



Municipal Pension Plan

STATEMENT OF
INVESTMENT
POLICIES AND
PROCEDURES

As Amended: July 1, 2020

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APPENDICES

Appendix A: Eligible Pooled Funds

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Section 1: Overview / Purpose

- 1.1 The purposes of this Statement of Investment Policies and Procedures (the “Statement” or “SIPP”) are:
- (i) To ensure compliance with the British Columbia *Pension Benefits Standards Act*, as amended from time to time or replaced (“PBSA”), the *Pension Benefits Standards Regulation* (“PBSR”), which requires a written statement of investment policies and procedures, as well as the *Income Tax Act*.
 - (ii) To set investment guidelines and direction for the British Columbia Investment Management Corporation (“BCI”) that are consistent with the investment policies and objectives established by the Municipal Pension Board of Trustees (the “Board”) for the Municipal Pension Plan (the “Plan”).
 - (iii) To provide objectives, policies and principles for the management of the assets of the Municipal Pension Fund (the “Fund”).
 - (iv) To set investment performance objectives and other criteria to be used by the Board to review and evaluate the investment results of the Fund.
- 1.2 The Plan is continued and maintained under the Municipal Pension Plan Joint Trust Agreement (“JTA”) and the Municipal Pension Plan Rules (the “Rules”). The purpose of the Plan is to provide pension benefits to eligible employees of a local government, hospital or other health employer, school district, college, social service agency or other employer in British Columbia.
- 1.3 The Board is responsible for the administration of the Plan and of this Statement. The members of the Board are the trustees of the Fund.
- 1.4 The Board is responsible for ensuring that all investments of the Fund are managed prudently and in accordance with the PBSA, the PBSR, the *Income Tax Act* and this Statement.
- 1.5 The Board has adopted this Statement after considering the benefits obligations of the Plan and a risk profile that the Board believes to be appropriate.
- 1.6 The Board shall review and confirm or amend this Statement at least annually, but it can be amended at any time by a Board resolution. When amended, the Statement must be subsequently filed with the Financial Institutions Commission of British Columbia.
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- 1.7 BCI is required to have more detailed investment policies and procedures that detail their specific mandate, and they shall acknowledge that these policies and procedures conform to this Statement.

Section 2: Plan Structure and Funding / Plan Description

- 2.1 The Plan is a hybrid of a contributory defined benefit final average earnings pension plan and negotiated cost arrangements for providing contingent inflation adjustments. It is funded by Plan member and employer contributions. Benefit entitlement is based on the provisions of the JTA and the Rules.

Normal retirement age is 65 for all members except police officers, firefighters and a closed group of female members (last contribution prior to April 1, 1971) who have a normal retirement age of 60.

The unreduced lifetime monthly pension payable to a member who terminated employment after April 1, 2000, in the form of a single life annuity with no guarantee, is calculated as the sum of:

- a) 2% of the member's highest average salary (five-year average) multiplied by the number of years of pensionable service accrued before January 1, 1966,
- b) 1.3% of the lesser of:
 - i) the member's highest average salary, and
 - ii) 1/12 of the Year's Maximum Pensionable Earnings ("YMPE") for the calendar year immediately before the effective date of the pension,

multiplied by the number of years of pensionable service accrued on and after January 1, 1966 not exceeding 35 years, and

- c) 2% of the excess of the member's highest average salary over the amount determined under paragraph (b) (ii), multiplied by the number of years of pensionable service accrued on and after January 1, 1966 not exceeding 35 years.
- 2.2 For the purposes of the calculation referred to in section 2.1, in respect of any period of pensionable service for which contributions have been made at the rate applicable for group 5, the percentage referred to in subsection b) shall be 1.63% and the percentage referred to in subsection c) shall be 2.33%.

- 2.3 The Plan is not subject to solvency tests but is required to meet the going concern funding requirements of the PBSA or PBSR.
- 2.4 The Rules establish three accounts for the Plan: a Basic Account, an Inflation Adjustment Account, and a Supplemental Benefits Account.
 - 2.4.1 The “Basic Account” provides the non-indexed portion of the pension and any cost of living increases that have been granted, based on the provisions in the JTA and the Rules. If there is a surplus at the 2015 valuation, a notional Rate Stabilization Account (RSA) will be set up in the Basic Account. At subsequent valuations, the balance in the RSA will be drawn down to the extent needed to keep the required Basic contribution rates unchanged.
 - 2.4.2 The “Inflation Adjustment Account” was established in 1982 and provides cost of living increases for retired members. The Inflation Adjustment Account is funded through a portion of ongoing contributions from employers and members, from investment income earned on its own assets, and from excess interest earnings in the Basic Account. However, this is not a guaranteed benefit and contributions to the Inflation Adjustment Account are insufficient to provide full inflation protection indefinitely. The increases may not exceed i) the annual increase in the Consumer Price Index (“CPI”) as at the previous September 30, and ii) the sustainable limit on the amount of cost of living adjustments periodically set by the Board, and are subject to availability of funds in the Inflation Adjustment Account.
 - 2.4.3 The “Supplemental Benefits Account” does not hold any investment funds.
 - 2.4.4 Effective January 1, 2010, the Basic Account and Inflation Adjustment Account are managed as a single account for investment purposes. However, separate accounting records will continue to record the balances and transactions in each account.
- 2.5 The Plan’s primary investment objectives are meeting its pension obligations to the Plan’s members and beneficiaries; minimizing volatility in contribution levels; and providing sustainable cost of living increases. These objectives are achieved by meeting the Plan funding objectives as established from time to time by the Board in coordination with the Plan’s actuary and other experts and set forth in the Plan’s Funding Policy. The SIPP should be reviewed in light of the Funding Policy and the most recent actuarial valuation to ensure that the asset allocation is consistent with the

actuarially assumed rate of return. The Board meets this objective through a triennial asset liability study, following each actuarial valuation report.

Section 3: Plan Governance

- 3.1 In accordance with the JTA, the Board has 16 members with equal representation from Plan members and the employers. The parties required by section 4.1 of the JTA to appoint Trustees may also appoint an alternate Trustee for each member of the Board.
- 3.2 The Board is responsible for the management of the Fund and the establishment of the investment policies. The Board has a legal obligation to act in the best financial interest of the beneficiaries of the trust and exercise a high standard of care in protecting the Fund and its assets. This must override all other considerations.
- 3.3 The Board's Investment Committee has delegated authority to make changes that are within Appendix A and are consistent with the Statement, including authorizing a pooled fund or benchmark name change, but not including approving a new pooled fund or new benchmark.
- 3.4 BCI and the Plan Administrative Agent (British Columbia Pension Corporation) are agents of the Board. They must act in accordance with the direction and policies of the Board, subject to their fiduciary duty to the Plan beneficiaries and in the case of BCI, other pooled funds participants.
- 3.5 The Fund is managed by BCI and other investment management firms contracted through BCI. In all cases, BCI and other investment managers shall comply with this Statement, their internal policies, as well as the relevant laws and regulations governing pension fund management in the respective jurisdiction.
- 3.6 The following outlines the roles and responsibilities of parties involved with the Plan:

BCI:

- is an agent of the Board, and is responsible for day-to-day investment management of the Fund;
 - ensures that the Fund is managed in accordance with this Statement and the directions of the Board;
 - hires and manages contract arrangements with the Custodian and other external providers of related services (e.g., external managers, data service providers, etc.) on behalf of the Board;
 - is responsible for fulfilling all reporting requirements outlined in section 10 of the Statement; and
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- has a role that goes beyond that of a typical fund manager, effectively functioning as the Board’s internal investment staff. This is set out in greater detail in the Board’s Funds Investment and Management Agreement with BCI.

Custodian:

- is responsible for fulfilling all their duties as outlined in their service agreement with BCI;
- fulfills the regular duties of a Custodian as required by law.

Auditor:

- audits the Plan’s financial statements in accordance with existing legislation and Canadian accounting standards; and
- provides an opinion on the Plan’s financial statements.

Actuary:

- is responsible for assessing the financial status of the Plan, including the adequacy of contribution rates;
- fulfills the regular duties of an Actuary as required by law.

British Columbia Pension Corporation (“Pension Corporation”):

- is an agent of the Board and is responsible for ensuring that contributions and payments are made in accordance with the Plan rules;
- prepares financial statements, annual reports and other Plan documents;
- maintains accounting records for the Basic Account and the Inflation Adjustment Account;
- establishes and manages contracts with external administrative service providers on behalf of the Board; and
- has a role that goes beyond that of a typical administrative agent, effectively functioning as the Board’s internal staff. This is set out in greater detail in the Board’s Service Agreement with Pension Corporation.

Section 4: The Board’s Investment Beliefs

- 4.1 Clear investment governance and decision-making structures are critical to Plan success.
 - 4.1.1 The activities that have the greatest potential impact on meeting the Plan’s objectives should be the key focus of the board.
 - 4.1.2 The Plan’s objectives along with its benefit and funding policies drive the investment policies and risk management of the Fund.
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- 4.1.3 The Plan has a long-term investment horizon and the Fund must be managed accordingly to meet its objectives.
 - 4.2 The Fund is most effectively managed as a whole, rather than a number of individual components.
 - 4.2.1 The long-term strategic asset mix is the primary determinant of the Fund's risk and return.
 - 4.2.2 Deviations from the Fund's target asset mix can be used to improve the likelihood of achieving Plan objectives.
 - 4.2.3 Taking investment risk is essential for meeting the Plan's goals, provided there is conviction the investment risk is appropriately rewarded in the long term and is effectively measured and managed.
 - 4.3 When considering an investment strategy, a broad range of implementation options should be considered to ensure alignment with the Fund's overall goals.
 - 4.3.1 Diversification across the total Fund will reduce risk without compromising Plan objectives and is a prerequisite to prudent fund management.
 - 4.3.2 The Plan's long-term horizon allows it to take advantage of value creation opportunities in less liquid assets in order to meet its objectives, provided Fund liquidity is appropriately managed.
 - 4.3.3 Investing in active strategies can be used to both mitigate risk and add value in less efficient markets, or where we have a competitive advantage.
 - 4.3.4 The diversification benefits of foreign currency exposure should be weighed against the implications to funding status and contribution rate volatility to determine optimal hedging requirements. Additionally, shorter-term market conditions may provide opportunities to mitigate risks and add value through active currency management.
 - 4.3.5 Costs need to be effectively managed so that a greater proportion of the investment returns passes through to the Plan and enhances its long-term sustainability.
 - 4.4 Environmental, social and governance matters make a difference.
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- 4.4.1 Companies and other entities in which we invest that take environmental, social and governance (ESG) matters into account have less risk and generate long-term value for investors compared to those with less robust practices.
- 4.4.2 Social, environmental and economic sustainability help the plan fulfill its financial obligations to members and beneficiaries. A cohesive society, healthy environment, sustainable economy and fair financial markets are necessary to generate adequate long-term returns across the portfolio.
- 4.4.3 It is consistent with the Plan's fiduciary duty to act in the best financial interest of members and beneficiaries that investment decisions consider wider stakeholder views and good corporate citizenship.
- 4.4.4 Climate change is an investment opportunity and a long-term material systemic risk to the Plan. Although the timing and extent of the effects of climate change are uncertain, actions to reduce greenhouse gas emissions through investor stewardship, the selection of assets and advocating for appropriate public policies directly and indirectly benefit the Plan.

Section 5: Asset Allocation

- 5.1 Meeting the pension benefits promise is the primary objective of the Board. Managing the volatility of contribution rates and providing non-guaranteed benefits are additional objectives of the Board. To achieve these objectives, the Board has adopted the following long-term asset mix and allowable ranges shown in Section 5.3.
 - 5.1.1 Policy asset allocation is set by the Board and establishes the general framework for managing the Fund. This includes determining ranges for the debt and equity portions of the portfolio, as well as general ranges for individual asset classes (e.g., bonds). Policy asset allocation also establishes the amount of discretion provided to BCI and establishes the total fund market benchmark
 - 5.1.2 Tactical asset allocation focuses on short-term conditions and attempts to increase investment return through opportunistic shifts in the portfolio's asset class weighting. Tactical asset allocation decisions depend on shorter term market conditions, and, as such, are delegated to BCI. However, these asset allocation shifts must be within the policy ranges specified by the Board in this Statement.

- 5.2 The Board believes that BCI is in the best position to make the decision on the weightings between active and passive strategies and has delegated this decision to BCI.
- 5.3 Long-term policy asset mix, policy ranges and benchmarks for the Fund, effective July 1, 2019, are:

Asset Class ¹	Policy Range		Long-term Policy Asset Mix	Benchmarks
	Minimum	Maximum		
Short Term Universe Bonds	0	10	2	FTSE 91 Day T-Bill Index
Corporate Bonds	5	30	23	FTSE Universe Bond Index
Private Debt	0	10	5	50% Bank of America Merrill Lynch (BofAML) US Corporate Index (Hedged in CAD terms) and 50% BofAML BB-B Cash Pay High Yield Constrained Index (Hedged in CAD terms)
Mortgages	0	10	4	S&P/Loan Syndications & Trading Association (LSTA) U.S. Leveraged Loan 100 Index (Hedged in CAD terms)
	0	10	5	BofAML 1-10 Year Canada Government Bond Index + 160 bps
Fixed Income Sub-total	15	50	39	
Canadian Equities	0	15	5	S&P TSX Capped Composite Net Total Return Index
Global Equities ²	10	35	17	Morgan Stanley Capital International (MSCI) World ex Canada Net Total Return Index
Emerging Markets Equities ³	3	15	10	MSCI Emerging Markets Net Total Return Index
Private Equity ^{4,5}	3	15	10	MSCI All Country World Net Total Return Index + 2%
Equity Sub-total	30	60	42	
Real Estate ⁴	10	25	17	Cost of Capital Benchmark of 6.8% in nominal Canadian dollar terms
Infrastructure and Renewable Resources ⁴	5	16	12	7% Nominal
Real Assets Sub-total	20	40	29	
Other ⁶	0	5	0	Not applicable
TOTAL	100	115	110	

1 Refer to Eligible Pooled Funds table (Appendix A) for asset classification by pool.

2 Global Equities may include some exposure to Canada and emerging markets.

3 Emerging Markets Equities may include some exposure to developed markets.

4 Due to the illiquid nature of these assets, the upper limit may be exceeded on a temporary basis. BCI shall use cashflow to rebalance as soon as is practical and shall continue to report any breach of the policy ranges in the quarterly compliance report.

5 In addition to equity, Private Equity investments may include debt.

6 "Other" includes strategies or investments specifically approved by the Board that do not correspond to the listed asset classes. Refer to Appendix A.

- 5.4 The Board recognizes that an appropriate implementation period is required to transition to the new policy asset mix identified in section 5.3. This implementation timeframe is reflected in section 6.3 for the purpose of the performance measurement framework.

- 5.5 The Fund may be invested in the pooled funds listed in Appendix A, segregated funds, mutual funds, unit trusts, limited partnerships and similar vehicles, provided that they conform to this Statement. Despite any other provision of this SIPP, the Board agrees to participate in the Principal Credit Fund, and the Global Partnership Fund. Investment in the absolute return, direct investment and co-investment portion of the Global Partnership Fund are not to exceed 4% of the Total Fund. Leverage in the Global Partnership Fund is not to exceed 75% of that fund's net asset value.
- 5.6 The Fund may loan its securities, or participate in pooled funds that lend securities provided that:
- the securities lending agent provides an indemnity for losses relating to a borrower failing to return securities on loan;
 - lent securities are indemnified by the securities lending agent;
 - the loan and collateral are valued daily on a "mark-to-market" basis;
 - the collateral consists of highly liquid and marketable securities under normal market conditions; and
 - the loans meet the terms and conditions of BCI's Securities Lending Program.
- 5.7 The total asset mix may sum to greater than 100 per cent as a result of the inclusion of leverage at the Fund level. For performance measurement purposes the liability benchmark is equal to the realized cost of financing such liabilities.

Section 6: Performance Objectives

- 6.1 The long-term (10 years) investment objective of the total fund is to meet or exceed, net of all expenses incurred in the investment process:
- (i) the annual rates of return used in the actuarial report (CPI + 3.5 percent and 6.5 percent nominal); and
 - (ii) the rate of return that would have been achieved if the Fund had held its policy asset mix and each asset class had earned the return of their respective market index as outlined in 5.3.
- 6.2 The short-term investment objective (5 years) is to earn the rate of return, net of all expenses incurred in the investment process, for the liquid assets (i.e., excluding real estate, private equity, private debt, infrastructure, and renewable resources), assuming that each liquid asset class had earned the return of its respective market index as outlined in 5.3.
- 6.3 For actively managed strategies, the primary investment return objective is for the rate of return, net of all expenses incurred in the investment
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process, to exceed the respective market indices over rolling 5-year periods. However, certain asset classes such as real estate, private equity, infrastructure and renewable resources do not lend themselves to good market indices, and it is more appropriate to evaluate their performance over longer periods such as 10 years.

The overall long-term strategic asset mix includes leverage, investments in private markets and investments in public markets with limited liquidity. The Board recognizes that an appropriate implementation period is required to transition to the strategic asset mix and to fully implement the long-term allocations.

As a temporary measure, during this transition phase, private market assets will increase incrementally each year and public market assets will have temporary offsetting higher allocations. During this time the minimum and maximum ranges around the asset classes may be wider to facilitate the transition to the strategic mix. When the transition to the strategic mix is completed, or near completion, the ranges around the benchmark weights may be reduced.

Note: Appendix C contains the Benchmark Transition Framework that is confidential to the Municipal Pension Board of Trustees.

Section 7: Asset Class Policies

The following asset classes are permitted to be held in the Fund, subject to the investment policies established below for each asset class and any applicable legal constraints, including the constraints imposed by the PBSA, the PBSR and the *Income Tax Act*, as outlined in Appendix B.

7.1 Money Market Short-Term Policies

- 7.1.1. Short-term holdings include money market instruments and bonds with a term to maturity of 15 months or less.
- 7.1.2. Corporate money market securities should be rated A-1(Low) or better by Standard & Poor's ("S&P") or have an equivalent rating from another credit rating agency.
- 7.1.3. Short term corporate bonds should be rated A- or higher by S&P or have an equivalent rating from another credit rating agency.
- 7.1.4. Not more than 10 percent of the total short-term holdings shall be in the money market instruments and bonds of any one corporation unless the corporation is a Schedule One bank.

- 7.1.5. Up to 1 percent of short-term holdings can be in non-rated debt issued by financial institutions (e.g., credit unions).

7.2 *Mortgage Policies*

- 7.2.1. The portfolio shall consist of a broad range of mortgage products, diversified by geographic location, type of mortgage, size of mortgage, and type of real estate. It may include direct mortgage loans and mortgage instruments (e.g., mortgage bonds) as well as real estate loans, real estate-related debt and equity investments, and equity interest in QuadReal. The aggregate exposure to equity investments (not including an equity interest in QuadReal) including preferred equity, and Structured Securities with a Structured Finance rating below BBB- by Standard & Poor's or an equivalent Structured Finance credit rating from another credit rating agency, may not exceed five percent of the net asset value of the Mortgage Program. All mortgage loans must be eligible investments under the PBSA and PBSR.
- 7.2.2. No debt will be assumed or created if, as a result, the Leverage Ratio would exceed 40 percent of the gross asset value of the Mortgage Program.

7.3 *Fixed Income/Bond Policies*

- 7.3.1. Fixed income portfolios shall consist of international and domestic corporate bonds, convertible bonds, preferred shares, asset-backed commercial paper and securities, government debt securities, exchange traded funds, and fixed income derivatives (e.g., futures, options, swaps). Equity securities derived from the conversion of fixed income securities or related derivatives are permissible investments and will immediately be reviewed to determine whether to sell the security immediately or hold to sell at a more appropriate time.
- 7.3.2. Publicly traded fixed income securities from issuers, other than securities issued by governments within Canada and securities held within the Corporate Bond Fund, when purchased must be rated BBB- or higher by S&P or have an equivalent credit rating from another credit rating agency. If any such holdings are downgraded to below a BBB- rating, BCI shall immediately review the downgraded security and determine whether to sell this security immediately or hold to sell at a more appropriate time. BCI shall report such downgraded holdings to the Investment Committee as part of BCI's periodic reporting.

- 7.3.3. Not more than 10 percent of the total fixed income holdings shall be in the debt securities of any one corporation.
- 7.3.4. Other than the Leveraged Bond Fund, and the Corporate Bond Fund, individual bond portfolios must be managed within ± 20 percent of the duration of their respective performance benchmark.
- 7.3.5. Investments in private placement debt (as part of the bond allocation) are permitted provided they meet the same credit quality standards imposed on other bond investments, and are expected to be readily marketable within six months.
- 7.3.6. Investments in illiquid private placement debt, in addition to 7.3.5, are permitted within the same policy limits as set out for Private Equity in 5.3.

7.4 *Equity Policies*

- 7.4.1. Equity investments consist of common and preferred shares, common stock equivalents (such as, convertible debentures, convertible preferred shares, installment receipts, equity warrants, and share rights), income trusts, exchange traded funds, depository receipts, and equity derivatives (e.g., futures, options, equity swaps).
- 7.4.2. Not more than 10 percent of the total equity holdings shall be in the shares of any one corporation or its related companies.
- 7.4.3. Investments in private equity are permitted within the policy limits as set out for Private Equity in 5.3.

7.5 *Real Estate Policies*

- 7.5.1. Real estate investments consist of direct real estate holdings, units in real estate pooled funds, and real estate securities including trust units, shares in real estate companies, and debt.
- 7.5.2. Real estate investments shall be well diversified by property type, property location, and property risk.
- 7.5.3. No debt shall be assumed or created if, as a result, it causes the debt to market value of real estate portfolio to exceed 55 per cent.

- 7.5.4. No direct investment in real estate shall be made without the benefit of a professional opinion regarding known or possible environmental contamination of the property.

7.6 *Private Placement Policies*

- 7.6.1. Private placement investments are eligible investments and consist of long-term debt or equity investments that are made primarily outside of the public market. Investments may be made directly by BCI or indirectly through external managers. These are long-term commitments made on behalf of the Fund.

7.7 *Infrastructure and Renewable Resources Policies*

- 7.7.1. Infrastructure and Renewable Resource investments are eligible investments and consist of tangible long-life assets with potential for strong cash flows and favourable risk-return characteristics that provide an attractive match with pension liabilities. Infrastructure investments typically include physical assets that provide essential services such as utilities and transportation systems. Renewable Resource investments typically include timberland, farmland, and energy production assets such as wind and solar.

Section 8: Use of Derivative Instruments

- 8.1 The use of derivatives is only permitted for the following purposes:
- (i) Synthetic Indexing - Passively investing in an attempt to replicate the returns of an index.
 - (ii) Risk Control - Managing interest rate, equity, credit, currency, legal or tax risk through the use of hedging strategies.
 - (iii) Lower Transaction Costs and Liquidity Management- Reducing the transaction costs on trading, custody and brokerage costs through use of index futures. Substituting one combination of securities for another with the same net exposure to market variables for the purposes of exploiting pricing inefficiencies.
 - (iv) Asset Mix Shifts - Reduce market movement and transaction costs of shifting asset weights or rebalancing by allowing instantaneous implementation of the shift through derivatives.
 - (v) To manage leverage at the total Fund level.

- (vi) Their use through participation in the Leveraged Bond Fund, Canadian and Global Quantitative Active Funds, and the Global Partnership Fund.
- 8.2 Derivatives include: forward contracts, futures, options, and swaps. The above derivatives can have equities, fixed income, interest rates, and currencies as underlying instruments.
- 8.3 When a derivative contract is entered into with an external counterparty (e.g., a financial institution), the counterparty shall have at least an A- credit rating by S&P or an equivalent credit rating from another credit rating agency, unless otherwise approved by the Board. If the credit rating of any counterparty falls below A-, BCI shall immediately review the downgraded counterparty and determine whether to terminate the derivative contract. BCI shall report such downgraded counterparties to the Investment Committee as part of BCI's periodic reporting.
- 8.4 BCI may use derivatives to hedge the Plan's exposure to a specific foreign currency for defensive purposes.
- 8.5 The use of any additional derivative products other than that stated above shall require the prior written consent of the Board.

Section 9: Use of Leverage and Permitted Borrowing

- 9.1 Leverage may be used for the purpose of managing risk and/or returns. Leverage magnifies actual returns beyond those experienced by the underlying securities, both on the upside and downside.
- 9.2 The use of leverage involves borrowing against assets to make additional purchases.
- 9.3 Leverage may be employed at the Fund level and within pooled funds as consistent with BCI's pooled fund policies.
- 9.4 Borrowing is permissible if supported, or covered, by appropriate liquid assets.
- 9.5 The Fund's use of leverage may result in commitments which the Fund would be required to satisfy as a condition of redemption of pooled fund units, as consistent with BCI's pooled fund policies.

Section 10: Performance Reporting

10.1 BCI shall provide the Board with periodic¹ reports on the performance of the Fund. These periodic reports shall include the following information:

- net cash flows;
- Fund values;
- investment returns for the total Fund and individual pooled funds as well as all stated benchmarks;
- signed compliance certificate confirming compliance with this Statement;
- key changes in investment personnel;
- investment strategy for the next quarter; and
- investment management fees (including external manager fees, custodial, legal, and audit fees).

The compliance certificate shall report any breaches of this Statement as well as any material breaches of BCI's internal pooled fund policies.

10.2 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 are in accordance with industry

¹ For the purpose of section 10.1, "periodic" means not less than twice each year.

- standards. This includes using internal rates of return for private equity and similar type investments.
- 10.3 The return from foreign indices or benchmarks applicable to asset classes shall be calculated in Canadian dollar terms on an unhedged basis.
- 10.4 The Board shall compare the pooled fund's investment performance relative to the appropriate index return, and where appropriate shall compare actively managed asset classes to a universe of managers with similar mandates, at least once a year. It is recognized that manager universe comparisons must be interpreted with caution as there can be key differences in the nature of the portfolios (e.g., size) included in the universe. BCI shall advise the Board periodically² of the portion of total public equities and of each equity asset class that are managed under active and indexed strategies. BCI shall advise the Board periodically of the return of each equity asset class relative to its policy benchmark.
- 10.5 Once a year, BCI shall provide the Board with a more comprehensive report outlining the performance of the Fund. This annual review shall include an attribution analysis. Attribution analysis quantifies the impact of specific active management decisions (including security selection and tactical asset allocation) for the liquid assets relative to the liquid asset benchmark.
- 10.6 BCI shall advise the Board periodically of the diversification of the mortgage, real estate and private equity pools in which the Fund participates.
- 10.7 Real Estate is valued less frequently than liquid assets due to cost and complexity of valuation. At least once a year, BCI shall provide the Board with a report on the domestic and international real estate programs in which the Fund participates.
- 10.8 Private Equity, Private Debt, Infrastructure, and Renewable Resources investment programs are valued less frequently than liquid assets due to cost and complexity of valuation. At least once a year, BCI shall provide the Board with a report examining the performance of the pools in which the Fund participates.
- 10.9 BCI shall inform the Board of any substantial change in the investment policy underlying any pooled fund in which the Plan is invested.

² For the purpose of section 10.4, "periodically" means not less than twice each year.

Section 11: Risk Management

- 11.1 Managing investment risks is just as important as generating returns. Maintaining a well-diversified portfolio is the cornerstone of the Fund's risk management program.
- 11.2 The Board, or Pension Corporation, shall inform BCI at least annually of anticipated liquidity requirements. The Fund shall maintain sufficient liquidity to meet its financial obligations as they come due. In the event of unanticipated withdrawals or cashflows, BCI may run a temporary overdraft, rather than liquidate investments, if it is considered to be in the best financial interest of the Fund.

Section 12: Valuation of Assets

- 12.1 As a general rule, all investments should be priced based on external sources on an ongoing basis. However, in some cases, obtaining ongoing market pricing may be prohibitively expensive (e.g., certain illiquid investments such as real estate and private equity). These assets shall be valued less frequently, but at a minimum, at least once a year.
- 12.2 Any assets that cannot be marked-to-market on a regular basis (e.g., real estate and private equity) shall have their value determined in accordance with the valuation policies established by the managers, in accordance with standard industry practices. These values shall be reviewed by BCI.

Section 13: Responsible Investing and Stewardship

- 13.1 This section articulates the Board's approach to responsible investing. At all times, the Board's responsible investing approach is to be conducted within the framework of fiduciary responsibility. It shall therefore be implemented in a manner that supports the efficient investment of the Fund's assets to achieve investment return objectives, which are in the best financial interests of the Plan's current and future beneficiaries.
- 13.2 Pursuant to Section 4.4.1 and subject to Section 13.1, favourable consideration is to be given by BCI and its investment managers to investment opportunities that meet or exceed all environmental regulations and aspire to reduce their impact on the environment, apply best practices for corporate governance, adopt good standards of safety and employee welfare, and are responsible in their operations by effectively managing relationships with suppliers, customers and communities.
- 13.3 In keeping with the Board's fiduciary responsibilities and framework, the Board believes that environmental, social, and corporate governance

- (“ESG”) issues affect investment performance to varying degrees across companies, sectors, regions, asset classes and through time. The Board is a signatory to the UN-supported Principles for Responsible Investment (<http://www.unpri.org/principles/>) and is committed to ensuring that ESG issues are incorporated into investment analysis and decision-making processes and into our ownership policies and practices. The plan seeks appropriate ESG disclosure by the entities in which plan assets are invested, works collaboratively with like-minded investors and reports transparently on our progress toward implementing the Principles.
- 13.4 Effective research, analysis and evaluation of ESG issues are a fundamental part of assessing the value and performance of an investment over the long-term.
- 13.5 The Board expects BCI to use proxy voting and shareholder engagement to encourage companies to focus on long-term value creation by effectively managing ESG risks that may emerge over time and materially affect the valuation of the company and/or asset.
- 13.6 The Board delegates its voting rights to BCI and instructs BCI to act in the best financial interests of the Fund. BCI shall provide the Board with copies of its voting guidelines and at least once a year the Board shall review BCI’s voting record.
- 13.7 The Board believes that in most cases engagement is a more effective tool for seeking to initiate change to and influence corporate practices than exclusion. The Board expects BCI, as an active and engaged investor, to encourage the companies within its portfolio to apply good corporate governance practices, effectively manage their business relationships, and be responsible in their operations and treatment of employees. The Board further expects that BCI’s engagement activities are based on strategic ESG priorities and, as a result, ESG matters are addressed to the extent that they influence risk and return of the Fund.
- 13.8 Public policy and financial market regulation have an important impact on long-term investment returns. The Plan or its agents individually or in collaboration with other investors will promote public policies that support the generation of adequate long-term investment returns and strengthen the fair and transparent regulation of financial markets.
- 13.9 The Global Compact, the International Labour Organization (ILO) Fundamental Principles and Rights at Work and the Organization for Economic Co-Operation and Development (OECD) Guidelines for Multinational Enterprises are recognized by the Board as standards of responsible business conduct.
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Section 14: Conflict of Interest and Code of Ethics

- 14.1 Members of the Board are subject to the Municipal Pension Plan Trustee Code of Conduct, including the conflict of interest provisions contained in part V of the Code.
- 14.2 Because BCI and its investment managers are involved in the ongoing management of the Fund, they are required to have a more comprehensive and thorough conflict of interest policy, which shall meet or exceed the standards established for the investment industry by the CFA Institute. BCI shall make disclosure in accordance with section 14.3 if any of its employees or agents materially breach their internal conflict of interest guidelines.
- 14.3 Procedure on Disclosure of Conflict of Interest
- Members of the Board shall disclose the nature and extent of their actual or perceived conflict of interest in accordance with part V of the Municipal Pension Plan Trustee Code of Conduct.
- BCI shall disclose any conflict of interest in accordance with the provisions of its service agreement with the Board and its own conflict of interest policy referred to in section 14.2.
- 14.4 Related Party Transactions
- The Plan shall not directly or indirectly enter into a transaction with, lend the moneys of the Plan to, or use the moneys of the Plan to hold an investment in, a related party that is prohibited under Schedule III of the federal *Pension Benefits Standards Regulations, 1985* (“Schedule III”). The term “related party” has the meaning given in Schedule III. However, a transaction with, loan to, or investment in a related party to the Plan is permitted if the value is nominal or immaterial to the Plan. In assessing materiality of the transaction with, loan to, or investment in a related party, a value of 1% of the market value of the Plan assets is considered to be nominal.

Section 15: Implementation

The Board has decided to implement the investment policy through investments managed by BCI, in accordance with section 5. The pooled funds in which the Board has agreed to participate are listed in the attached Appendix A. By participating in a particular pooled fund, the Board acknowledges that it has reviewed the pooled fund’s internal investment policy and finds it acceptable. If BCI makes any material change to the investment policy of a particular internal pooled fund listed in Appendix A, they shall disclose the change to the Board and,

subject to the pooled portfolio rules, the Board shall decide whether it wishes to remain invested in that pooled fund.

Appendix A
Eligible Pooled Funds – Effective July 1, 2020

Asset Class Categories Under Section 5.3	Eligible Pooled Funds	Benchmarks
Short Term	Canadian Money Market Fund (ST1)	FTSE Canada 30 Day T-Bill Index
	Canadian Money Market Fund (ST2)	FTSE Canada 91 Day T-Bill Index
	US Dollar Money Market Fund (ST3)	Citigroup 30 Day Treasury Bill Index
	Short Term Bond Fund	FTSE Canada Short Term Government Bond Index
Universe Bonds	Indexed Government Bond Fund	FTSE Canada All Government Bond Index
	Canadian Universe Bond Fund	FTSE Canada Universe Bond Index
	Leveraged Bond Fund	Assets: FTSE Canada Universe All Government Bond Index Liability: Realized cost of financing
Corporate Bonds	Corporate Bond Fund	50 per cent Investment Grade Bank of America Merrill Lynch US Corporate Index (CAD Hedged) plus 50 per cent High Yield Bank of America Merrill Lynch BB-B US Cash Pay High Yield Constrained Index (CAD Hedged)
Private Debt	Principal Credit Fund	S&P/Loan Syndications & Trading Association U.S. Leveraged Loan 100 Index
Mortgages	Fixed Term Mortgage Fund	ICE Bank of America Merrill Lynch 1-10 Year Canada Government Index + 120 bps
	Construction Mortgage Fund	3-month CDOR + 200 bps
	Mezzanine Mortgage Fund	FTSE Canada 365 Day T-Bill Index + 440 bps
	US Mortgage Opportunity Fund	30-day USD LIBOR + 240 bps
	BCI QuadReal Mortgage Program ¹	ICE Bank of America Merrill Lynch 1-3 Year Canada +210 bps
Canadian Equities	Indexed Canadian Equity Fund	S&P / TSX Composite Index
	Canadian Quantitative Active Equity Fund	S&P / TSX Capped Composite Index
	Active Canadian Equity Fund	S&P / TSX Capped Composite Index
	Active Canadian Small Cap Equity Fund	S&P / TSX Small Cap Index
Global Equities	Indexed US Equity Fund	MSCI USA Total Return Index ²
	Active US Small Cap Equity Fund	Russell 2000 Total Return Index
	Active European Equity Fund	MSCI Europe Net Index
	Active Asian Equity Fund	MSCI All Country Asia Pacific ex-Japan Net Index
	Indexed Global Equity Fund	MSCI World ex-Canada Net Index
	Indexed Global ESG Equity Fund	MSCI World ESG Net Index
	Global Quantitative ESG Equity Fund	MSCI World ex-Canada Net Index Total Return
	Global Quantitative Active Equity Fund	MSCI World ex-Canada Net Index
	Active Global Equity Fund	MSCI World ex-Canada Net Index
	Global Partnership Fund	MSCI World ex-Canada Net Index
Emerging Markets Equities	Thematic Public Equity Fund	MSCI World ex-Canada Net Index
	Indexed Emerging Markets Equity Fund	MSCI Emerging Markets Net Index
Private Equity	Active Emerging Markets Equity Fund	MSCI Emerging Markets Net Index
	Private Equity Vintage Funds	Funds: MSCI All Country World Net Index plus 200 bps Direct/Co-Investments: Cost of Capital based on the Asset and Liability Modeling/Long Term Capital Market Assumptions Review = 8.5% PE Mezzanine: Cost of Capital based on the debt/equity relationship = 6.8% Special Opportunity PE Equity: Cost of Capital based on average of PE Equity and PE Mezzanine = 7.7%
Real Estate	Realpool Program	Cost of Capital Benchmark of 6.8% in nominal Canadian dollar terms

Municipal Pension Plan SIPP

July 1, 2020

Asset Class Categories Under Section 5.3	Eligible Pooled Funds	Benchmarks
Infrastructure and Renewable Resources	Infrastructure & Renewable Resource Program³	7% nominal return

Product Descriptions for each of the eligible pooled funds above are available upon request.

¹ Effective December 31, 2020 or as determined by BCI's CEO/CIO.

² Effective January 1, 2016.

³ Effective January 1, 2020.

APPENDIX B

Asset Class Policies – Legislative Constraints

Federal Pension Benefits Standards Act, 1985 Constraints

The PBSR requires investments to be made in accordance with the federal *Pension Benefits Standards Regulations, 1985*, which include the following quantitative rules:

- | | | |
|----|--|-------------------------------------|
| 1. | Maximum investment in one company's securities | 10% of the market value of the Fund |
| 2. | Maximum proportion of the voting shares of any company | 30% |

Income Tax Act and Canada Revenue Agency Constraints

1. No money is to be borrowed by the Fund, except for the purpose of acquiring real property or occasionally for 90 days or less as provided in *Income Tax Regulation 8502(i)*.
2. No prohibited investment (see *Income Tax Regulation 8514*) may be purchased, such as the securities of a participating employer, if the shares of that employer are not listed on one of the stock exchanges prescribed in *Income Tax Regulations 3200 or 3201*.