

# STATEMENT OF INVESTMENT POLICIES & GOALS

Effective Date: January 1, 2018

[ORIGINAL SIGNED BY D. WILSON]

D. Wilson, Chair

## SFPP Statement of Investment Policies & Goals

### Table of Contents

<b>Section 1: Overview .....</b>	<b>3</b>
1.1 Purpose of the Investment Policy .....	3
1.2 Allocation of Responsibilities .....	3
1.3 Nature of the Obligations Being Funded.....	4
1.4 Investment and Risk Philosophy .....	4
<b>Section 2: Asset Mix .....</b>	<b>7</b>
2.1 Implementation .....	7
2.2 Portfolio Return Expectations.....	7
2.3 Risk Management.....	7
2.4 Asset Mix Policy.....	9
2.5 Opportunistic Securities .....	10
2.6 Manager Discretion.....	11
2.7 Currency Hedging and Active Currency Overlays.....	11
2.8 Interim Policy Asset Mix .....	11
<b>Section 3: Permitted Investments and Restrictions.....</b>	<b>12</b>
3.1 Permitted Investments .....	12
3.2 Maximum Quantity and Minimum Quality Requirements .....	12
3.3 Derivatives.....	12
3.4 Cash and Securities Lending .....	12
3.5 Leverage .....	12
3.6 Short Selling of Securities .....	13
3.7 Related Party Transactions.....	13
<b>Section 4: Monitoring and Control .....</b>	<b>14</b>
4.1 Delegation of Responsibilities .....	14
4.2 Reporting by Investment Manager .....	14
4.3 Performance Evaluation of Investment Manager .....	15
4.4 Communications Protocol .....	16
<b>Section 5: Administration.....</b>	<b>17</b>
5.1 AIMCo Compliance Manual.....	17
5.2 Valuation of Securities Not Regularly Traded.....	17
5.3 Voting Rights .....	17
5.4 Investment Policy Review .....	17
5.5 Investment Policy Changes.....	18
5.6 Directed Brokerage Commission.....	18
<b>Appendix 1 – Security Class Descriptions .....</b>	<b>19</b>
<b>Appendix 2 – Benchmark Descriptions .....</b>	<b>21</b>
<b>Appendix 3 – Advanced Risk Metrics .....</b>	<b>23</b>

## Section 1: Overview

### 1.1 *Purpose of the Investment Policy*

The Special Forces Pension Plan (the “Plan”) is established and maintained under the *Public Sector Pension Plans Act* (the “Act”). The purpose of the Plan is to provide retirement benefits for police officers, chiefs and deputy chiefs of seven local authorities in Alberta. Funding of the Plan is shared between the Plan members and employers. The employers’ contribution rate exceeds the rate set for employees by 1.1% of pensionable salary. The Government of Alberta contributes towards the pre-1992 unfunded liability, and guarantees these benefits.

The purpose of this Statement of Investment Policies & Goals (the “Investment Policy”) is to establish for the Plan investment principles and guidelines for the investment assets of the Plan (the “Fund”) and Indexing Account, giving particular consideration to the type of pension plan, its characteristics, financial obligations and the objectives of the Special Forces Pension Plan Board (“Board”). In this Investment Policy, any reference to the “Fund” includes both the Plan Fund and Indexing Account.

In accordance with the *Public Sector Pension Plans Act, Schedule 4, Section 3(2) (c)*, this Statement of Investment Policies & Goals should be considered a “general policy guideline” document.

The Investment Policy also identifies the key roles and responsibilities relating to the ongoing management of the Fund, and establishes criteria to measure, monitor and evaluate the Fund performance results on a regular basis; and encourages effective communication among all parties engaged to execute investment strategies.

This document is divided into five sections with three Appendices that provide definitions with respect to classification of securities and benchmarks, and address specific risk metrics.

### 1.2 *Allocation of Responsibilities*

Pursuant to the *Public Sector Pension Plans Act*, the President of Treasury Board and Minister of Finance is the Trustee of the Plan (“Trustee”), and is responsible for managing and investing the assets according to the Board’s Statement of Investment Policies & Goals, as well as Alberta’s *Employment Pension Plans Act* (“EPPA”) and *Financial Administration Act*, and the investment section of the *Income Tax Act*.

The Act also authorizes the Lieutenant Governor in Council to appoint a Board made up of seven individuals. The Act sets out the duties and responsibilities of the Board, which include setting general policy guidelines for the management and investment of the Plan’s assets. The Board influences investment results through setting investment policy, and it must adjust contribution rates to address funding requirements/deficits. The President of Treasury Board and Minister of Finance, as Trustee, has delegated the management and investment of Plan assets to Alberta Investment Management Corporation (“AIMCo”), an Alberta Crown Corporation. Responsibilities of AIMCo are detailed in Section 4.01.

The Board has contracted with consultants to assist the Board in carrying out its due diligence and other responsibilities. The Investment Consultants (the “Consultants”) are responsible for providing an independent review of the performance of the Fund, and any other issues assigned by the Board.

### **1.3 Nature of the Obligations Being Funded**

Aspects of the Plan that impact return objectives and risk tolerance include:

- Pension benefits are based on the highest five consecutive years’ salary and length of service.
- An unreduced pension is available at 25 years of service.
- For service up to December 31, 2000, cost-of-living increases are based on 60% of the increase in Alberta CPI and apply to both deferred pensions and pensions in payment. For service after December 31, 2000, cost-of-living increases are based on Board policy and financial affordability.
- Pre-1992 benefits are guaranteed by the Province of Alberta.
- As of the most recent actuarial valuation at December 31, 2016 the Plan has an unfunded liability on a going concern basis.
- For the past several years, benefit payments and expenses paid from the Fund have exceeded current service cost contributions.
- The Plan continues to mature.

### **1.4 Investment and Risk Philosophy**

The statement of investment beliefs serves as the rationale behind the investment and risk philosophy of the Board when formulating the investment asset mix and Fund structure.

#### **(a) Investment Beliefs**

The key investment beliefs that shape this Investment Policy are:

- i. In setting asset mix, consideration should be given to the relationship between assets and liabilities in order to reduce funding volatility.
- ii. There is a relationship between risk and return – higher returns generally require taking on higher risk. However, higher risk will not always result in higher returns.
- iii. Risk and return relationships can be identified most confidently over long time periods.
- iv. Diversification can improve the risk/return profile of a portfolio.
- v. While asset classes will to varying degrees be efficient and the returns will trend

back to the long term average, asset classes can in the short run deviate in terms of returns, risk and correlation. This can create opportunity to enhance Fund return and mitigate risk.

### **(b) Investment Philosophy**

The Plan has a long-term investment horizon, and the need for long-term growth net of inflation. A low risk investment portfolio is expected to generate a low rate of return. Therefore, while asset values may be stable, this strategy may result in higher contribution rates than desired over the longer-term. A higher risk portfolio is expected to generate higher returns, which over the long-term should reduce contribution rates. The associated higher volatility of returns may, however, result in higher contribution volatility in the short-to-medium-term.

The Board is prepared to accept a substantial degree of risk in terms of short-term variability of returns in order to pursue long-term growth. The impact of investment volatility on contribution rates is partly mitigated by the smoothing of market values for actuarial purposes, the discretionary use of margin in actuarial valuations, and the COLA policy in respect of post-2000 service.

The investment strategy identified in Section 2 of this Investment Policy has been developed in the context of long-term capital market expectations, as well as multi-year projections of actuarial liabilities and Fund values. Accordingly, the investment objectives and strategies emphasize a long-term outlook, and interim performance fluctuations will be viewed with the corresponding perspective. The Board acknowledges that over short time periods (i.e., one quarter, one year, and even three to five year time periods), returns will vary from performance objectives.

The Board seeks to balance prudently the potential rewards and risks of an investment strategy, considering the Plan-specific factors that impact risk tolerance.

### **(c) Risk Philosophy**

Risk is assessed relative to liability primarily using asset-liability studies. The Board understands that management of risk does not require the elimination of risk, but the balancing of risk and return. The Board seeks to reduce overall risk through asset class diversification. Specifically, diversification seeks to reduce risk relative to liabilities, while also enhancing returns on a risk-adjusted basis. Diversification also seeks to reduce the Fund's volatility, negative impacts from unanticipated inflation and exposure to individual issuers or single industries.

### **(d) Investment Objectives and Return Expectations**

The long-term investment objective for the Fund is to provide the necessary asset growth to meet the Plan obligations while avoiding, to the extent possible, contribution rate volatility.

The long-term investment objective is normally assessed over a ten year horizon. However, for practical purposes, the Board will review the investment objective, on an ongoing basis, using a four-year-rolling horizon.

In the actuarial valuation as of December 31, 2016, the actuary assumed a nominal rate of return of 5.3% per year (which reflects a margin for adverse deviation of 1.0%), a real return of 3.3% per year and inflation of 2.0% per year to advise on benefit and funding issues, including the adequacy of contribution rates. Based on these assumptions, the Plan's investment strategy is anticipated to generate an annualized real rate of return, net of all expenses, of approximately 4.3%. The Plan's liabilities are sensitive to inflation, as benefits are partially determined by future salaries and COLA.

Prudent management of funding risk is a key aspect of the Board's fiduciary responsibility in recommending appropriate policies for the Fund and Plan. The Board recognizes that investment performance is not the only factor that impacts funded status, as wage growth, inflation, mortality rates, retirement rates, and member growth can all have an effect on the Plan.

**(e) Active Management**

The Investment Policy includes allocations to relatively illiquid investments and permits deviation from the benchmark indices through active management, policy ranges that are reasonably wide, and for securities to be substituted on an opportunistic basis. This has been done to take advantage of the Plan's comparative advantage as a long-term investor that provides liquidity to the marketplace, and AIMCo's skill and comparative advantage of size. As a large scale investment manager, AIMCo can execute at a much lower relative cost, retain the expertise to access and manage less liquid investments, and implement the processes and systems to effectively manage a complex portfolio on an efficient risk adjusted basis. As a result, the Board expects AIMCo to add value, through active management, over the returns that would have been realized through passive investment in indexed funds.

## Section 2: Asset Mix

### 2.1 *Implementation*

2.1.1 AIMCo invests the Fund through delegation by the Act and can exercise discretion in terms of using active and passive management techniques, the manager structure, and the use of pools as long as they are consistent with the policies established by the Board. The Board has within this Investment Policy provided discretion such that AIMCo can use its expertise to enhance the risk and return characteristics of the Fund in response to market opportunities.

### 2.2 *Portfolio Return Expectations*

2.2.1 AIMCo is directed to achieve a satisfactory long-term real rate of return through a diversified portfolio within their mandate, consistent with acceptable risks, prudent management and the Board's long run funding objectives.

2.2.2 The long-term investment expectation for the long-term policy portfolio as set out in Section 2.4 is an annualized rate of return, net of all expenses, of approximately 4.3% in excess of the annualized increase in the Canadian Consumer Price Index ("CPI"). This investment goal is long-term in nature, and is normally assessed over longer time periods.

2.2.3 Following consultations with AIMCo, the Board expects that over the long term AIMCo will add approximately 100 basis points (1.0%) per annum above the Performance Benchmark as described in Section 4.2.1.

### 2.3 *Risk Management*

#### 2.3.1 Responsibilities

The Board is responsible for setting overall risk policy for the Plan including the broad asset mix decisions, surplus value at risk ranges and the active risk budget. While the Board may review the overall risk policy at any time, it will be reviewed annually with AIMCo prior to the annual Investment Policy review.

AIMCo is responsible for implementing within the Board's Investment Policy requirements, reporting back on the outcome of the implementation, and tracking and reporting on risk.

#### 2.3.2 Liability Proxy

A liability proxy is a set of liquid, capital market instruments that react to market events, such as interest rate changes and changes in future inflation expectations, in a manner thought to be similar to benefit obligations.

A good liability proxy allows for accurate valuation of liabilities over short time periods without insurmountable effort and has a conceptually reasonable construction based on a solid theoretical framework. It is understood that a liability proxy is only an estimate of how benefit obligations might react to market events.

Please refer to Appendix 3 as the Liability Proxy is used as an input into the Risk Metrics calculations.

The liability proxy for the purpose of risk calculation is:

<b>Liability Proxy</b>	<b>% Weighting</b>
FTSE TMX Canada Real Return Bond Index	55
FTSE TMX Canada Long Term Gov't Bond Index	6
FTSE TMX Canada 20+ Strip Bond Index	<u>39</u>
	100

### 2.3.3 Investment Risk

Risk will be reported for the actual portfolio and for the liability proxy. AIMCo, to the extent possible and reasonable, will also report on any other risk metric that may be considered relevant for the Board.



## 2.4 Asset Mix Policy

- 2.4.1 Taking into consideration the investment and risk philosophy of the Fund, the Board has established the following long-term policy portfolio and range of weights for asset classes within the portfolio. The asset mix policy, ranges and guidelines are based on market values of Fund assets, unless otherwise noted.

### Asset Mix Table

<b><u>POLICY WEIGHTS AND RANGES (as a % of Fund assets)</u></b>				
Asset Class	Benchmark Index	LT Policy Weight	Min.	Max.
<b>Money Market</b>				
Money Market	FTSE TMX Canada 91 Day T-Bill	1	0	10
<b>Fixed Income</b>				
Univ. Bonds, Mortgages and Private Debt & Loan	FTSE TMX Canada Universe Bond	8	4	18
Long Bonds	FTSE TMX Canada LT Government Bond	16	12	22
<b>Inflation Sensitive</b>				
Real Return Bonds	FTSE TMX Canada Real Return Bond	5	2	10
Real Estate	REALpac/IPD Large Institutional All Property Index (Canada)	7	5	9
	Global Region MSCI/IPD Quarterly Property Index Equal Weighted (Foreign)	3	1	5
Infrastructure and Timberlands	Private Income Index <sup>1</sup>	10	7	13
<b>Equities</b>				
Canadian	S&P/TSX Composite	14	8	20
Global Developed	MSCI World (\$C)	24	14	34
Emerging Markets	MSCI EM, net (\$C)	4	0	8
Small Cap	MSCI World Small Cap	3	0	6
Private Equity	Private Equity Index <sup>2</sup>	5	0	8
<b>Total Assets</b>		<b>100</b>		

<sup>1</sup> Private Income (Infrastructure/Timberlands) benchmark of CPI + 450 bps was implemented effective January 1, 2017 and retroactive to October 1, 2015 using a 5-year rolling average for CPI. Prior to October 1, 2015, the Private Income benchmark was composed of 15% FTSE TMX Canada Universe Bond Index, 13% FTSE TMX Canada Long Government Bond Index, 22% S&P/TSX Composite Index, 41% MSCI ACWI (hedged to CAD) and 9% DEX Real Return Bond Index

<sup>2</sup> The Private Equity benchmark of CPI + 650 bps (5-year rolling average) was implemented effective January 1, 2017

With respect to the above table, please also note the following:

- (1) The combined allocation to Mortgages and Private Debt & Loan is restricted to a range of 0% to 6%.

- (2) The combined allocation to Equities (both public and private) is restricted to a maximum limit of 65%. In addition, AIMCo shall notify the Board, in conjunction with the quarterly investment performance report, if the combined allocation to Equities exceeds 60% and provide an explanation for such allocation.
- (3) Two separate allocations to the Canadian Real Estate Pool (PREP) and the Foreign Real Estate Program (FREP) comprise the long-term strategic allocation of 10% to real estate.
- (4) Private equity includes allocations to both domestic and foreign allocations.
- (5) A description of the various asset classes can be found in Appendix 1. In the case of an inconsistency or conflict between the asset class descriptions found in Appendix 1 and AIMCo product descriptions, AIMCo product descriptions shall be the governing document.

The broad asset categories noted above may include assets, securities and strategies that adhere to the characteristics of each category noted below:

Money Market	Fixed Income	Inflation Sensitive	Equities
All debt securities under one year with at least an investment grade quality rating.	Any publicly traded or privately issued fixed income security. Most investments are expected to have a high correlation to the interest rate risk of the Plan's liability.	Any publicly traded or privately held investment (both foreign and domestic) that provides some form of inflation based return including but not exclusive to investments such as real estate, infrastructure or commodity based investments. As a result it will be positively correlated with the inflation risk of the Plan's liability.	Ownership interest in both publicly traded and private enterprises (both foreign and domestic) that provide long term growth.

## 2.5 *Opportunistic Securities*

- 2.5.1 There may be opportunities available for AIMCo to fund certain investments outside those asset classes as listed in Section 2.4. The Board provides AIMCo with the autonomy to investigate and fund these investments. By investing in these opportunistic investments, it is recognized that they will displace the asset allocation as described in Section 2.4. AIMCo will notify the Board whenever such a transaction occurs. Due to the potential illiquid nature of some opportunistic securities, the Board recognizes that AIMCo may not be able to reverse the trade in a timely manner. Opportunistic securities will have a maximum allocation of 5.0% of the market value of Fund assets. Depending on the investment characteristics of the opportunistic securities, allocation into one of the broad asset class categories (e.g., money market, fixed income, inflation sensitive, or equities) is preferable but not essential. At the request of the Board, AIMCo should be able to provide the rationale for making any such opportunistic investment.

## **2.6 *Manager Discretion***

- 2.6.1 AIMCo has sole discretion to determine the manner in which the Fund is invested in specific pools and strategies, provided that the investment products and strategies conform to the rest of this Investment Policy.

## **2.7 *Currency Hedging and Active Currency Overlays***

- 2.7.1 Foreign currency hedging can be employed at AIMCo's discretion on an opportunistic basis within this policy's risk limits. AIMCo will report overall Plan currency exposures quarterly. AIMCo Compliance will report when any single currency exposure differs from the benchmark exposure by more than 3% of total Plan market value at quarter end.

## **2.8 *Interim Policy Asset Mix***

- 2.8.1 Given the illiquid nature of private investments, the actual weighting may deviate from the policy asset mix. This may be due to transition to a new asset mix policy or due to relative market performance. In general the intent will always be to move towards the long term policy allocations for private investments. To minimize the impact on measuring performance and the implementation of AIMCo's strategic asset allocations, an interim policy asset mix may be used to manage unintended deviations from the long term policy allocation. For the purposes of calculating the interim policy asset mix, adjustments will usually be made in 0.5% increments of total Plan assets. AIMCo will advise the Board in writing when a change is made subject to standing instructions provided by the Board as to where unintended over/under weights of private investments will be re-allocated. Changes will be reported as information at the next scheduled meeting of the Board and the use of the interim benchmark and standing instructions will be reviewed by the Board as part of the annual SIP&G review. In some cases, AIMCo may wish to reflect a market change or the impact of a transaction (sale during a transition or a purchase or sale once at the long term policy allocation) as an intended under or overweight. To do so, there would be no adjustment made through the interim benchmark. Any benchmark weight changes will be triggered by the Plan Fund or Indexing Account with the higher actual exposure to the relevant illiquid asset class.

## Section 3: Permitted Investments and Restrictions

### 3.1 *Permitted Investments*

- 3.1.1 Permitted Investments are qualified investments under the prudent person rule defined in the *Financial Administration Act*, as amended from time to time, as investments that adhere to investment and lending policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and obtain a reasonable rate of return. The investments of the Fund must also be in compliance with this Investment Policy and be recognized as qualified investments under the applicable legislative provisions.
- 3.1.2 Permitted Investments include investments through units of any AIMCo pooled fund or segregated fund as approved by the AIMCo Board provided that such vehicles conform to this Investment Policy.
- 3.1.3 The Fund invests through several pooled funds, which have separate and independent investment policies. Should a conflict arise between the provisions of this Investment Policy, and the provisions of the pooled fund's investment policy, AIMCo is required to notify the Board immediately in writing, detailing the nature of the conflict and AIMCo's recommended course of action.

### 3.2 *Maximum Quantity and Minimum Quality Requirements*

- 3.2.1 It is expected that when making investments, AIMCo will take into consideration diversification, factor exposures, liquidity and credit quality within the context of both specific markets and of the total Fund.

### 3.3 *Derivatives*

- 3.3.1 The use of derivatives and synthetic securities is permitted in a manner consistent with the overall investment policies, risk tolerance of the Fund, and applicable legislation.

### 3.4 *Cash and Securities Lending*

- 3.4.1 The investments of the Fund may be loaned for the purpose of generating incremental revenue for the Fund and in a manner consistent with industry practices. AIMCo shall provide a summary report of securities lending activities on a regular basis.

### 3.5 *Leverage*

- 3.5.1 Leverage may be used in the Fund for the purpose of enhancing returns and managing risk. Leverage magnifies the actual returns beyond those experienced by the underlying securities, both on the upside and on the downside. Leverage may be employed in connection with the investment of the Funds, provided that:
- a) such leverage may only be employed insofar as permitted by applicable laws and regulations,
  - b) AIMCo has given due consideration to the risks associated with the use of leverage in the circumstances; and

- c) the employment of leverage does not violate the risk constraints for the Plan, as described in this Investment Policy.
- 3.5.2 Common examples of leverage found in portfolios are portable alpha or overlay strategies, real estate, and private investments. In each case, leverage is understood to be an integral part of the underlying strategy and it is to be monitored, giving particular consideration to the related risks.

### **3.6 *Short Selling of Securities***

AIMCo may short sell securities, by way of borrowing securities or otherwise, to enhance the return of the Fund. Such short sales shall provide for AIMCo's right to terminate the transaction and to recover AIMCo's collateral. When engaging in short sale transactions, AIMCo shall give consideration to the related risks.

When AIMCo enters a short sale transaction the credit quality of the prime broker or lender, and (where relevant) the parent company of the prime broker or lender, shall be identified and monitored throughout the transaction. AIMCo will provide the amount and type of collateral consistent with market requirements. Collateral shall be required to be held by the prime broker or lender in a manner designed to safeguard it, to the extent possible, from the interests of other creditors of the prime broker or lender. The agreement must provide for the collateral or equivalent collateral to be returned to AIMCo promptly upon the termination of the short sale transaction and after AIMCo has satisfied its obligation. The short sale securities (loaned securities) and the collateral shall be marked to market daily so that exposures of AIMCo may be monitored to the extent possible.

### **3.7 *Related Party Transactions***

The Plan may enter into a transaction with a related party if permitted by applicable legislation, and provided that the terms and conditions of the transaction are not less favourable to the Plan than market terms and conditions. For purposes of assessing compliance with applicable legislation, a transaction shall be considered nominal or immaterial if its value is not more than 2.5% of the market value of total portfolio assets at the time the transaction is entered into or completed.

## Section 4: Monitoring and Control

### 4.1 *Delegation of Responsibilities*

#### 4.1.1 The Board will:

- i. Review and approve the Investment Policy for the Fund.
- ii. Review the financial statements.
- iii. Review Fund performance at least annually.
- iv. Review the quarterly investment reports.
- v. Review AIMCo's policy and procedures as they apply to the investment of the Fund.
- vi. Report the results of those reviews to the Trustee as appropriate.

#### 4.1.2 AIMCo will:

- i. Execute investment transactions.
- ii. Forecast the trends of pertinent economies and investment markets.
- iii. Manage the Fund as a separate and distinct portfolio, within the general guidelines of this Investment Policy.
- iv. Maintain an ongoing investment research function and bring recommendations for changes to the Investment Policy to the Board.
- v. Report to the Board on investment results and activities, and on compliance with the established policies and goals established under this Investment Policy.
- vi. Engage and manage all external investment managers and on a quarterly basis ensure that internal and external activity is consistent with the guidelines and prospective investment strategy.
- vii. Provide periodic reviews of investment costs to the Board.

### 4.2 *Reporting by Investment Manager*

- 4.2.1 On a calendar quarterly basis, AIMCo will provide a performance report and a strategy review for the portfolio. Within the report, AIMCo will also provide attribution analysis on the Fund's performance. Attribution analysis estimates the impact of asset mix changes and product performance by comparing the Fund's actual return to the Performance Benchmark's return. The Performance Benchmark for a calendar quarter is calculated based on the asset mix weights in effect for the quarter and the benchmark index returns

(See the table in Section 2.4.1). In addition, AIMCo will review and report on the effect of market positions on the Fund's aggregate or factor exposures such as diversification, factor exposures, liquidity, credit quality and leverage. AIMCo will also disclose the use and effect of derivatives on the Fund and securities lending. The Board may request a detailed listing of all holdings of the Fund. AIMCo will provide such a list within a reasonable period of time.

- 4.2.2 AIMCo is required to complete and sign a compliance report each quarter. The compliance report should indicate whether or not the investments of the Fund were in compliance with this Investment Policy during the quarter. Copies of the compliance reports must be sent to the Board.
- 4.2.3 In the event that the Fund is not in compliance with this Investment Policy, AIMCo is required to advise the Board via the Plan Board Manager in a timely manner, detailing the nature of the non-compliance and recommending an appropriate course of action to either remedy the situation or revisit the Investment Policy, as appropriate.
- 4.2.4 If at any time AIMCo feels that the objectives cannot be met, or that the guidelines or restrictions are imprudent, or that the Investment Policy restricts performance, the Board should be notified in writing in a timely manner.

#### **4.3 Performance Evaluation of Investment Manager**

The performance objective is to earn a return, net of investment fees, that exceeds the rate of return of the Performance Benchmarks described in Section 4.2.1.

- 4.3.1 The returns of the Fund are calculated using market values derived from independent pricing sources. Returns are time-weighted so that cash flows have a minimal effect on return numbers. All income is included on an accrued basis. Return calculations follow the standards established by the CFA Institute.
- 4.3.2 While it is important to assess performance over longer time periods, monitoring will be done on a quarterly basis and will include year-to-date results to identify and respond appropriately to potential deficiencies in the management of the Fund.
- 4.3.3 A rolling four-year time horizon will be used for determining whether the net-of-fees investment return objective of 100 basis points (1.0%) over the Performance Benchmark has been met. The Board will review value-added performance at least annually.
- 4.3.4 AIMCo evaluates its external managers quarterly and will include measurement of returns, comparison of returns to the benchmark, and risk analysis. Special attention will be paid to evaluating performance against the product description objectives.
- 4.3.5 AIMCo will calculate performance in such a manner as to isolate the effect of asset allocation at a broad asset class level and for the narrower asset class choices.

#### **4.4 *Communications Protocol***

- 4.4.1 AIMCo will direct all communications to the Board through the Plan Board Manager. The Plan Board Manager will then disseminate the information to the appropriate Board members in a timely manner.
- 4.4.2 The Plan Board Manager will direct all communications to AIMCo through AIMCo's Client Relations staff. Client Relations will then disseminate the information to the appropriate AIMCo staff members in a timely manner.



## Section 5: Administration

### 5.1 *AIMCo Code of Conduct and Ethical Standards*

5.1.1 AIMCo and its employees and directors shall adhere to AIMCo's Code of Conduct and Ethical Standards. The AIMCo Board is responsible for approving changes to the Code of Conduct and Ethical Standards. A current version of the Code of Conduct and Ethical Standards will be maintained and available on AIMCo's website.

### 5.2 *Valuation of Securities Not Regularly Traded*

5.2.1 Where a public market price is not available for an asset, a suitable method of valuation shall be used including the use of: discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate. External appraisers may be used to provide independent valuations or verify the reasonableness of internal valuations.

### 5.3 *Voting Rights*

5.3.1 The Trustee obtains voting rights for the securities held and will act in the best interests of the Plan. The Trustee has delegated to AIMCo the responsibility to vote securities in a prudent manner in order to enhance the Fund's investment returns.

5.3.2 It is expected that in applying this section of the Policy, AIMCo will periodically review its voting and investment practices with the Board.

### 5.4 *Investment Policy Review*

5.4.1 This Investment Policy may be reviewed and revised at any time, but the Board must formally review the Investment Policy at least once in every calendar year. Major changes that may prompt a review include:

- i. A fundamental change in the requirements and objectives of the Plan;
- ii. Significant revisions to the expected long-term trade-off between risk and reward on key asset classes;
- iii. Material change in the actuarial calculation basis, membership/liability distribution, or the funding/expense expectation;
- iv. A significant change in the financial risk tolerance of the Board;
- v. Shortcomings of the Investment Policy that emerge in its practical application, or substantive modifications that are recommended to the Board; and
- vi. Changes in applicable legislation.

## **5.5 Investment Policy Changes**

5.5.1 After changes to the Investment Policy are made, the Board will communicate the changes to AIMCo using the following protocol:

- i. As soon as practical the Plan Board Manager will inform AIMCo of the change.
- ii. To ensure timely and cost effective execution, AIMCo requires at least two months advance notification of the new policy's effective date. During this period AIMCo will communicate a written implementation plan and proceed to transition the asset mix to the new allocations.
- iii. AIMCo will acknowledge receipt of the correspondence to the Plan Board Manager. If no acknowledgement of acceptance is made within a reasonable time frame, the Plan Board Manager will follow up with AIMCo to ensure appropriate action is taken.
- iv. AIMCo will advise the Board of any concerns with the changes or implementation timing within 15 days of receipt of the notice of change. The Board and AIMCo will work collaboratively to resolve any concerns with the policy plan changes.

## **5.6 Directed Brokerage Commission**

5.6.1 Investment managers may use directed commissions to pay for research and other investment related services provided they comply with the Soft Dollar Standards promulgated by the CFA Institute.

## Appendix 1 – Security Class Descriptions

*Active Currency Overlays:* Investments that generate income through active currency trading (primarily forward contract) and management. Participation in this investment vehicle is largely on an unfunded basis (investments are based on the notional amounts with a small capital commitment or cash required for settlements only).

*Canadian Public Equities:* All securities of publicly traded companies that are listed on the Toronto, Montreal or Canadian Venture stock exchanges.

*Emerging Markets Public Equity:* All securities of publicly traded companies in economies that are in their earlier stages of development. Emerging Markets economies have sufficient size and liquidity for institutional investments and are receptive to foreign investments. Examples include China, Greece and Brazil.

*Fixed Income Securities:* All bonds, debentures, notes and other debt instruments over one year in term with at least a BB rating at the time of purchase. The debt issues may be either public offerings, or private placements restricted to institutional investors.

*Liability Proxy:* A liability proxy is a set of liquid, capital market instruments that react to market events, such as interest rate and inflation changes, in a manner thought to be similar to long term obligations of the pension.

*Money Market:* All debt securities under one year with at least an investment grade quality rating. Investment grade means securities that on analysis qualify as a reasonable risk for institutional investment managers serving in a fiduciary capacity.

*Net Long Strategy:* An investment management technique that overweights and underweights securities in equal measure to add value in a risk controlled manner, while maintaining a net positive exposure to the market. Essentially, a manager sells securities viewed negatively on the expectation that the value of these securities will underperform. With the proceeds of these sales, the manager buys securities that are viewed positively, i.e. securities the manager expects will outperform. The securities sales and offsetting security purchases are designed in such a manner that the net exposure to the market does not change. Securities that are underweight more than their total index weight are sold “short” (see short selling). These strategies are also commonly known as 120/20, 130/30 and active extension.

*Non-North American Public Equities:* All securities of publicly traded companies that are listed on recognized exchanges outside of Canada and the United States. Includes both the developed EAFE (Europe, Australasia and Far East) and emerging markets.

*Private Mortgages:* Types of private mortgages include, but are not limited to: 1) Conventional Mortgages - investments secured directly by real estate and 2) Specialty Mortgages - investments secured directly and indirectly by real estate such as second mortgages, mezzanine investments in real estate projects, subordinated and non-investment grade tranches of CMBS offerings, B-Notes and junior tranches of whole mortgage loans, non-investment grade mortgage bonds and distressed mortgages. Private mortgages are implemented in AIMCo's Private Mortgage Pool (PMP) product(s). Please refer to the PMP product description for the AIMCo specific implementation of mortgages.

*Private Equities:* Institutional offering or private equity placements of companies that appear to have attractive growth prospects and do not exceed a reasonable level of risk.

*Private Income/Infrastructure:* Private Income opportunities represent privately negotiated investments in private and publicly traded entities. These investments are selected, structured and managed to provide 1) current income component of total return, 2) diversification, and 3) an inflation hedge. These investment opportunities are typically capital-intensive and may include infrastructure projects (long-life assets used to provide essential services), timberland, bridge loans and corporate finance arrangements (with a current income component to total return). Most infrastructure assets are illiquid assets.

*Real Estate:* Investments in the operation of and creation of income producing real estate properties with capital appreciation potential located in major urban areas (domestic and foreign) with a long-term focus.

*Short Selling:* Selling a security that one does not own.

*Timberland:* Timberland investments are made primarily in privately owned areas of woodland; that is, forested areas consisting of both hardwood and softwood species. When responsibly managed, timberland investments are a renewable and sustainable resource. Timberland investments are illiquid assets.

*U.S. Public Equities:* US common shares, preferred shares or other equity related securities issued by publicly traded corporations that are listed on recognized stock exchange. This security class may also include any instrument that is derived from such securities (e.g. options, futures, forwards, equity swaps).

## Appendix 2 – Benchmark Descriptions

*CPI:* Canadian Consumer Price Index measures the rate of inflation in Canada as published by Statistics Canada.

*FTSE TMX Canada 91 Day T-Bill Index:* An index maintained by FTSE TMX Global Debt Capital Markets Inc. that generally reflects the performance of the Canadian money market as measured by investments in 91 day Treasury Bills.

*FTSE TMX Canada Long Term Government Bond Index:* This index includes bonds issued by the government of Canada (including crown corporations), provincial governments (including provincially guaranteed securities) and municipal governments. The index consists of semi-annual pay fixed rate bond issues in Canada and denominated in Canadian dollars, with a remaining term to maturity of greater than ten years. Total returns are calculated daily and are weighted by market capitalization. Bonds included in the index must meet minimum liquidity requirements.

*FTSE TMX Canada Real Return Bond Index:* An index that tracks the performance of real return (inflation-linked) bonds issued in Canada with terms to maturity of more than one year and a minimum credit rating of BBB (low).

*FTSE TMX Canada Universe Bond Index:* An index that tracks the performance of most marketable, domestically issued, Canadian bonds with terms to maturity of more than one year. This index is comprised of Canada's, provincial, municipal and AAA through BBB rated corporate issuers.

*REALpac/IPD Large Institutional All Property Index:* An index maintained by the Investment Property Databank Limited that measures the total return to directly held standing property investments from large Canadian funds including institutional pension funds, insurance companies and segregated managed funds, which individually have real estate portfolios valued at greater than \$1.5 billion.

*Morgan Stanley Capital International All Country World Index:* The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the large and mid-cap equity market performance of developed and emerging markets. With over 2,000 constituents, the index covers approximately 85% of the global investable equity opportunity set.

*Morgan Stanley Capital International World Index:* The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the large and mid-cap equity market performance of developed markets.

*Morgan Stanley Capital International Emerging Markets Index:* The MSCI EM Index is a free float-adjusted market capitalization index that is designed to measure the large and mid-cap equity market performance of emerging markets.

*Morgan Stanley Capital International World Small Cap Index:* The MSCI Small Cap Index is a free float-adjusted market capitalization index that is designed to measure small cap equity market performance across developed market countries.

*S&P/TSX Composite Index:* The S&P/TSX Composite is the headline index for the Canadian equity market. It is the broadest in the S&P/TSX family and is the basis for multiple sub-indices including but not limited to equity indices, Income Trust Indices, Capped Indices, GICS Indices and market cap based indices. The TMX Group Inc. serves as the distributor of both real-time and historical data for this index.

*S&P/TSX Small Cap Index:* The S&P/TSX Small Cap Index provides an investable index for the Canadian small cap market. The index is float adjusted and market cap weighted. The TMX Group Inc. serves as the distributor of both real-time and historical data for this index.

## Appendix 3 – Advanced Risk Metrics

### A3.1 Actual Portfolio Surplus Value at Risk (Actual VaR)

Actual Portfolio Surplus Value at Risk (Actual Surplus VaR) is a measure of the relative risk between the actual asset mix and liability proxy. VaR is measured for a 12 month period based on a 95% confidence level.

The risk limits for Actual Surplus VaR are as outlined in the table below. These ranges were derived by AIMCo based on the asset mix guidelines previously established by the Board.

Actual Surplus VaR	Range
Upper Red Zone (“Red”)	Exceeds 20.0%
Upper Warning Range (“Amber”)	20.0% to 19.0%
Target or Normal Range (“Green”)	Below 19.0% to 13.0%
Lower Warning Range (“Amber”)	Below 13.0%

Subject to this policy statement, including the asset mix guidelines below, AIMCo as part of its risk budgeting process will manage the actual portfolio to be within the Actual Surplus VaR normal range.

**If the portfolio is in the warning range, AIMCo will provide an explanation to the Board at the next regular reporting opportunity. If the portfolio exceeds the limits of the warning range, AIMCo will promptly notify the Board and recommend an appropriate course of action, if any.**

It is understood that at times risk cannot be adjusted given the realities of the market and practical considerations. The risk budget protocols allow for the adjustment of the portfolio in order to rebalance the risk budget if necessary. Alternatively, the risk budget itself could be changed.

### A3.2 Active Value at Risk (VaR)

Active VaR is the risk of the Actual Portfolio underperforming the Policy Portfolio.

It is understood that Active VaR is of secondary importance to Actual Surplus VaR and that Active VaR can, at times, reduce Actual Surplus VaR without a reduction in overall portfolio expected returns.

Active Value at Risk (VaR) is the most the fund’s Active Portfolio could lose over a future time horizon with 95% confidence, expressed as a percentage of the fund’s market value.

Based on historical experience, AIMCo is operating with an Active VaR target of 3.0%.

If Active VaR is less than the limit AIMCo will continue with monitoring and quarterly reporting.

If Active VaR is above the limit then AIMCo may rebalance below the Active VaR limit or choose to run above the Active VaR limit. In either case AIMCo will advise the Board of what action it took and why. Should AIMCo seek to run above the Active VaR limit the Board will then review the limit and either adjust the limit or instruct AIMCo to rebalance.