



Municipal Pension Plan

STATEMENT OF
INVESTMENT
POLICIES AND
PROCEDURES

Effective: July 1, 2026

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APPENDICES

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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* (“PBSA”), as amended from time to time or replaced, 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 will review and confirm or amend this Statement at least annually, but it can be amended at any time by a Board resolution.
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BCI is required to have more detailed investment policies and procedures that detail their specific mandate, and they will 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 and investment returns. Benefit entitlement is based on the provisions of the JTA and the Rules.
- 2.2 The Plan is not subject to solvency tests but is required to meet the going concern funding requirements of the PBSA or PBSR, as they existed prior to the amendments made December 31, 2019.
- 2.3 The Rules establish three accounts for the Plan: a Basic Account, an Inflation Adjustment Account, and a Supplemental Benefits Account.
 - 2.3.1 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.
 - 2.3.2 Following the December 31, 2015 actuarial valuation, a notional Rate Stabilization Account (“RSA”) was set up in the Basic Account. The RSA may grow with interest and surplus based on the provisions in the JTA, subject to a maximum limit in the Board’s funding policy. Separate accounting records will continue to record the balances and transactions in each account. The actuarial valuation does not consider the RSA when assessing the funded status of the Basic Account or the required contribution rates. At subsequent valuations, the balance in the RSA will be drawn down to the extent needed to keep the required Basic contribution rates unchanged.
 - 2.3.3 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 any valuation actuarial excesses that are transferred from the Basic Account in accordance with the JTA. 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 (“COLA”)

periodically set by the Board and are subject to availability of funds in the Inflation Adjustment Account.

2.3.4 The “Supplemental Benefits Account” does not hold any investment funds.

2.3.5 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.

2.4 The SIPP should be reviewed in light of the funding policy, the most recent actuarial valuation, stress tests and forecasts of future liabilities to ensure that the asset allocation is consistent with the Plan’s overall objectives and risk appetite. The Board meets the investment objectives through an asset-liability study, generally completed following each actuarial valuation report and ongoing monitoring between studies. This process includes a review of investment objectives and risks and determines the asset allocation framework.

Section 3: Risk Appetite

3.1 The Fund’s investment objectives are to:

- Maintain a fully funded Basic Account so that contributions are paid at the entry age normal cost
- Provide sustainable cost-of-living increases
- Provide sufficient liquidity to enable the Plan to meet all its obligations as they become due

3.2 There are many risks that may affect the Fund’s ability to meet its investment objectives. These risks include investment (e.g., interest rate, foreign exchange rate, credit, liquidity, and market, etc.), funding, demographic, longevity and legislative/regulatory risks.

The Board’s approach to identifying, evaluating, and managing risks is outlined in its Enterprise Risk Management (ERM) policy. The Board has adopted a risk register to better define, quantify and monitor the risks faced by the Plan.

Investment-related risk management practices are further outlined in section 11 (Risk Management).

3.3 The Board considers the following objectives for key risk measures when monitoring the impact of risks on the investment objectives:

- Less than 20 per cent probability of contribution increases greater than 1 per cent

- Greater than 80 per cent probability of the RSA reaching target level
- Less than 25 per cent probability of the COLA cap being reinstated after being lifted
- Forecasted Liquidity Coverage Ratio (“LCR”) of at least between 15 and 18 months

These metrics are long-term risk appetites. The Board’s ongoing risk tolerance when considering liquidity risk is an LCR of at least 12 months.

These risk measures help to guide the Board in implementing asset allocation decisions as well as making decisions on Plan contributions and benefits as may be required under the JTA and the funding policy.

Section 4: Plan Governance

- 4.1 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.
- 4.2 The Board is responsible for the management of the Fund and the establishment of the investment policies. The Board has a legal obligation to invest in the best financial interest of the beneficiaries of the trust.
- 4.3 The Board aligns itself with the Canadian Association of Pension Supervisory Authorities (“CAPSA”) to examine and assess the elements of its current pension fund investment practices in relation to good governance practices that are likely to satisfy the plan administrator’s fiduciary responsibility to invest pension fund assets in accordance with legislative requirements that reflect the prudent person rule.
- 4.4 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 which is the responsibility of the Board.
- 4.5 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.
- 4.6 The Fund is managed by BCI and other investment management firms contracted through BCI. In all cases, BCI and other investment managers must comply with this Statement, their internal policies, as well as the relevant laws and regulations governing pension fund management in the

respective jurisdictions.

4.7 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 the Investment Reporting Framework ("IRF") pursuant to the Funds Investment and Management Agreement ("FIMA"); and
- 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 FIMA 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 5: The Board's Investment Beliefs

- 5.1 Clear investment governance and decision-making structures are critical to the Plan's success.
 - 5.1.1 The activities that have the greatest potential impact on meeting the Plan's objectives should be the key focus of the Board.
 - 5.1.2 The Plan's objectives along with its benefit and funding policies drive the investment policies and risk management of the Fund.
 - 5.1.3 The Plan has a long-term investment horizon and the Fund must be managed accordingly to meet its objectives.
- 5.2 The Fund is most effectively managed as a whole, rather than a number of individual components.
 - 5.2.1 The long-term strategic asset mix is the primary determinant of the Fund's risk and return.
 - 5.2.2 Deviations from the Fund's target asset mix can be used to improve the likelihood of achieving the Plan's objectives.
 - 5.2.3 Taking investment risk is essential for meeting the Plan's goals.
- 5.3 When considering an investment strategy, a broad range of implementation options should be considered to ensure alignment with the Fund's overall goals.
 - 5.3.1 Diversification across the total Fund will reduce risk without compromising the Plan's objectives and is a prerequisite to prudent fund management.
 - 5.3.2 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. The Plan should be adequately compensated for taking liquidity risk.
 - 5.3.3 Investing in active strategies can be used to both mitigate risk and add value in less efficient markets, or where BCI has a competitive advantage.
 - 5.3.4 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.

- 5.3.5 Leverage can be used to improve the likelihood of achieving the Plan's objectives by reducing the risk of an underlying investment strategy, reducing portfolio volatility through increasing portfolio diversification and providing an additional source of liquidity.
 - 5.3.6 Derivatives can be used to obtain desired exposures for the Fund for the purpose of risk management, liquidity and counterparty management, transactional efficiency and as a feature of value-added investment strategies.
 - 5.3.7 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.
- 5.4 Environmental, social and governance matters make a difference.
- 5.4.1 Companies and other entities in which the Fund invests that take Environmental, Social and Governance ("ESG") matters into consideration have less risk and generate long-term value for investors compared to those with less robust practices.
 - 5.4.2 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.
 - 5.4.3 It is consistent with the Board's fiduciary duty to invest in the best financial interest of members and beneficiaries that investment decisions consider wider stakeholder views and good corporate citizenship.
 - 5.4.4 Climate change is a long-term material systemic risk to the Plan and an investment opportunity. Implementing actions to mitigate climate change and transition towards a low-carbon world will safeguard the global economy, protect the financial system, and ensure better market outcomes, all of which are in our beneficiaries' best financial interest. Aligning our actions with the goal of achieving net zero greenhouse gas emissions by 2050 through stewardship, the selection and management of assets, and advocating for appropriate public policies will benefit the Plan.

Section 6: Asset Allocation

- 6.1 To achieve the Board's investment objectives, the Board has adopted the following long-term asset mix and allowable ranges shown in section 6.3.

6.1.1 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., debt). Policy Asset Allocation also establishes the amount of discretion provided to BCI and establishes the total Fund market benchmark.

6.1.2 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.

6.2 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.

6.3 Long-term policy asset mix, policy ranges and benchmarks for the Fund effective July 1, 2026 are:

Asset Class ¹	Policy Range		Long-term Policy Asset Mix	Benchmarks
	Minimum	Maximum		
Short Term ²	0	5	1	50% FTSE Canada 91 Day T-Bill Index & 50% ICE BofA US 3-Month Treasury Bill Index
Government Bonds	14	37	27	FTSE Canada All Government Bond Index
Credit ^{2,3,4}	10	28	20	12.5% ICE BofA US Corporate Index, hedged to the Canadian dollar plus 12.5% ICE BofA BB-B US Cash Pay High Yield Constrained Index, hedged to the Canadian dollar plus 50% Morningstar LSTA U.S. Leveraged Loan 100 Index, hedged to the Canadian dollar plus 25% ICE BofA 1-3 Year US Corporate Index hedged to the Canadian dollar, plus 60 basis points
Real Estate Debt ⁴	0	5	3	50% Investment Grade: ICE BofA 1-3 Year U.S. Corporate Index hedged to the Canadian dollar plus 50% High Yield: ICE BofA 1-3 Year BB-B US Cash Pay High Yield Constrained Index, hedged to the Canadian dollar plus 25 basis points
Fixed Income Sub-total	32	62	51	
Public Equity ⁵	7	34	19	16% S&P/TSX Composite Index 58% MSCI World ex-Canada Net Index 26% MSCI Emerging Markets Net Index
Private Equity ^{4,6}	11	21	17	MSCI ACWI Net Index plus 200 basis points
Equity Sub-total	26	50	36	

Asset Class ¹	Policy Range		Long-term Policy Asset Mix	Benchmarks
	Minimum	Maximum		
Real Estate Equity	10	21	16	Cost of Capital of 6.8% in nominal Canadian dollar terms
Infrastructure and Renewable Resources ⁴	8	20	17	Cost of Capital of 6.5% in nominal Canadian dollar terms
Real Assets Sub-total	22	40	33	
Other ⁷	0	5	0	Not applicable
Leverage ⁸	0	-25	-20	Liability: Realized cost of Financing
TOTAL	100	100	100	

1. Refer to the Plan's Quarterly Investment Report for asset classification by pool.
2. The benchmark proportion within Short Term and Credit will be set to actual due to the illiquid nature of private market assets.
3. The Credit asset class includes Corporate Bonds and Private Debt (high-yield and investment-grade).
4. Due to the illiquid nature of these assets, the upper limit may be exceeded on a temporary basis. BCI will use cashflow to rebalance as soon as is practical and will continue to report any breach of the policy ranges in the quarterly compliance report.
5. Public Equities include Canadian, Global and Emerging Market Equities.
6. Private Equity investments may include debt, in addition to equity.
7. "Other" includes strategies or investments specifically approved by the Board that do not correspond to the listed asset classes.
8. Assets held within the Funding Program will be benchmarked against their respective asset class benchmarks.

6.4 The Board recognizes that an appropriate implementation period is required to transition to the new policy asset mix identified in section 6.3.

6.5 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 10 per cent of the Total Fund.

6.6 BCI may loan the Fund's securities, or the Fund may 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;
- the loan and collateral are valued daily on a "mark-to-market" basis; and
- the loan and collateral meet the terms and conditions of BCI's Securities Lending Program.

6.7 The total of the long-term asset mix class allocations (excluding leverage) may sum to greater than 100 per cent as a result of the inclusion of leverage at the Fund level.

Section 7: Performance Objectives

7.1 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, the

following benchmarks:

- (i) the annual rates of return used in the actuarial report (CPI + 3.5 percent and 6.25 per cent nominal); and
- (ii) total Fund benchmark: 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 benchmark as outlined in section 6.3.

The Board's approach to hedging is set out in section 6.3 as defined by the Benchmarks.

- 7.2 For the liquid assets, the short-term investment objective (5 years) is to earn the rate of return, net of all expenses incurred in the investment process, assuming that each liquid asset class had earned the return of its respective benchmark as outlined in section 6.3.
- 7.3 For actively managed strategies, the primary short-term investment return objective is for the rate of return, net of all expenses incurred in the investment process, to exceed the respective benchmark over rolling 5- year periods. However, certain asset classes such as real estate equity, 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.

Section 8: 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.

8.1 Short-Term Policies

- 8.1.1. Short-term assets include cash money market instruments and bonds with a typical term to maturity of 15 months or less, unless it is a callable bond, which has a high probability of being called within 15 months.
- 8.1.2. 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

acceptable credit rating agency (e.g., Moody's, Morningstar DBRS, Fitch Ratings).

- 8.1.3. Short term corporate bonds should be rated A- or higher by S&P or have an equivalent rating from another acceptable credit rating agency (e.g., Moody's, Morningstar DBRS, Fitch Ratings).
- 8.1.4. Up to 1 per cent of short-term holdings can be in non-rated debt issued by financial institutions (e.g., credit unions).

8.2 Fixed Income Policies (Bonds, Credit and Real Estate Debt)

- 8.2.1. Bonds include fixed income securities issued or guaranteed by a Canadian government, Canadian government-related entities, and non-Canadian government or supranational entities rated "BBB-" or better by S&P or with an equivalent rating from another acceptable credit rating agency (e.g., Moody's, Morningstar DBRS, Fitch Ratings).
- 8.2.2. Credit will consist primarily of international and domestic corporate bonds, convertible bonds, preferred shares, senior and subordinated debt, private debt, asset-backed commercial paper and 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.

- 8.2.3. Publicly traded fixed income securities from issuers, other than securities issued by the Canadian government or a provincial government and securities held within the Corporate Bond Fund or Principal Credit Fund, when purchased must be rated BBB- or higher by S&P or have an equivalent credit rating from another acceptable credit rating agency (e.g., Moody's, Morningstar DBRS, Fitch Ratings). If any such holdings are downgraded to below a BBB- rating, BCI will immediately review the downgraded security and determine whether to sell this security immediately or hold to sell at a more appropriate time.
- 8.2.4. Other than Short Term assets, the Funding Program, the Corporate Bond Fund, Investment Grade Private Credit Fund, and the Principal Credit Fund, individual fixed income portfolios must be managed within 20 per cent range of the duration of their respective performance benchmark.
- 8.2.5. The Real Estate Debt portfolio will 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 S&P or an equivalent Structured Finance credit rating from another acceptable credit rating agency (e.g., Moody's, Morningstar DBRS, Fitch Ratings), may not exceed five percent of the net asset value of the Real Estate Debt Program. All mortgage loans must be eligible investments under the PBSA and PBSR.

- 8.2.6. 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 Real Estate Debt Program

8.3 ***Equity Policies***

- 8.3.1. Equity investments consist of common, preferred shares and common shares 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).
- 8.3.2. Private equity investments will typically consist of long-term debt or equity investments that are made primarily outside of the public market. These are long-term commitments made on behalf of the Fund.

8.4 ***Real Estate Equity Policies***

- 8.4.1. Real estate investments may include direct real estate holdings, units in real estate pooled funds, and real estate securities including trust units, shares in real estate companies, and debt.
- 8.4.2. Real estate investments will be well diversified by property type, property location, and property risk.
- 8.4.3. No debt will be assumed or created if, as a result, it causes the debt to market value of real estate equity portfolio to exceed 55 per cent.
- 8.4.4. No direct real estate investments will be made without a professional assessment of the properties' environmental condition.

8.5 Infrastructure and Renewable Resources Policies

8.5.1. 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 farms.

Section 9: Use of Derivative Instruments

9.1 The use of derivatives is only permitted for the following purposes:

- (i) Synthetic Indexing - Passively investing 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) Manage leverage at the pooled fund and total Fund level. Synthetic leverage can be created by utilizing derivative instruments.
- (vi) Their use through participation in The Funding Program, the Global Quantitative Active Fund, and the Global Partnership Fund.

9.2 Derivatives include exchange traded derivatives (futures and options) and over-the-counter ("OTC") derivatives (forwards, and swaps) and can have equities, fixed income, interest rates, and currencies as underlying instruments.

9.3 When an OTC derivatives contract is entered into directly by BCI with an external counterparty (e.g., a financial institution), the counterparty must have at least an A- credit rating by S&P or an equivalent credit rating from another acceptable credit rating agency (e.g., Moody's, Morningstar

DBRS, Fitch Ratings). If the credit rating of any counterparty falls below the approved credit standard, BCI will immediately review the downgraded counterparty and will have discretion with respect to the sale of any affected security or the termination of any affected derivative contract. This rating requirement does not apply to investments in external funds in which BCI is a passive investor. Notwithstanding the language above, new OTC derivatives transactions with a downgraded counterparty are permitted if such transactions would fully or partially offset an existing exposure with the counterparty, leading to a reduction in BCI's counterparty net credit exposure.

- 9.4 The use of any additional derivative products other than those stated above will require the prior written consent of the Board.

Section 10: Use of Leverage¹

- 10.1 The use of leverage includes borrowing against assets to amplify exposures for a given amount of capital.
- 10.2 Leverage will be used in accordance with the strategic asset mix set out in section 6 of the Statement and may be employed within pooled funds as consistent with BCI's pooled fund policies.
- 10.3 The purpose of using leverage is to increase the likelihood of meeting the Plan's objectives as defined in section 2 by providing additional sources of liquidity, returns and diversification.
- 10.4 When using leverage, consideration should be given to associated risks, including liquidity and counterparty risks.
- 10.5 The use of leverage is tested against the Plan's current and/or projected liabilities to ensure that funding obligations are met under a wide range of scenarios.
- 10.6 The long-term policy asset mix includes leverage that can be created through the Funding Program by utilizing (i) secured borrowing such as repurchase agreements and/or (ii) the issuance of unsecured debt. Other forms of leverage can be created within the various pooled funds utilizing other sources such as derivatives as outlined in section 9.
- 10.7 Periodic reporting is required for leverage. The reported metrics provide details on the various forms of leverage (e.g. asset mix, financial, and economic) and the associated risks to ensure compliance with the limits set

¹ **Asset mix leverage** is equivalent to portfolio leverage in the policy asset mix and involves leverage taken through participation in the Funding Program. **Financial leverage** includes asset mix leverage, plus other forms of recourse debt and secured funding. **Economic leverage** includes financial leverage, plus various off-balance sheet exposures (e.g. synthetic leverage via derivatives activities).

out in section 6 of the Statement and BCI's pooled fund policies.

- 10.8 The Fund's use of leverage may result in commitments that the Fund would be required to satisfy as a condition of redemption of pooled fund units, as consistent with BCI's pooled fund policies.
- 10.9 BCI may use longer-term borrowing to achieve clients' desired leverage. Due to the illiquid nature of some of these instruments, asset class policy limits may be breached on a temporary basis. BCI will rebalance as soon as is reasonably practical.

Section 11: Risk Management

Managing investment risks is just as important as generating returns.

- 11.1 Maintaining a well-diversified portfolio is the cornerstone of the Fund's risk management program.

The Plan's investment strategy should be developed to achieve the objectives outlined in section 3 (Risk Appetite) while minimizing the likelihood that the associated risk tolerances are breached.

Risks to these objectives include economic, demographic, legal and regulatory factors, and a variety of investment risks (e.g., asset returns; market, liquidity, credit, currency, leverage, and counterparty and concentration risk).

The Board recognizes that demographic trends, such as an aging membership and longer life expectancy, may increase the Plan's liabilities and therefore impact the investment strategy. These risks will be assessed through actuarial evaluations, stress tests and liability forecasts.

The Board will annually review changes to pension regulations and assess their impact on investment practices. BCI will update the Board on applicable regulatory developments and their potential implications for compliance, if and when they occur.

The Board will formally document key changes to its investment strategy.

- 11.2 The primary tool for managing these risks over the medium to long term is Asset-Liability Modeling ("ALM"), which considers the following in the course of setting the investment strategy:
- The Plan's characteristics and circumstances (e.g., liability profile, funding policy, and demographics),
 - The Plan's investment objectives and risks, and
 - Capital market expectations.

The Board conducts an ALM review at least once every three years.

All significant decisions must include supporting analyses and be reviewed annually for consistency with the SIPP.

- 11.3 Over the short to medium term (5 to 10 years), investment risks are managed per BCI's investment risk management framework, which includes the following elements:

- Integrated governance approach,
- Assignment of roles and responsibilities,
- Definition of key investment risks, and
- Associated measurement, monitoring, and reporting, which can support the Board's oversight of investment risk.

A comprehensive description of BCI's investment risk management framework can be found in its reference document: Investment Risk Management Policy.

- 11.4 The Board's Enterprise Risk Management (ERM) Policy governs how the Board manages its key strategic risks. The Board has set up a risk register to monitor the Plan's risks. Given BCI's role in the management of the Plan's investments, the Board has delegated the responsibility for developing, monitoring, and managing an investment risk program to BCI. The Board's Investment Committee oversees BCI's management of investment risk by regularly reviewing risk and monitoring threshold (as noted in section 11.1).

- 11.5 The Board, or Pension Corporation, will inform BCI at least quarterly (or more frequently if required) of anticipated liquidity requirements. The Fund will maintain sufficient liquidity to meet its financial obligations as they come due in order to reduce the risk of having to liquidate assets at potentially unfavourable prices and to reduce the risk of the asset allocation of the Fund straying too far from the intended policy asset mix. These financial obligations include benefit payments, expenses, requirements to meet any private market capital calls, and the obligations to meet any collateral, margin or mark-to-market requirements of derivatives or other contracts.

BCI will assess at least quarterly or more frequently as required whether the liquidity profile of the Fund can reasonably accommodate the anticipated liquidity requirements, including under adverse scenarios, and report such findings to the Board. In order to make these assessments, BCI is required to undertake periodic reviews of the Fund's liquidity profile, including under adverse scenarios. BCI may run a temporary overdraft for day-to-day portfolio and cash management purposes.

Section 12: Valuation of Assets

- 12.1 Generally, all investments should be priced based on external sources. In some cases, obtaining on-going market pricing may be prohibitively expensive (e.g., certain illiquid investments such as real estate equity and private equity). These assets will 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 equity and private equity) will have their value determined in accordance with BCI's valuation policy which is aligned with standard industry practice.

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 its fiduciary responsibility. It is therefore 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.

The Board has a duty to understand ESG issues and to manage these ESG issues through its oversight of BCI. BCI integrates ESG issues into its decision-making processes as governed by their ESG Governance Policy.

- 13.2 Pursuant to section 5.4.1 and subject to section 13.1, favorable consideration is to be given by BCI and its investment managers to invest in opportunities that meet or exceed all environmental regulations and aspire to reduce their impact on the environment, apply best practices for corporate governance, promote diversity and inclusion, 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 ESG issues affect investment performance to varying degrees across companies, sectors, regions, asset classes and through time. The Board is committed to ensuring that ESG issues are incorporated into investment analysis and decision-making processes, and into our ownership policies and practices. The Board expects BCI to seek appropriate ESG disclosure from the entities in which the Plan is invested, work collaboratively with like-minded investors, and report transparently.
- 13.4 Effective research, analysis and evaluation of ESG strategy and risk issues are a fundamental part of assessing the value and performance of an investment over the long-term.

- 13.5 The Board expects the companies and entities in which the Plan invests to comply with relevant international and national standards, regulations and laws and uphold standards of responsible business conduct as outlined in the Global Compact, the International Labour Organization (ILO) Fundamental Principles and Rights at Work, the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, and the United Nations Guiding Principles on Business and Human Rights. The Board expects BCI to conduct enhanced due diligence of those companies, sectors and regions that face heightened risks from conflict and human and labour rights abuses.
- 13.6 The Board expects BCI to use their position as a fiduciary and universal owner to use proxy voting and shareholder engagement to encourage companies to focus on long-term value creation and manage ESG risks.
- 13.7 The Board delegates its voting rights to BCI. BCI will vote proxies in accordance with BCI's Proxy Voting Guidelines and provide the Board with copies of its voting guidelines. At least once a year, the Board will review BCI's voting record.
- 13.8 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 i) apply good corporate governance practices; ii) effectively manage their business relationships; and iii) be responsible in their operations and treatment of employees, including sound human capital practices such as those supporting a diverse and inclusive workplace. 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.
- 13.9 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.

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. BCI will 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 will 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 will 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 will 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 per cent 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 6. 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 material² change to the investment policy of a particular internal pooled fund listed in Appendix A, BCI will disclose the change to the Board and, subject to the pooled portfolio rules, the Board will decide whether it wishes to remain invested in that pooled fund.

Before implementing a new investment strategy that may have a material impact on the Fund, BCI will engage in consultation, providing the information, analysis, and resources reasonably required to support the Board's understanding of the new strategy and its potential implications for the Fund.

² A change is considered material if it:

- is expected to significantly alter the investment risk and return profile or reputational risk profile of the Fund;
- would necessitate a non-housekeeping amendment to the SIPP or the Investment Reporting Framework;
- is expected to result in a meaningful and sustained impact on Fund Management Fees.

Appendix A

Eligible Pooled Funds – Effective July 1, 2026

Asset Class Categories Under Section 6.3	Eligible Pooled Funds	Benchmark(s)
Short Term	<i>Canadian Money Market Fund (ST1)</i>	<i>Canadian Overnight Repo Rate Average (CORRA)</i>
	<i>Canadian Money Market Fund (ST2)</i>	<i>FTSE Canada 91 Day T-Bill Index</i>
	<i>US Dollar Money Market Fund (ST3)</i>	<i>Secured Overnight Financing Rate (SOFR)</i>
	<i>US Dollar Money Market Fund (ST4)</i>	<i>ICE BofA US 3-Month Treasury Bill Index</i>
Bonds	<i>Government Bond Fund</i>	<i>FTSE Canada All Government Bond Index</i>
	<i>Short Term Bond Fund</i>	<i>FTSE Canada Short Term Government Bond Index</i>
	<i>The Funding Program¹</i>	<i>Liability benchmark = Realized Cost of Financing</i>
Credit	<i>Corporate Bond Fund</i>	<i>50 per cent Investment Grade: ICE BofA US Corporate Index, hedged to the Canadian dollar plus 50 per cent High Yield: ICE BofA BB-B US Cash Pay High Yield Constrained Index, hedged to the Canadian dollar</i>
	<i>Principal Credit Fund</i>	<i>Morningstar LSTA U.S. Leveraged Loan 100 Index, hedged to the Canadian dollar</i>
	<i>Investment Grade Private Credit Fund</i>	<i>ICE BofA 1-3 Year US Corporate Index, hedged to the Canadian dollar plus 60 basis points</i>
Real Estate Debt	<i>BCI QuadReal Real Estate Debt Program</i>	<i>50 per cent Investment Grade: ICE BofA 1-3 Year U.S. Corporate Index, hedged to the Canadian dollar plus 50% High Yield: ICE BofA 1-3 Year BB-B US Cash Pay High Yield Constrained Index, hedged to the Canadian dollar plus 25 basis points</i>
Public Equity	<i>Indexed Canadian Equity Fund</i>	<i>S&P/TSX Composite Index</i>
	<i>Active Canadian Equity Fund</i>	<i>S&P/TSX Capped Composite Index</i>
	<i>Active US Small Cap Equity Fund</i>	<i>Russell 2000 Total Return Index</i>
	<i>Active European Equity Fund</i>	<i>Morgan Stanley Capital International (MSCI) Europe Net Index</i>
	<i>Indexed Global Equity Fund</i>	<i>MSC World ex-Canada Net Index</i>
	<i>Global Quantitative Active Equity Fund</i>	<i>MSCI World ex-Canada Net Index</i>
	<i>Active Global Equity Fund</i>	<i>MSCI World ex-Canada Net Index</i>
	<i>Global Partnership Fund</i>	<i>MSCI World ex-Canada Net Index</i>
	<i>Thematic Public Equity Fund</i>	<i>MSCI World ex-Canada Net Index</i>
	<i>Indexed Emerging Markets Equity Fund</i>	<i>MSCI Emerging Markets Net Index</i>
	<i>Active Emerging Markets Equity Fund</i>	<i>MSCI Emerging Markets Net Index</i>
	<i>Indexed EAFE² Equity Fund</i>	<i>MSCI EAFE Net Total Return CAD Index (unhedged)</i>
Private Equity	<i>Private Equity Program</i>	<i>PE Fund investments: MSCI ACWI Net Index plus 200 basis points Direct/Co-investments: Cost of Capital of 8.5%</i>
Real Estate	<i>Realpool Program</i>	<i>Cost of Capital of 6.8% in nominal Canadian dollar terms</i>
Infrastructure and Renewable Resources	<i>Infrastructure and Renewable Resources Program</i>	<i>Cost of Capital of 6.5% in nominal Canadian dollar terms</i>

Product Descriptions for each of the eligible pooled funds above are available upon request to the Municipal Pension Plan.

¹ Assets held within The Funding Program will be benchmarked against their respective asset class benchmarks

² Europe, Australasia, and the Far East.

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 per cent of the market value of the Fund |
| 2. | Maximum proportion of the voting shares of any company | 30 per cent |

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.