

***STATEMENT OF  
INVESTMENT POLICIES AND PROCEDURES***

***FOR THE***

***MUNICIPAL EMPLOYEES' BENEFIT PLAN GROUP  
INSURANCE PLAN***

***EFFECTIVE JANUARY 1, 2019***

**STATEMENT OF INVESTMENT POLICIES AND PROCEDURES FOR THE  
MUNICIPAL EMPLOYEES’ BENEFIT PLAN GROUP INSURANCE PLAN**

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## **SECTION 1.0**

### **GENERAL INFORMATION**

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#### **1.1 PURPOSE**

1.1.1 The Board of Trustees has established this Statement of Investment Policies and Procedures as a tool for the effective management of the benefit fund assets of the Municipal Employees' Benefit Plan Group Insurance Plan and to produce a level of return on investments which will meet the long-term costs of any payments made from the Plan. The level of return should also look to offset the operating costs of the Plan.

1.1.2 The main purpose of this Statement is to:

- (a) establish and communicate the investment constraints and objectives to the Investment Manager;
- (b) articulate the guidelines for monitoring the investment performance of the Fund;
- (c) provide a framework for the review and assessment of the Investment Manager;
- (d) identify the role of the Board of Trustees and its agents involved in the investment process.

1.1.3 This statement is effective January 1, 2019.

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### 1.2 DEFINITIONS

1.2.1 In the construction of this Statement of Investment Policies and Procedures, the following definitions shall apply:

**“Board of Trustees” or “Board”** means the Employer trustees and the Employee Representative trustees appointed or elected in accordance with the Trust Agreement.

**“Custodian”** means a company legally eligible to verify security transactions on behalf of an Investment Manager and verifying all transactions on behalf of a client’s account. As Investment Managers legally cannot handle the securities in their portfolios, a Custodian must be used to verify all transactions.

**“Employer”** means an employer who is or becomes signatory to the participation agreement of the Plan requiring contributions to the Trust Fund in accordance to the terms of the Trust Agreement.

**“Plan”** means the Municipal Employees’ Benefit Plan Group Insurance Plan. The Plan is administered in accordance with the Trust Agreement and Contracts.

**“Pooled Fund”** means the assets of the Plan managed by the Investment Managers under Section 3.0 of this Statement.

**“Statement”** means this Statement of Investment Policies and Procedures for the Municipal Employees’ Benefit Plan Group Insurance Plan.

**“Trust Agreement”** means the agreement establishing the Trust Fund of the Group Insurance Plan as of January 1, 1977 and as amended from time to time.

**“Trust Fund” or “Fund”** means all of the assets of the Plan as administered by the Board of Trustees.

1.2.2 Unless inconsistent with the context, words implying the singular include the plural and words implying the masculine include the feminine, and vice-versa.

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**1.3 PLAN OVERVIEW**

- 1.3.1 The Plan has been amended from time to time to comply in accordance with any changes approved by the Board.
- 1.3.2 Plan membership is optional for both employer coverage or member elected coverage.
- 1.3.3 The Employers and/or Employees contribute a fixed amount per the participation agreements. The contribution rate breakdown may vary in accordance with the agreements of each Employer.
- 1.3.4 Member's eligibility in the Plan is based on their employment status with an Employer and the contributions remitted.
- 1.3.5 The assets of the plan are currently invested with three specialty fixed income mandates.

## **SECTION 1.0**

### **GENERAL INFORMATION**

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#### **1.4 ROLES AND RESPONSIBILITIES**

1.4.1 The assets of the Plan must be invested in a manner that a reasonable and prudent person would apply to the Plan's portfolio of investments having regard to the Plan's objectives.

#### **Board of Trustees**

1.4.2 The Board of Trustees is responsible for the overall administration of the Plan and the Trust Fund.

1.4.3 The Board of Trustees has delegated the investment of a portion of the Plan's assets to the Investment Manager(s) in accordance with this Statement.

1.4.4 The Board of Trustees will:

- (a) establish, and, as appropriate, modify this statement;
- (b) appoint, monitor, and replace, as appropriate, a Custodian;
- (c) appoint, monitor, and replace, as appropriate, the Investment Manager(s);
- (d) appoint, monitor, and replace, as appropriate, for the discharge of its duties under this Statement, the services of any professional advisor, service provider or agent;
- (e) meet not less frequently than annually to review this Statement and the compliance with constraints and achievement of objectives as set forth herein;
- (f) ensure the trustees are provided training to carry out their duties and responsibilities (e.g. investment conferences/seminars).

#### **Custodian**

1.4.5 The Board of Trustees act as the Plan Custodian with the assistance from the Administrator/Consultant.

1.4.6 The Administrator shall identify any changes to the Board of Trustees that will impact the ongoing suitability of assuming the duties as Custodian.

#### **Investment Manager**

1.4.7 The Investment Manager shall:

- (a) comply with all applicable laws, rules and regulations, including CFA Institute's Code of Ethics and Standards of Professional Conduct governing its professional activities;
- (b) not knowingly participate or assist in any violation of such laws, rules or regulations;
- (c) exercise the care and skill expected of a prudent investment counselor;
- (d) at all times act on a basis which is fair and reasonable; and

## SECTION 1.0

### GENERAL INFORMATION

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- (e) exercise its power and duties in good faith and in accordance with its best judgment.

1.4.8 The Investment Manager is responsible for:

- (a) investing the Fund in accordance with the Fund objectives and asset class guidelines as set forth within this Statement;
- (b) selecting securities for purchase or sale in accordance with the stated Fund objectives and asset class guidelines; and
- (c) ensuring compliance with all legal limitations for registered employee pension plans and in accordance with the Income Tax Act and Regulations, Canada and The Pension Benefits Act of Manitoba and Regulations.

1.4.9 The Investment Manager must provide a letter of compliance (see sample in Appendix A) to the Board of Trustees within four weeks after the end of each calendar year. This letter of compliance must contain:

- (a) a general statement that the Investment Manager is complying with all relevant provisions of this Statement.
- (b) if necessary, identification of any provision of this Statement which has not been respected along with an explanation of the reasons for and severity of the non-compliance. If the Manager foresees that he will not be able to comply with a provision before the end of the following quarter, it should be identified when compliance is anticipated;
- (c) A statement describing that the Investment Manager accepts the responsibilities contained in the applicable legislation and rules as a delegate of the Board of Trustees.

1.4.10 The Investment Manager must comply with all mandatory provisions of the **Soft Dollar Standards** as prescribed by the CFA Institute. The soft dollar standards are summarized in **Appendix B**.

## **SECTION 2.0**

### **INVESTMENT POLICIES**

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#### **2.1 INVESTMENT CATEGORIES**

##### 2.1.1 Diversification

Investment risk may be reduced through diversification by asset types, investment style, industries, and geographic regions. Risk is often measured as the volatility of return.

A principal of portfolio theory is that there is a trade-off between risk and expected return. The degree of diversification depends on the Board of Trustees' long-term return objectives and its willingness to assume risk.

2.1.2 The Investment Manager shall have full discretion with regard to security selection and the timing of investment purchases and sales within the Pooled Fund, subject to the requirements of this Statement.

#### ***Investment Categories and Requirements***

##### 2.1.3 Short Term Securities

(a) Authorized investment categories:

- cash;
- demand deposits and term deposits;
- short-term notes;
- banker's acceptance;
- guaranteed investment certificates (subject to requirements summarized in Appendix C;
- bonds maturing in less than one year;
- asset-backed securities;
- mortgage-backed securities;
- pooled funds containing the above-mentioned authorized investment categories;
- all other fixed income securities that are rated by a recognized bond rating organization;

(b) Qualitative limitations

- securities must carry a maximum term of one year;
- securities issued by the Government of Canada, provincial governments, organizations backed by a government or municipality: no qualitative limitation;
- securities issued by Canadian corporations: minimum rating of BBB by Standard & Poors Rating Service or equivalent.

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### INVESTMENT POLICIES

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#### 2.1.4 Fixed Income Securities

(a) Authorized investment categories:

- marketable bonds, strip bonds and coupons;
- asset-backed securities;
- mortgage-backed securities;
- mortgages on real property
- GIC's (subject to requirements in Appendix C);
- marketable debentures;
- pooled funds containing the above-mentioned authorized investment categories;
- foreign bonds, including those issued in Canadian currency (i.e. Maple Bonds);
- all other fixed income securities that are rated by a recognized bond rating organization;
- supply chain management (factoring).

(b) Qualitative limitations:

- the majority of bonds and debentures must have a minimum rating at the time of purchase of BBB by the Standard & Poors Rating Service or equivalent. In this regard no more than 10% may be invested in High Yield (non-investment grade) bonds, and must not include distressed debt;
- no qualitative limitation on bonds (including coupons and strips) and debentures issued by the federal government, a provincial government, or organizations backed by one of these governments or a municipality.

(c) Quantitative limits:

- bonds rated BBB or below must under no circumstances represent more than 30% of the total market value of the fixed income securities portfolio;
- no single lender, with the exception of a government or organization backed by a government or municipality, may represent more than 10% of the market value of fixed income securities portfolio.
- Foreign Bonds, Canadian securities quoted in foreign currency and securities issued by international organizations which are considered Canadian under taxation laws (i.e. Maple Bonds) must not represent more than 30% of the market value of fixed income securities portfolio.

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### INVESTMENT POLICIES

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#### 2.1.5 Canadian Equities

- (a) Authorized investment categories:
- common shares;
  - income trusts/royal trusts/real estate investment trusts (REIT's)
  - Exchange Traded Funds (ETF's);
  - preferred shares;
  - stock purchase warrants;
  - installment receipts;
  - securities convertible into common shares;
  - pooled funds containing the above-mentioned authorized investment categories.
- (b) Quantitative Limitations: The weighting of any stock in the Canadian equity portfolio shall not represent more than 10% of the market value of the Canadian equity portfolio.
- (c) Other elements:
- all securities must be traded on a recognized Canadian Stock Exchange;
  - new issues are allowed provided they are listed within six months of being issued

#### 2.1.6 Foreign Equities

- (a) Authorized investment categories:
- common shares;
  - Exchange Traded Funds (ETF's);
  - ADR's;
  - GDR's;
  - preferred shares;
  - stock purchase warrants;
  - securities convertible into common shares;
  - pooled funds containing the above-mentioned authorized investment categories.
- (b) Quantitative limitations:
- No single security may represent more than 10% of the total market value of the foreign equity portfolio.

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### INVESTMENT POLICIES

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- No more than 15% of the total market value of the foreign equity portfolio may be invested in Emerging Markets, as defined by Morgan Stanley Capital International (MSCI).
- (c) Other Elements:
- Foreign equities may only be traded on a recognized stock exchange.

#### 2.1.7 Derivatives

- (a) The portfolio can use authorized derivatives only for the following purposes:
- hedge risk inherent to part or all of an investment (e.g. foreign exchange risks) or group of investments;
  - facilitate transactions in certain markets;
  - facilitate the management process and decrease transaction costs;
  - increase returns by taking advantage of lower costs or cashing out profits on arbitrage opportunities that provide additional income for the portfolio.
- (b) Authorized Derivatives:
- forward and futures contracts;
  - swaps;
  - listed stock options and stock warrants;
  - any combination of financial instruments for which the value is determined by the market price or the level of an index, or by the market price or market value of a security, a currency or a financial instrument.
- (c) Qualitative limitations:
- derivatives must trade on a recognized exchange or be issued by a recognized financial institution and rated by a recognized credit agency;
  - the investments underlying any derivatives used must be permissible investments under this Statement;
  -

## **SECTION 2.0**

### **INVESTMENT POLICIES**

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#### 2.1.8 Exclusions

Investments that are not transacted on a secondary market or investments in unquoted securities are not permitted.

Margin buying and short selling of investment securities is not permitted.

Any investment, which is not specifically authorized above, is prohibited unless the Board of Trustees in an amendment to this Statement explicitly authorizes it.

## **SECTION 2.0**

### **INVESTMENT POLICIES**

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#### **2.2 INVESTMENT OBJECTIVES AND PERFORMANCE MEASURES**

##### **Primary Performance Objective**

2.2.1 The primary investment objectives of the Investment Manager are to:

- (a) optimize the rate of return of the Pooled Fund through well diversified investment portfolios, without taking undo risk of loss or impairment; and
- (b) where active investment management is employed, add value to the Pooled Fund through active investment management.

2.2.2 The overall minimum objective before investment and custodian fees, is to obtain a real rate of return (over the annual increase in the Consumer Price Index) of 3% per annum over five-year moving time periods. Although it is not expected that the objective will change significantly over time, it should be revised periodically if warranted.

##### **Secondary Performance Objective**

2.2.3 Although the main element used for evaluating the Investment Manager's performance is the ability to generate added value for the portfolio as a whole, the Board of Trustees may also compare the performance to comparable Investment Managers. The average rate of return should rank in the top half of similarly managed funds as measured by a comparative measurement service over a moving five-year time horizon, with moderate volatility in annual returns.

2.2.4 The Investment Manager is expected to maintain adherence to their professed investment style. If such a change is to occur, notice must be given to the Board of Trustees prior to the change. The Investment Manager will be subject to review and potential replacement given non-adherence to professed investment style.

2.2.5 Each year, the Investment Manager must provide detailed and satisfactory explanations for a performance that is considerably below the established objectives.

2.2.6 Where appropriate, the Board of Trustees may add, delete or replace any Pooled Fund and/or Investment Manager.

##### **Benchmark Portfolio**

2.2.7 The expected return for a passive benchmark portfolio is determined using the return that may be earned by an indexed management approach, as measured by benchmark indices.

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### INVESTMENT POLICIES

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The average rate of return should exceed:

<b>Asset Class</b>	<b>Target Weighting</b>	<b>Market Index</b>
Canadian Bonds	100%	FTSE TMX Bond Universe Index
<b>Total</b>	<b>100.0%</b>	

2.2.8 The overall portfolio, and balanced fund managers are expected to achieve time-weighted rates of return (before investment expenses) over five-year moving intervals that are at least 1.0% above the hypothetical return on the benchmark portfolio.

2.2.9 To obtain a higher return, the following methods could be used:

(a) Asset allocation difference from the benchmark:

Using forecasts and expertise, the Investment Manager can vary the portfolio's asset mix from the benchmark portfolio provided it remains within the limits specified in the management mandate (see Section 2.3.1). The Manager is therefore in a position to select the asset classes that he believes will generate a return greater than that of the benchmark index.

(b) Selection of top-performing securities:

In each asset class, the Investment Manager will choose securities that have a greater potential return than the benchmark index.

## **SECTION 2.0**

### **INVESTMENT POLICIES**

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#### **Risk-Adjusted Performance Objective**

2.2.10 The volatility (i.e. annualized standard deviation) of the Pooled Fund's rates of return should not significantly exceed the volatility of the hypothetical return on the benchmark portfolio over five-year moving intervals.

#### **Consistent Failure to Perform**

2.2.11 If the Investment Manager fails to achieve (before investment expense) at least the hypothetical five-year return on the benchmark portfolio over three consecutive measurement periods of six months each, the Board of Trustees shall conduct a review of the Investment Manager for potential replacement.

2.2.12 A decision by the Board of Trustees regarding whether or not to dismiss the Investment Manager for consistent failure to perform, as defined above, must be documented and supported by a review of the Investment Manager's performance. This review will include, without being limited to, the following:

- (a) performing a detailed analysis for each asset class of the performance of the Investment Manager;
- (b) performing a detailed analysis for each asset class of the performance of the Investment Manager in relation to other similar styled Investment Managers in his peer group and an index benchmark if available;
- (c) a detailed review of qualitative factors including change in key personnel, investment process, investment style, change in ownership and research capabilities;
- (d) interview the Investment Manager to assess his capability to meet the performance objective in the future.

## **SECTION 2.0**

### **INVESTMENT POLICIES**

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#### **Selection Guidelines**

2.2.13 The Board of Trustees will consider the following criteria in selecting new Investment Managers or Pooled Funds:

- (a) current ownership structure of investment firm, key management personnel and past turnover;
- (b) the appropriateness of the Pooled Fund's investment policy;
- (c) the Investment Manager's compliance with their investment policy, strategy, and philosophy;
- (d) the Pooled Fund's time-weighted rate of return, before investment expenses, over five-year moving average periods, in relation to the applicable passive benchmark;
- (e) the Pooled Fund's time-weighted rate of return, before investment expenses, over five-year moving average periods, in relation to a selected universe of comparable Pooled Funds;
- (f) the need for diversification of investment style;
- (g) the need for foreign investments and geographic diversification amongst fund choices;
- (h) the Investment Manager's compliance with CFA Institute's Code of Ethics and Standards of Professional Conduct;
- (i) the Investment Manager's compliance with CFA Institute's performance presentation standards;
- (j) the Pooled Fund's compliance with the Income Tax Act and Regulations; and
- (k) the fees and management expenses.

2.2.14 When initiating the selection process, the Board of Trustees must identify the priorities and scope of the search. For example, the weighting of the above search criteria will be different when the Board of Trustees replaces an Investment Manager versus adding a new Manager.

#### **Methodology**

2.2.15 In all cases, the methodology used to review the Investment Manager's performance, shall be applied over consistent measurement periods (for example, periods ending December 31<sup>st</sup> and June 30<sup>th</sup> of each year).

## SECTION 2.0

### INVESTMENT POLICIES

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#### 2.3 LONG TERM ASSET MIX

2.3.1 The Board of Trustees would like an active management approach to be able to add value through its asset mix. As a result, the market value of each asset class may vary within the following overall limits:

Asset Class	Asset Mix as Percentage of Fund's Market Value		
	Minimum %	Target %	Maximum %
Short-Term Securities	0	0	100
Canadian Bonds	0	0	50
Universe Bonds	0	0	40
High Yield Bonds	0	0	10
Mortgages	0	33	50
Bridge Financing	0	33	50
Supply Chain Management	0	33	50

## **SECTION 3.0**

### **INVESTMENT COMMUNICATION**

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#### **3.1 INVESTMENT COMMUNICATION**

- 3.1.1 Where applicable, general descriptions of the Pooled Fund(s) and asset mix shall be communicated to the Plan members at least annually.
- 3.1.2 The Investment Manager shall provide a description of the investment policy for its Pooled Fund to the Board of Trustees for review. If the Investment Manager intends to make any changes to this policy, he must notify the Board of Trustees in writing prior to the proposed changes in effect.
- 3.1.3 The Investment Manager must promptly serve written notice to the Board of Trustees to advise of any change in key investment personnel or the firm's ownership structure.
- 3.1.4 Each quarter, the Investment Manager must send the Board of Trustees a summary of the securities held by the Pooled Fund and CFA Institute compliant performance results for the latest quarter and annual period.

## **SECTION 4.0**

### **GENERAL POLICIES AND PROCEDURES**

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#### **4.1 LOANS AND BORROWING**

- 4.1.1 No part of the Trust Fund may be loaned to any person, partnership or association except through an eligible investment described in sub-sections 2.1 of this Statement.
- 4.1.2 Neither the Board of Trustees, the Employers, nor the Investment Manager may borrow on behalf of the Trust Fund except to the extent required for timely payment of Plan benefits and administrative costs and to limit the requirement for a distress sale of investments. In the event that funds are borrowed, they shall be repaid within 30 days.
- 4.1.3 The Board of Trustees acknowledges that securities lending may be permitted under the Pooled Fund investment policy. The Pooled Fund may enter into securities loan agreements providing the program is pursuant to an arrangement and agreement with the Pooled Fund custodian or an associate trust institution.

The loaned investments must be secured by cash or highly liquid securities. The market value of the collateral held for securities lent must not be less than 105% of the aggregate value of all securities lent. This 105% level of security must be maintained at least daily.

Any contract outlining the terms and conditions of a securities loan must include an indemnity clause with the associated Pooled Fund custodian, in the case of default by the broker borrowing the securities.

- 4.1.4 Any Investment Manager that engages in securities lending is required to:
- (a) report each year on whether their securities lending policy adheres to the Office of the Superintendent of Financial Institutions (OSFI) guidelines for security lending;
  - (b) fully disclose their securities lending policies of the Board of Trustees annually; and
  - (c) notify the Board of Trustees immediately of any changes in these policies.

## **SECTION 4.0**

### **GENERAL POLICIES AND PROCEDURES**

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#### **4.2 VOTING RIGHTS**

- 4.2.1 The responsibility of exercising and directing voting rights acquired through the investment process shall normally be at the discretion of the Investment Manager. However, the Manager must act prudently and in the best interest of the Plan and its beneficiaries.

The Investment Manager shall vote all proxies in an informed manner in accordance with all responsibilities of a fiduciary and in order to optimize the long-term value of the investments. Any issues deemed controversial should be discussed with the Board of Trustees prior to voting. Furthermore, the Investment Manager shall make note to the Trustees on a timely basis of any proxies that are voted contrary to the position of a corporation's management and the reason for voting in such a manner.

#### **4.3 ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY**

- 4.3.1 The Trustees shall take environmental, social and governance (ESG) policies of the manager into account when making decisions regarding the investment of the fund. However, ESG will be one of many factors in the Trustees decision making process and does not preclude the Trustees from making investments they believe are best aligned with the objectives of the Plan.

## **SECTION 4.0**

### **GENERAL POLICIES AND PROCEDURES**

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#### **4.4 CONFLICTS OF INTEREST**

- 4.4.1 A conflict of interest arises when a member of the Board of Trustees, an Employer, the Investment Manager, or an employee of those organizations, or any other party associated with the Plan, may benefit materially from any knowledge of, or participation in, any investment decision or asset holding of the Trust Fund.
- 4.4.2 The Board of Trustees has the responsibility to oversee, disclose and correct any actual or perceived conflict of interest relating to any party associated with the Plan of which it has knowledge.
- 4.4.3 Any party having a conflict of interest perceived or real, shall immediately notify the Board of Trustees of the conflict and refrain from participating in any decision making with respect to the conflict.
- 4.4.4 The Board of Trustees shall ensure that the Investment Manager has in place an acceptable written conflict of interest policy.

## **SECTION 4.0**

### **GENERAL POLICIES AND PROCEDURES**

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#### **4.5 REVIEW**

- 4.5.1 This Statement shall be reviewed at least annually by the Board of Trustees.
- 4.5.2 This Statement may be amended in whole or in part at any time as deemed appropriate by the Board of Trustees.
- 4.5.3 The Board of Trustees shall, at least annually, monitor the performance of the Investment Manager. The performance review shall include an ongoing evaluation of performance relative to:
- (a) the Fund objectives and monitoring standards set forth herein;
  - (b) compliance with the terms and conditions of the Statement on a quarterly basis;
  - (c) the stability of the Investment Manager, including but not limited to financial strength, changes in investment personnel and competitive position;
  - (d) consistency of investment style and discipline of the portfolio decision making process;
  - (e) compatibility of the investment style to the objectives of the Board of Trustees; and
  - (f) communication and client service.
- 4.5.4 The Board of Trustees, shall at least annually:
- (a) review the current asset class guidelines; and
  - (b) discuss the current and expected economic outlook and its impact on the Plan.
- 4.5.5 The Board of Trustees shall, at least annually, meet with the Investment Manager to review the Investment Manager's performance and address any questions or concerns arising from the performance review.
- 4.5.6 The Board of Trustees recognizes that the nature of the Plan and its liabilities will change over time and, as a result, the Fund objectives and monitoring process will require review at least annually.

**SECTION 5.0**  
**ACCEPTANCE**

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5.1.1 On behalf of the Board of Trustees, this Statement of Investment Policies and Procedures for the Municipal Employees' Benefit Plan Group Insurance Plan is hereby adopted effective the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**Trustees**

\_\_\_\_\_  
Name

5.1.2 The Investment Manager accepts this Statement of Investment Policies and Procedures and agrees to comply with the provisions as set forth herein. Dated this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

\_\_\_\_\_  
Name

\_\_\_\_\_  
Signature

**APPENDIX A -  
SAMPLE COMPLIANCE LETTER**

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**MUNICIPAL EMPLOYEES' BENEFIT PLAN GROUP INSURANCE PLAN**

**STATEMENT OF INVESTMENT POLICIES AND PROCEDURES**

**COMPLIANCE LETTER FOR THE PERIOD \_\_\_\_\_ TO \_\_\_\_\_**

<b>Category</b>	<b>Guidelines</b>	<b>Policy Compliance (Yes/No*)</b>
<b>General</b>	Complies with CFA Institute's Code of Ethics and Standards of Professional Conduct	
	Investments comply with Income Tax Act and Regulations	
	Only invested in allowable categories of securities and within permitted limitations	
	No money borrowed by the Plan (except on a short-term basis)	
<b>Securities Lending</b>	Securities lending in Pooled Fund	
<b>Derivatives</b>	Underlying investments are permissible	
	No net leverage created	
<b>Guidelines</b>	Invested within minimum and maximum asset mix limits for each class of security	
<b>Voting Rights</b>	Exercised in best interest of the Plan	
<b>Performance Evaluation</b>	Meet CFA Institute performance presentation standards	
<b>Reporting</b>	Quarterly statements of results provided to the Board of Trustees (inclusive of portfolio listing)	

\* - If "no", provide detailed explanation.

**APPENDIX A -  
SAMPLE COMPLIANCE LETTER**

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To the best of our knowledge, this report provides a factual representation of compliance with the Statement of Investment Policies and Procedures for the period noted above.

\_\_\_\_\_  
NAME

\_\_\_\_\_  
INVESTMENT MANAGER

\_\_\_\_\_  
DATE

## **APPENDIX B - CFA INSTITUTE SOFT DOLLAR STANDARDS**

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The CFA Institute Soft Dollars Standards are based on fundamental principles that an investment manager should consider when attempting to comply. They include:

- an Investment Manager is a fiduciary and, as such, must disclose all relevant aspects concerning the benefit the Manager receives through its client's brokerage;
- proprietary research and third-party research are to be treated the same in evaluating soft dollar arrangements, since the research that the Investment Manager receives from each is paid with client brokerage;
- research should be purchased with client brokerage only if the primary use of the research, whether a product or a service, directly assists the Investment Manager in its investment decision-making process and not in the management of the investment firm; and
- when in doubt, the research should be paid for with Investment Manager assets, not client brokerage.

### **1) General**

- a) Soft dollar standards apply to all CFA Institute Members' proprietary and third-party research arrangements
  - i) Brokerage is property of client
  - ii) Manager has duty to ensure on client's behalf of
    - A) Seeking the best execution
    - B) Minimizing transaction cost
    - C) Using client's brokerage to benefit the client
- b) To claim compliance
  - i) The Investment Manager must act in the best interest of the client and put the client's interest above his/her interest
  - ii) The Investment Manager cannot allocate a client's brokerage to a broker based on the amount of referrals the Manager receives from the broker.

### **2) Relationship with clients**

- a) Required: The Investment Manager must inform the client that the Manager may engage in soft dollar arrangements before doing so
- b) Recommended: Over time, all clients receive equally the research benefits purchased with client brokerage
  - i) Agency Trades: While the specific research may not at all time directly benefit the client, the Manager should ensure the client receives the benefit of research purchased with other client's brokerage
  - ii) Principal Trades: Care must be taken to follow any laws mandating direct benefit to the client whose brokerage was used

## **APPENDIX B - CFA INSTITUTE SOFT DOLLAR STANDARDS<sup>1</sup>**

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### **3) Selection of Brokers**

- a) General: Care must be taken in selecting brokers that best execution is achieved
- b) Required: The Investment Manager must consider the capabilities of the broker providing the execution
- c) Recommended: Consider the broker's financial responsibility, responsiveness, commission rate and range of service offered.

### **4) Evaluation of Research**

- a) Required:
  - i) To use client brokerage to buy research the Manager should ask if research:
    - A) meets the definition (directly assists the investment process)
    - B) directly benefits the client
    - C) can be documented
    - D) is not precluded under fiduciary regulations
  - ii) If the research does not meet the above criteria, do not use client brokerage to buy it
  - iii) In determining the amount of client brokerage to use to pay for mixed use research, the Investment Manager must
    - A) determine that the research is reasonable, justifiable and documentable
    - B) only pay with client brokerage for what will be used in the investment making process
    - C) re-evaluate the mixed use research at least annually

### **5) Client-Directed Brokerage**

Since brokerage is the asset of the client, client-directed brokerage does not violate the Manager's duty.

- i) Required: The Manager can not use brokerage from another client's account to pay for research or services purchased under the client-directed brokerage arrangement
- ii) Recommended: The Manager should disclose to the client that the Manager's duty is to still try to get the best execution and client-directed brokerage may hinder this

### **6) Disclosure**

Investment Manager should disclose the soft dollar standards to clients and potential clients

### **7) Record Keeping**

The Investment Manager must keep all records required by applicable law as well as those required by the soft dollar standards.

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<sup>1</sup> The complete CFA Institute Soft Dollar Standards are available at [www.cfainstitute.org](http://www.cfainstitute.org)

## **APPENDIX C - GUARANTEED INVESTMENT CERTIFICATE CRITERIA**

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### **GUARANTEED INVESTMENTS**

The Trustees objective pertaining to Guaranteed Investments is to provide a stable return on investments while at the same time minimizing risks by ensuring that only Financial Institutions that are solvent ( i.e. have the ability to meet their maturing obligations as they come due) are included for investment marketing purposes.

In order to meet these objectives, the Trustees are obliged to be prudent and exercise due care to the best of their ability. Therefore, no Financial Institution may be considered for investment purposes unless they satisfy the following criteria. It is understood that the Board of Trustees may be restricted to the extent that applicable Rating Reports are available to the General Public.

#### **1.0 Financial Rating**

##### **1.1 Standard & Poor's Corporation**

*"AA" rating or better*

Insurers rated "AA" or better by Standard & Poors offer "excellent" financial security and have above average capacity to meet their policyholder obligations.

As reported by the Life Underwriters Association of Canada, "Standard & Poor's Claims-Paying ability rating includes quantitative and qualitative factors, indicating a Company's capacity to meet insurance policy obligations. Key quantitative factors are profitability, capitalization, investments and liquidity. Key qualitative factors include management and corporate strategy, operating effectiveness, the business and financial risk levels it chooses to support, projections of future performance and industry specific risk which affects financial quality over the long haul".

## APPENDIX C - GUARANTEED INVESTMENT CERTIFICATE CRITERIA

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### 1.2 Moody's

*- "Aa" rating or better*

Insurers with a minimum rating of "Aa" offer excellent financial security, and show the ability to meet future obligations pursuant to insurance policy obligations.

The Moody's Insurance Ratings are opinions of the relative financial strength and durability of the insurance companies. They are an appraisal of long-term risks and the ability to repay punctually senior policyholder obligations and claims. The key quantitative factors include investment results, liquidity consideration and capitalization. Key qualitative factors include management proficiency and corporate strategy, overall industry performance and risks, and diversification of risk. Moody's opinions reflect the state of the insurance companies at present and over the long-term.

**APPENDIX C -  
GUARANTEED INVESTMENT CERTIFICATE CRITERIA**

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**2.0 Maximum Investment Exposure**

No one Financial Institution shall receive Guaranteed Investment Deposits in excess of 25% of the Book Value of the Trust Fund as reported by the Auditor on December 31st of the preceding year.

## **APPENDIX C - GUARANTEED INVESTMENT CERTIFICATE CRITERIA**

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### **3.0 Other Factors**

3.1 Adequate Asset Base (in excess of \$2 Billion) or Affiliation with a Larger Subsidiary.

3.2 Favourable Publicity/Image as reported by the Globe & Mail, Financial Post, etc.

3.3 C.D.I.C. and Assuris

Wherever possible investments will only be directed to Financial Institutions that will extend insurance protection for the invested assets. For example, C.D.I.C. (Trust Companies and Banks) or Assuris (Insurance Companies) insurance protection of up to \$60,000 per Pension Fund Participant.

In relation to Credit Unions, insurance protection is 100% guaranteed by the respective province the Credit Union resides in.

## APPENDIX D - INDUSTRY DEFINITIONS

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“**Arbitrage**” means an opportunity in the markets whereby two securities of similar value are selling at different prices and by selling one security and purchasing the other simultaneously, a zero risk investment strategy will generate profit.

“**Asset Backed Security**” or “**Mortgage Backed Security**” means a fixed income security which has specific assets or a mortgage pledged to guaranteed payment of the principle plus interest from an investment contract.

“**Brokerage**” means the monies and services on invested assets received by an Investment Manager on behalf of a client.

“**CFA Institute Code of Ethics and Standards of Professional Conduct**” means the ethical guidelines and investment performance presentation standards that promote integrity, competence and dignity within the investment community globally.

“**Debenture**” means an unsecured bond not backed by specific collateral.

“**Derivatives**” means securities providing payoffs that depend on or are contingent on the values of other assets such as commodity prices, bond and stock prices, or market index values.

“**Diversification**” means to invest in low correlated differing securities, asset classes, and investment styles to reduce the investment risk (i.e. volatility) of a portfolio.

“**Factoring**” means a type of debt financing where businesses sell their accounts receivable (or invoices) to a third party in order to meet current cash flow needs.

“**Forward Contract**” means an agreement calling for future delivery of an asset at an agreed upon price.

“**Futures Contract**” means an obligation to purchase or sell an asset at an agreed upon price on a specified future date.

“**Guaranteed Investment Certificates**” means an investment contract with a financial institution whereby a guaranteed return over a specific period is established at the time of purchase of the security.

“**Hedging**” means investing in an asset to reduce the overall risk of a portfolio.

“**Margin**” means money borrowed to purchase securities.

“**Passive Benchmark**” means the return on the portfolio consisting of a set asset weighting of one or a number of market indices.

## **APPENDIX D - INDUSTRY DEFINITIONS**

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**“Portfolio Theory”** or **“Modern Portfolio Theory”** states that there is a trade-off between risk and expected return whereby to achieve a higher expected return from a portfolio additional risk must also be assumed.

**“Preferred Shares”** means non-voting shares in a corporation, paying a fixed or variable strain of dividends.

**“Short Selling”** means the sale of shares not owned by the Investor but borrowed through a broker and later repurchased to replace the loan. Profit is derived if the initial sale is at a higher price than the repurchase price.

**“Soft Dollar Standards”** are identified in Appendix B of this document.

**“Standard & Poors Rating Service”** is an independent rating service identifying the relative risk level of securities. For fixed income investments, a rating of BBB or better is deemed to be investment grade.

**“Stock Warrants”** or **“Stock Purchase Warrants”** means an option issued by a firm to purchase shares in the firm’s stock.

**“Swap”** means a contract to trade value derived from one security for the value derived from another.

**“Time Weighted Return”** means an average of the specified period returns of an investment (i.e. annualized return).