while establishing an investment structure to deliver superior, long-term risk-adjusted returns. The Commission has determined that the acceptable long-term asset mix of the Plan (the Benchmark Portfolio) and acceptable asset class component ranges should be as follows based on market values.

Benchmark Portfolio and Asset Component Ranges[1]

Asset Class	Benchmark	Minimum (%)	Benchmark Portfolio (%)	Maximum (%)
Public Equities				
Canadian Equities	S&P/TSX Capped Composite Total Return Index	1	5	9
Global Equities – Core	MSCI All Country World Index ($C)	5	11	17
Global Equities – Low Volatility	50% MSCI All Country World Index ($C) / 50% MSCI World Index ($C)	5	11	17
U.S. Equities – Small Cap	Russell 2000 Index ($C)	1	2	3
U.S. Equities – Large Cap Passive	S&P 500 Index ($C)	0	0	5
Non-North American Equities – Small Cap	MSCI World ex U.S. Small Cap Index ($C)	1	2	3
Emerging Markets Equities	MSCI Emerging Markets Index ($C)	3	5	7
Total Public Equities			**36**	
Fixed Income				
Canadian Bonds – Corporate	FTSE Canada Corporate Bond Index	6.5	10	13.5
Canadian Bonds – Long Term Core Plus	FTSE Canada Long Term Overall Bond Index	11	18	25
Cash/Short Term	FTSE Canada 91 Day T-Bill Index	0	2	5
Total Fixed Income			**30**	
Alternatives				
Real Estate	MSCI/REALPAC Quarterly Property Fund Index	3	5	8
Infrastructure	Canadian Consumer Price Index + 5% per annum (one quarter lagged)	5	15[1]	20
Private Equity	MSCI World Index ($C) + 3% per annum (one quarter lagged)	1	5	10
Private Credit	Credit Suisse Leveraged Loan Index + 2% per annum (one quarter lagged)	0	5	10
Farmland	Canadian Consumer Price Index + 2% per annum (one quarter lagged)	0	4	8
Total Alternatives			**34**	
Total Fund			**100**	

[1] Benchmark Portfolio weights and asset component ranges represent MEPP's long-term target portfolio and may differ from actual allocations as private markets mandates are funded – this includes continued drawdown of the BlackRock passive U.S. Equity Mandate to fund infrastructure investments

2.03 Manager Structure

Plan assets are managed by several investment managers with different mandates. To ensure adequate diversification by both asset class and by investment manager, the Commission has established the following parameters to guide the allocation of assets to each of the Fund's investment managers. Mandate specific guidelines are provided to the individual investment managers.

(a) Asset Mix

Asset Allocation Guidelines (Assets as a % of Market Value)	Minimum (%)	Target (%)	Maximum (%)
Active Canadian Equity – Foyston, Gordon & Payne Inc.	2	2.5	6
Active Canadian Equity – Fidelity Investments Canada	2	2.5	6
Active Global Equity Core – Morgan Stanley Investment Management	2.5	5.5	8.5
Active Global Equity Core – Pzena Investment Management	2.5	5.5	8.5
Active Global Equity Low Volatility – Robeco Institutional Asset Management	2.5	5.5	8.5
Active Global Equity Low Volatility – Vontobel Asset Management Inc.	2.5	5.5	8.5
Active U.S. Equity Small Cap – Snyder Capital Management	1	2	3
Active Non-North American Small Cap Equity – Oberweis Asset Management, Inc.	1	2	3
Passive U.S. Equity – BlackRock Asset Management Canada Ltd.	0	0[2]	5
Active Emerging Markets Equity – Neuberger Berman Investment Advisors	4	5	8
Active Canadian Corporate Bond – Canso Investment Counsel Ltd.	6.5	10	13.5
Active Canadian Universe Core-Plus Bond – PIMCO Canada Corp.	5.5	9	12.5
Active Canadian Long Core-Plus Bond – BlackRock Asset Management Canada Limited	5.5	9	12.5
Cash/Short Term	0	2	5
Active Canadian Real Estate – TD Asset Management Inc.	3	5	8
Global Infrastructure[1]	5	15	20
Private Equity[1]	1	5	10
Private Credit[1]	0	5	10
Farmland[1]	0	4	8

[1]For listing of current investment managers see appendices
[2]The BlackRock Passive U.S. Equity mandate will gradually be drawn down to 0 as it will be used to fund private market mandates

(b) Overlay Mandate

- The Insight passive foreign currency overlay position is comprised of derivative instruments subject to periodic cash flows from contract settlements and targets a 50 per cent hedge ratio based on total developed market's foreign equity exposure.

(c) Fixed Income Portfolio

- The overall fixed income portfolio objective is to achieve a well-diversified portfolio with low volatility which also acts as a partial hedge for Plan liabilities.

(d) Private Markets

- The Commission has allocated a portion of Plan assets to private markets (infrastructure, private equity, private credit and farmland) as outlined in this Policy and in the related Appendices. Additional considerations for private markets investments include:

(a) Diversification

(i) By Asset Class

Exposure to private markets will be achieved through exposure to global infrastructure, private equity, private credit and farmland of which each accesses a different niche of the private markets environment.

(ii) Within Asset Classes

Diverse exposure to varying market segments, vintages and other risk and return drivers is sought. Maintaining diversification within each asset class is challenging because of the characteristics inherent in private market opportunities such as illiquidity, concentration of pools and/or finite investment horizons. As such, diversification objectives are expected to be achieved over time rather than at a particular point in time. Further, the diversification objectives recognize dependency on the availability of attractive investment opportunities within each category. As investments in each private market asset class mature, the stability of diversification within that asset class will increase.

2.04 Rebalancing

In support of the Plan's investment and risk philosophies, it is prudent to rebalance Plan assets toward the policy allocations outlined in Sections 2.02 and 2.03. The following rebalancing guidelines clarify how PEBA will manage the Plan's allocations. PEBA reports rebalancing activity to the Commission on a quarterly basis.

Rebalancing decisions will be guided by the following principles:

(a) Rebalancing Manages Risk

The primary purpose of rebalancing is to manage risk. Rebalancing decisions will not be made tactically in an attempt to enhance returns or time the market.

(b) Timeliness

Asset mix and investment manager allocations are monitored on a monthly basis. When guidelines are breached, rebalancing within guidelines will occur at the earliest possible opportunity.

The timing of rebalancing shall be determined by PEBA through consultation with the investment managers involved and using such third-party assistance as PEBA may consider necessary.

(c) Cost Effectiveness

Rebalancing should be conducted in a manner that minimizes transaction and market impact costs.

In addition, the following guidelines will apply:

(a) Asset mix by mandate is the primary rebalancing consideration, which helps to manage risk within the Plan.

(b) Monthly cash flows may be drawn from, or allocated to the investment manager(s) farthest from its/their policy target weights.

(c) Short-term investments are the Plan's most liquid asset class, and are, therefore, the primary source for managing month to month liquidity needs.

(d) Where asset mix or investment manager changes are made, activity related to funding of new mandates and windup of old mandates may be managed to rebalance investment manager target weights.

(e) Longer time frames for implementation of purchase and sale activity required due to rebalancing may be necessary due to:

- Illiquidity of some asset classes (i.e., real estate and private markets);
- Potential adverse transition costs due to market impact; and
- Restrictions on purchase and sale activity within a particular mandate.

SECTION 3 – PERMITTED AND PROHIBITED INVESTMENTS

3.01 General Guidelines

Fund investments must comply with the requirements and restrictions imposed by the applicable legislation, including but not limited to the requirements of *The Pension Benefits Act, 1992*, which refers to the *Pension Benefits Standards Act* (Canada) on investment related issues, the *Income Tax Act* (Canada) and Regulations, and all subsequent amendments.

3.02 Permitted Investments

This section summarizes the permitted investments of the Plan. Appendices to the Policy for public market investments detail the permitted and prohibited investments for each investment manager mandate. On a quarterly basis, each investment manager must confirm to PEBA that its investments comply with those outlined in its appendix.

An investment manager may invest Plan assets in any of the following asset classes or investment instruments:

(a) Equities;

(b) Bonds and Mortgages;

(c) Cash and Short-Term Investments;

(d) Real Estate;

(e) Infrastructure;

(f) Private Equity;

(g) Private Credit;

(h) Farmland; and

(i) Derivatives.

3.03 Minimum Quality Requirements

(a) Rating Agencies

For the purposes of this Policy, the following rating agencies shall be considered to be 'Recognized Bond Rating Agencies':

- DBRS Morningstar;
- S&P Global Ratings;
- Moody's Investors Services; and
- Fitch Ratings.

(b) Quality Standards

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

- 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 (includes all sub-rating levels within the overall 'BBB' rating), unless otherwise permitted within specific investment manager mandate. Notwithstanding the above, no more than 10 per cent of the market value of the total fixed income portfolio should be invested in below "BBB". Unrated bonds should be assigned a rating by the investment manager before purchase.
- The minimum quality standard for individual short-term investments is 'A2/P2' or equivalent rating as rated by a Recognized Bond Rating Agency, at the time of purchase.
- All investments shall be reasonably liquid (i.e., in normal circumstances they should be capable of liquidation within one month). Exceptions are real estate, infrastructure, private equity, private credit, and farmland, which are long term assets and may require longer time frames for disposition.
- The minimum quality standard for individual preferred shares is 'Pfd-2' or equivalent as rated by at least two of the Recognized Bond Rating Agencies operating in Canada, at the time of purchase.

(c) Split Ratings

In cases where the Recognized Bond Rating Agencies do not agree on the credit rating, the bond rating will be classified no lower than the methodology used by FTSE, which states:

- If two agencies rate a security, use the lower of the two ratings;
- If three agencies rate a security, use the middle of the three ratings; and
- If all four agencies rate a security, use the middle of the three lowest ratings.

(d) Downgrades in Credit Quality

An investment manager will take the following steps in the event of a downgrade in the credit rating of a portfolio asset by a Recognized Bond Rating Agency to below the purchase standards set out in Section 3.03 (b) Quality Standards:

- The Executive Director of Investment Services will be notified of the downgrade at the earliest possible opportunity.
- Within 10 business days of the downgrade, the investment manager will advise the Executive Director of Investment Services in writing of the course of action taken or to be taken by the investment manager, and its rationale.
- The investment manager will provide regular reporting on the status of the asset until such time as the security matures, is sold or until it is upgraded to a level consistent with the purchase quality standards as expressed in the above guidelines.

(e) Private Placement Bonds

Private placement bonds and asset-backed securities are permitted subject to all of the following conditions:

- The issues acquired must be minimum 'B-' or equivalent rated.
- The investment manager's portfolio may not hold more than five per cent of the market value of any one private placement.
- The investment manager must be satisfied that there is sufficient liquidity to ensure sale at a reasonable price.

(f) Counterparties

Derivative instruments, other than those regularly traded on public exchanges, must be arranged with counterparties that have a minimum credit rating of "A(low)" or equivalent as measured by two of the Recognized Bond Rating Agencies.

3.04 Maximum Quantity Restrictions

(a) Total Fund Level

Investment in a single corporation, including its associated or affiliated companies, through any combination of debt and/or equity, shall not exceed 10 per cent of the total market value of Plan assets at time of purchase.

(b) Individual Investment Manager Level

The investment manager shall adhere to the restrictions outlined for individual mandates included in the appendices.

(c) Pooled Fund Investment

An investment by the Fund in a single pooled fund should not exceed 10 per cent of the market value of that fund unless provision has been made to transfer assets out of the fund 'in kind'.

3.05 Prohibited Investments

The investment managers shall not make any investment not specifically permitted by this Policy.

Cryptocurrency investments are prohibited unless prior, explicit approval is obtained by the investment manager either at the inception of the mandate or at a subsequent date.

3.06 Securities Lending

The investments of the assets may be loaned, for the purpose of generating revenue for the Plan assets, subject to the provisions of the applicable legislation.

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. In Canada, the current market practice is to obtain collateral of at least 105 per cent of the market value of the securities on loan. This market relationship must be calculated at least daily.

The terms and conditions of any securities lending program including the maximum exposure in aggregate and by counterparty will be set out in a contract with the custodian. The custodian shall, at all times, ensure that the Commission has a current list of those institutions that are approved to borrow the Plan's investments.

The Plan's custodian shall report regularly on security lending positions, activity, and revenues. As well, compliance with their security lending policies and procedures, including the counterparties used and their creditworthiness plus the quality of the collateral provided by counterparties shall be reported.

Where assets are invested in a pooled fund, security lending will be governed by the terms and conditions set out in the pooled fund contract.

SECTION 4 – MONITORING AND CONTROL

4.01 Performance Measurement

The performance of the Fund and components shall generally be measured quarterly and, in accordance with industry convention, return calculations shall be as follows:

- Time weighted rates of return.
- Total returns, gross of fees, including realized and unrealized gains and losses and income from all sources.
- For the purpose of evaluating the Plan and investment managers, performance will normally be assessed over rolling four-year periods, except for passively managed index mandates, which shall be measured over one-year periods.
- Performance will be measured and analyzed on a gross of fees basis, and net of fee basis for private markets.
- The investment managers appointed by the Plan are expected to achieve a satisfactory long-term real rate of return through a diversified portfolio within their mandate, consistent with acceptable risks and prudent management.

(a) Primary Total Fund Value Add Objective

The primary value added objective for the Fund is to manage the mismatch risk such that the benchmark portfolio return equals or exceeds the liability benchmark portfolio return over rolling four-year periods.

(b) Active Investment Manager Value Add Targets – Public Markets

In addition to the value added related to mismatch risk, the Commission expects further value added via security selection from actively managed mandates. The Commission has established the following value add targets (in excess of the benchmark return noted in each Appendix) for each actively managed mandate, to be assessed over rolling four-year periods:

Asset Class / Mandate	Target % per annum
Canadian Equity	0.50
Global Equity - Core	1.00
Global Equity – Low Volatility	
Robeco Institutional Asset Management	0.30
Vontobel Asset Management, Inc.	1.00
U.S. Equity – Small Cap	0.50
Non-North American Equity – Small Cap	1.75
Emerging Markets Equity	2.00
Canadian Bond – Corporate Mandate	0.25
Canadian Bond – Core Plus Mandates	0.75

PEBA, in conjunction with Mercer (Canada) Ltd. (Mercer), has developed a manager rating system which monitors and assesses manager performance on a quarterly basis. When short-term and/or long-term performance objectives as set out in this Policy, are not met by a manager, a progressive set of actions is undertaken by PEBA until either the manager's performance meets objectives, or further action is taken up to and including termination if the underperformance continues.

(c) Index Investment Manager

The primary objective for the index investment manager is to earn a rate of return that matches the rate of return earned on the relevant market index. The pooled fund policies of the passive mandate specify longer term tracking error targets versus relevant indices. It is expected returns will fall within the following tolerance ranges.

	Tolerance Range
S&P 500 Index (C$)	±15 Basis Points per annum

(d) Currency Investment Manager

The primary objectives for the currency investment manager is to passively provide 50 per cent protection of the Canadian dollar value of the Plan's foreign currency exposure within its non-North American equities allocation against changes in the value of such currencies relative to the Canadian dollar.

(e) Infrastructure, Private Equity, Private Credit and Farmland Managers

Infrastructure, private equity, private credit and farmland manager performance will be assessed at the asset class level against appropriate benchmarks. The benchmarks consist of:

- Canadian Consumer Price Index plus five per cent per annum (one quarter lagged) benchmark for infrastructure investments;
- MSCI World Index (in Canadian dollars) plus three per cent per annum (one quarter lagged) for private equity investments;
- Credit Suisse Leveraged Loan Index (in Canadian dollars) plus two per cent per annum (one quarter lagged) for private credit investments; and
- Canadian Consumer Price Index plus two per cent per annum (one quarter lagged) benchmark for farmland investments.

Returns will be assessed on a 'since inception' basis.

(f) Real Estate Managers

The primary objectives for the Plan's real estate investments are to generate attractive risk-adjusted rates of return with lower volatility of returns than public equities. The benchmark is to match the return of the MSCI/REALPAC Canada Quarterly Property Fund Index, and exceed the MSCI/REALPAC Canada Property Index (All Assets) by one per cent per annum.

4.02 Compliance Reporting by Investment Manager

Each investment manager is required to complete and sign a compliance report each quarter, with the exception of the infrastructure, private equity private credit and farmland investment managers, who confirm compliance periodically. The compliance report will indicate whether or not the investment manager's portfolio was in compliance with this Policy during the quarter. Copies of the compliance reports must be submitted to the Executive Director of Investment Services. Report formats for the compliance reports are included in the appendices.

In the event that an investment manager is not in compliance with this Policy, the investment manager is required to advise the Executive Director of Investment Services promptly, detailing the nature of the non-compliance and recommending an appropriate course of action to remedy the situation.

The Fund invests in several pooled funds, which have separate investment policies. Should a conflict arise between the provisions of this Policy, and the provisions of the pooled fund's investment policy, the investment manager is required to notify the Executive Director of Investment Services promptly in writing, detailing the nature of the conflict and the investment manager's recommended course of action.

4.03 Performance Reporting by Investment Managers

On a calendar quarterly basis, the investment managers will provide performance reports that include a strategy review for their portfolios.

Individual investments within private market vehicles are typically valued on an annual basis. As such, reporting of performance against the benchmark is estimated for the purposes of quarterly reporting and frequently lags by one or two quarters. Comprehensive reporting on the appraised value of all investments will be provided by managers on an annual basis.

Investment managers will be expected to meet with PEBA upon request.

4.04 Standard of Professional Conduct

Each investment manager is expected to comply, at all times and in all respects, with the Code of Ethics and Standards of Professional Conduct of the CFA Institute or a code internal to the investment manager that has been reviewed by PEBA and deemed to be appropriate.

Each investment manager will manage the assets with the care, diligence, and skill that a prudent person skilled as a professional investment manager would use in dealing with pension plan assets. The investment manager will also use all relevant knowledge and skill that it possesses or ought to possess as a prudent investment manager.

4.05 Suppression of Terrorism Regulations

The investment managers must comply at all times and in all respects with the federal Suppression of Terrorism Regulations.

SECTION 5 – ADMINISTRATION

5.01 Conflicts of Interest

(a) Responsibilities

This standard applies to the members of the Commission as well as to all agents employed by them, in the execution of their responsibilities to the Fund (the Affected Persons).

An 'agent' is defined to mean a company, organization, association or individual, as well as its employees, who are retained by the Commission to provide specific services with respect to the investment, administration, and management of the Fund.

(b) 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 Fund.

Further, it is expected 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 their responsibilities are permitted if documented and approved by the Commission.

No Affected Person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from a person with whom the individual deals in the course of performance of his or her duties and responsibilities for the Commission.

It is incumbent on any Affected Person who believes that he/she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation to the attention of the Commission immediately. The Commission, 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 Commission.

No Affected Person who has or is required to make a disclosure that is determined to be in conflict as contemplated in this Policy shall participate in any discussion, decision, or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure.

5.02 Related Party Transactions

The Plan administrator may not enter into a transaction with a Related Party unless the transaction is required for the operation or administration of the Plan and the terms and conditions of the transaction are not less favourable to the Plan than market terms and conditions; or the value of the transaction is nominal (that is, less than three per cent of the market value of the Fund) or immaterial to the Plan.

'Related Party' is defined in section 1 of Schedule III to the Pension Benefits Standards Regulations, 1985 (Canada). A related party is a person who is the administrator of the Plan including any officer, director or employee of the administrator, or any person who is a member of the Commission. It also includes the investment managers and their employees, a union representing employees of the employer, a member of the Plan, a spouse or child of the persons named previously, or a corporation that is directly or indirectly controlled by the persons named previously, among others. Related party does not include government or a government agency.

Under the conflict of interest guidelines, it is incumbent on any person to notify the Commission Chairperson if a conflict arises. Such conflict includes related party transactions.

5.03 Selecting Investment Managers

Investment managers will be selected in accordance with the Plan's Acquisition and Retention of Services Policy. PEBA has the authority to use discretion during investment manager transition. PEBA may engage external transition management to assist where appropriate.

Manager retention decisions related to private markets are made by the Commission and/or the Private Markets Committee on the recommendation of PEBA in conjunction with the Private Markets Consultant.

5.04 Monitoring of Investment Managers

To enable the Commission to fulfill its responsibility of monitoring and reviewing the investment managers, PEBA will assist the Commission, on an ongoing basis, in considering:

(a) Investment manager's staff turnover and the role of key personnel in the investment decision;

(b) Consistency of an investment manager's portfolio activities, style, and philosophy with its stated style and strategy;

(c) Characteristics of an investment manager's firm (ownership, growth in assets, client retention etc.);

(d) Competitiveness of an investment manager's fees;

(e) Investment manager's current economic outlook and investment strategies;

(f) Investment manager's compliance with this Policy, where an investment manager is required to complete and sign a compliance report; and

(g) Investment performance of Plan assets in relation to the rate of return expectations outlined in this Policy.

5.05 Dismissal of an Investment Manager

Reasons for considering the termination of the services of an investment manager include, but are not limited to, the following factors:

(a) Performance results, which over a reasonable period of time, are below the target performance benchmarks.

(b) Changes in the overall Fund structure such that the investment manager's services are no longer required.

(c) Change in personnel, firm structure, and investment philosophy, style or approach that might adversely affect the potential return and/or risk level of the portfolio.

(d) Legal or regulatory proceedings against the investment manager or its investment personnel, or any sub-advisor firm or that firms' investment personnel.

(e) Failure to adhere to this Policy.

5.06 Immediate Termination of an Investment Manager

If, in the opinion of PEBA, and with the approval of the Chairperson of the Commission, or Vice-Chairperson if the Chairperson is not available, an event with an investment manager is anticipated to have a material negative effect on future investment performance, PEBA may take the following steps to immediately terminate the services of such investment manager:

(a) Notify the Commission, in writing, of the circumstances surrounding the dismissal.

(b) Advise the investment manager to immediately cease trading the affected portfolio(s).

(c) Engage the services of a transition manager to manage the portfolio on a short-term basis; this may include conversion to a passive mandate.

(d) Initiate the process of searching for a replacement manager.

(e) Request the Chairperson of the Commission, at the earliest practical date, to convene a meeting of the Commission to address the termination.

Given the illiquid nature of private market investments, it may not be possible to immediately terminate a private markets manager; in the event such a manager termination is approved, the investment will be liquidated as soon as practical, based on advice from the Private Markets consultant.

5.07 Voting Rights

The Commission has delegated voting rights acquired through pension fund investments to the investment manager, who may engage a third party to vote on their behalf. Investment managers are expected to vote all proxies in the best interests of the Plan members.

The investment managers should disclose their proxy voting policies and any changes thereto and report annually on:

(a) Whether all eligible proxies were voted on the Plan's behalf; and

(b) If the proxy guidelines were followed and report on any deviations.

5.08 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

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

(c) Mortgages

Unless in arrears, at the outstanding principal.

(d) Real Estate

A certified written appraisal from a qualified independent appraiser at least annually.

(e) Infrastructure

Investments will be valued using the valuation policies of each fund, partnership, or corporate structure as applicable.

(f) Private Equity

Investments will be valued using the valuation policies of each fund, partnership, or corporate structure as applicable.

(g) Others

Securities that are not publicly traded and for which no external transaction or other evidence of market value exists, will be valued at cost.

5.09 Directed Brokerage Commissions

A variety of brokers should be used to gain maximum utilization of the services available. It is the responsibility of the investment manager to ensure that the commission distribution is representative of the services rendered and that best execution is of primary importance.

The Commission does not use directed commissions (i.e., soft dollars) to pay for any goods or services. Investment managers may use soft dollars to pay for research and other investment-related services with disclosure to the Commission, provided they comply with the Soft Dollar Standards promulgated by the CFA Institute or internal guidelines if substantially equivalent.

5.10 Policy Review

This Policy may be reviewed and amended at any time by the Commission, but it must be formally reviewed at least annually.