

# UNIVERSITY OF GUELPH

## Pension Plans

### *Statement of Investment Policies and Procedures*

It is hereby certified by the undersigned that this Statement of Investment Policies and Procedures was adopted by the Board of Governors on:

June 5, 2014

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(Name)

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(Title)

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## **I. INTRODUCTION**

1.1 This document constitutes the Statement of Investment Policies and Procedures (the "Policy") applicable to the assets (the "Fund") in respect of the following pension plans (the "Plans") sponsored by the University of Guelph (the "University"):

- Pension Plan for Professional Staff of University of Guelph
- Pension Plan for Non-Professional Staff of University of Guelph
- Retirement Plan of University of Guelph

The assets of the three Plans are invested in common trusts and the three Plans may hold assets directly.

1.2 The purpose of this Policy is to formulate those investment principles, guidelines and monitoring procedures which are appropriate to the needs and objectives of the Fund, in a manner conforming to the applicable pension legislation as contained in the Ontario Pension Benefits Act and the regulations hereto (the "Act"). This Policy is supplementary to the rules contained in the Act.

1.3 All investment and other operations of the Fund shall be governed by the Act.

1.4 Any investment managers (the "Manager(s)") or other party providing services in connection with the investment of the Fund shall accept and adhere to this Policy.

## **II. ADMINISTRATION**

2.1 The University through its Board of Governors (the "Board") is the administrator of the Plans in accordance with the Act. The Board has established a governance structure and delegated to the Pensions Committee of the Board (the "Board Committee") certain aspects of the Fund's operations as described in Section III.

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- 2.2 In fulfilling its responsibilities, the Board Committee may delegate to or otherwise utilize employees of the University or committees such as the Investment Subcommittee (the “ISS”) and the Office of Investment Management (“OIM”) where appropriate. The Board Committee shall retain responsibility and utilize suitable personnel for such activities and monitor the activities undertaken by the selected personnel.
- 2.3 The custodian of the Fund (the “Custodial Trustee”) shall be a trust company duly registered in Canada or an insurance company authorized to underwrite life insurance in Canada. All investments and assets of the Fund shall be held by the Custodial Trustee and invested:
- (a) in a name that clearly indicates that the investment is held in trust for the Plans and, where the investment is capable of being registered, registered in that name, or
  - (b) in the name of the Custodial Trustee, or a nominee thereof, in accordance with an agreement with the Custodial Trustee that clearly indicates that the investment is held for the Plans, or
  - (c) in the name of The Canadian Depository for Securities Limited, or a nominee thereof, in accordance with an agreement with the Custodial Trustee that clearly indicates that the investment is held for the Plans.
- 2.4 The Board Committee may rely on independent experts for certain aspects of the Fund's operations where expert knowledge is required or desired or where a potential or actual conflict of interest exists.
- 2.5 The Plans’ financial statements shall be audited by an independent auditor at least annually.

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### III. RESPONSIBILITIES AND PROCEDURES

#### 3.1 Board of **Governors**

- 3.1.1 As administrator and sponsor of the Plan, the Board has responsibility for all aspects of the Fund's operations. To fulfill their responsibility in the most prudent and appropriate manner, the Board has delegated to the Board Committee as specified below.
- 3.1.2 The Board Committee, as delegated in its capacity as the employer, shall be responsible for:
- (a) appointing and/or replacing the actuary;
  - (b) reviewing and approving the actuary's report and other reports that might be required of the actuary;
  - (c) reviewing any recommendations for changes to the funding of the Plans;
  - (d) reviewing any recommendations for changes to the text of the Plans;
  - (e) recommending to the Board any changes or amendments to the Plans; and
  - (f) reporting to the Board on its activities on at least an annual basis.
- 3.1.3 The Board Committee, as delegated in its capacity as the administrator, shall be responsible for:
- (a) approving the Policy on an annual basis;
  - (b) approving the auditor's report on the Fund;
  - (c) appoint and monitor the performance of the Custodial Trustee of the Plans;
  - (d) reviewing and confirming or amending delegated responsibilities on an annual basis;
  - (f) monitoring the IS;
  - (g) assuming all or part of the responsibilities of the IS in the event that it becomes dysfunctional for any reason or if it appears that it can no longer fulfill its responsibilities; and

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- (h) when it deems it necessary or when requested, reporting to the Board on the administration, supervision and control of the Plans and the Fund.

### 3.2 Duties of the Staff Members

#### 3.2.1 Duties of the staff members are as follows:

- (a) overseeing the administration of the Plan, including but not limited to Plan amendments;
- (b) overseeing the cash management of the Plan with a view to ensuring that sufficient cash will be available for the payment of the benefits;
- (c) advising plan members of any changes to the Plan that may affect the members including retirees;
- (d) ensuring that financial statements are prepared and audited on an annual basis;
- (e) ensuring that actuarial valuations are prepared within the required frequency and approve the valuations; and
- (f) ensuring that all regulatory documents are filed on a timely basis.

### 3.3 Duties of the OIM

#### 3.3.1 Duties of the OIM are as follows:

- (a) oversee the Managers;
- (b) monitor third party service providers;
- (c) report to the IS on investment performance;
- (d) conduct periodic asset/liability studies;
- (e) implement the policy allocation as outlined in Section 6.2;
- (f) advise the Board Committee of any significant changes to the Plans, the Fund or the IS as they arise; and
- (g) work in close collaboration with the IS and implement strategies and recommendations.

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- 3.3.2 In fulfilling their responsibilities, staff and the OIM may delegate activities relating to the responsibilities listed in 3.2.1 and 3.3.1 to external experts. Notwithstanding this delegation, staff and the OIM shall remain responsible for, and shall be required to approve work done by others. In this regard, staff and the OIM are expected to delegate the activities only to suitable delegates, and review the work before approval.
- 3.3.3 The OIM shall maintain a description of the manager structure and keep a current copy of each Manager's investment mandate (the "Mandate").
- 3.4 IS
- 3.4.1 The IS shall have the responsibility to:
- (a) Review and if necessary recommend changes in the Policy to the Board Committee and monitor the Plans and Fund characteristics that relate to the Policy on an annual basis;
  - (b) select, appoint and replace when deemed necessary the external experts for the Fund including but not limited to: external investment managers and the independent measurement service;
  - (c) monitor the external experts to the Fund in respect of their continuing suitability and performance;
  - (d) monitor the investment performance and financial position of the Fund, as described in Section XII; and
  - (e) report to the Board Committee on its activities at least annually.
- 3.4.2 In fulfilling its responsibilities, the IS may delegate any activities relating to the responsibilities listed in 3.4.1 to the OIM, other staff members or to external experts. Notwithstanding this delegation, the IS shall remain responsible for, and shall be required to approve, work done by others. In this regard, the IS is expected to delegate the activities only to suitable delegates, and review the work and the process undertaken to complete the work before approval.

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- 3.4.3 The IS will normally meet quarterly for the purpose of monitoring the Fund. Special meetings shall be called as required.
- 3.4.4 Where the IS desires to invest in segregated funds of an insurance company, pooled funds or mutual funds eligible for pension fund investment (“Pooled Funds”), the IS must satisfy itself that the investment policy of such Pooled Fund is consistent with this Policy.
- 3.4.5 The IS shall retain one or more independent professional investment managers (the “Manager(s)”) to invest the Fund.

#### **IV. EXTERNAL TO THE BOARD AND INVESTMENT COMMITTEES**

##### 4.1 External investment managers

The External Investment managers shall be responsible to:

- (a) invest assets of the Fund, through the Custodial Trustee, in accordance with individual mandates pursuant to an agreement between that Manager and the University;
- (b) report to the OIM on a quarterly basis and in writing in respect of: their performance for the quarter, the investment holdings and transactions, the intended strategy for the following quarter, deviation from the intended strategy for the preceding quarter and compliance with the mandate and contract;
- (c) provide to the OIM upon request, or at least on an annual basis, their policies and procedures relating to voting rights on securities, directed commissions, professional standards, conflicts of interest and internal controls;
- (d) advise the OIM on an ongoing basis of any changes in the organization, personnel or investment process;
- (e) attend meetings of the IS when requested;



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- (f) be available for meetings or discussions with the IS on a reasonable basis;  
and
  - (g) permit a tour of their premises and a review of their internal control systems  
by a designated delegate of the IS as requested.

#### 4.2 The independent custodial trustee

The custodial trustee shall be responsible to:

- (a) act under the terms of the trust agreement;
- (b) administer the Fund and hold Fund assets; and
- (c) provide record keeping services as required.

#### 4.3 External Auditor

4.3.1 The external auditor shall be responsible to perform the audit as required under the Ontario Pension Benefits Act.

#### 4.4 Measurement Service

4.4.1 The independent measurement service shall be responsible to:

- (a) evaluate, prepare and deliver a report on the Fund and Managers' performance  
quarterly to the OIM; and
- (b) advise the OIM of issues relating to the performance of the Fund and the  
Managers as they arise.

#### 4.5 External Actuary

4.5.1 The external actuary shall be responsible to prepare actuarial valuations within the frequency required under the Act and deliver them to the University.

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4.6 Others

- 4.6.1 Independent Advisors, Lawyers and Consultants, and other experts in pension-related matters shall provide services on an as required basis.

## V. PERMITTED CATEGORIES OF INVESTMENT

5.1 Asset Categories

From time to time, and subject to this Policy, the Fund may invest in any or all of the following asset categories and subcategories of investments either directly or through pooled funds which hold only these investments, subject to sections 5.4 and 5.5. For purposes of this Policy, "governments" includes supranational, Canadian federal, provincial or municipal governments, sovereign issuers and securities guaranteed by these governments.

- (a) **Canadian and Foreign Equities:** common shares, convertible debentures, share purchase warrants, share purchase rights, preferred shares, depositary receipts, interests in limited partnerships, and units of real estate investment trusts (REITS) and income trusts that have limited liability protection by statute.
- (b) **Real Estate:** real property, whether held directly or through open or closed-end pooled funds, participating debentures, shares of corporations or limited partnerships formed for pension funds to invest in real estate.
- (c) **Infrastructure:** tangible assets, whether held directly or through open or closed-end pooled funds, participating debentures, shares of corporations or limited partnerships primarily engaged in or having long term economic interest in tangible assets that provide key services to an economy and that are expected to provide long-term stable cash flows, including but not necessarily limited to: transportation, telecom, communication, utilities, social services, and business related to those sectors.
- (d) **Fixed Income:**

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- bonds, debentures, mortgages, notes, real return bonds, asset-backed securities or other debt instruments of governments or corporations (public and private) including foreign issuers and foreign pay bonds;
  - guaranteed investment contracts or equivalent financial instruments of Canadian insurance companies, trust companies, banks or other eligible issuers, or funds which invest primarily in such instruments;
  - annuities, deposit administration contracts or other similar instruments regulated by the Insurance Companies Act (Canada) or comparable provincial law, as amended from time to time;
  - term deposits or similar instruments of Canadian trust companies and banks;
  - hybrid debt instruments issued by financial institutions.

(e) **Cash or Cash Equivalents:**

- cash;
- money market securities issued by governments or Canadian corporations (public and private) with term to maturity of one year or less;
- deposits with Canadian Trust companies or banks

## 5.2 Derivatives

Any use of derivative investments must be in accordance with a program that has been specifically considered and approved by the IS whether done directly in the Fund or in a Pooled Fund. Derivative instruments may not be used to create exposures to securities which would not otherwise be permitted under this Policy or which would be outside the limits under this Policy had the exposure been obtained in the cash markets through direct investment.

Derivative instruments may be used only to:

- (a) Replicate the investment performance of permitted direct investments;
- (b) Increase the Fund's current revenue by selling covered calls; or

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- (c) Reduce risk as part of a hedging strategy.

With the exception of currency hedging, in no event may derivatives be used to leverage the Fund, nor may the aggregate net notional value of all derivative instruments exceed 30% of the market value of the Fund unless approved by the IS. In the case of currency hedging, except for temporary deviations related to short-term market movements, in no event may the exposure to any currency exceed the net foreign assets denominated in that currency.

Any Manager investing in derivative investments must determine the market value of that Manager's exposures on a daily basis.

The following derivative instruments are permitted:

5.2.1. Futures and options may be used only when they are regularly traded on recognized public exchanges or other organized public trading facilities where market prices are readily available.

5.2.2. Forward contracts, structured notes and swap agreements may be entered into only with financial institutions that satisfy the credit standards of the Policy with respect to cash equivalents and fixed income investments.

5.3. Other Investments:

The Fund may invest in venture capital and natural resource properties or participation rights, whether purchased directly, or through closed or open end pooled funds, or through participating debentures or shares of corporations or limited partnerships formed to invest in such properties subject to the Act.

Pooled Funds eligible for pension fund investment are permitted, provided they invest only in the instruments or assets permitted in this Section.

The Fund shall not, directly or indirectly, be invested in securities of a listed person as defined by the United Nations Suppression of Terrorism Regulations, or loaned to or used for the benefit of such a person.

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## **VI. ASSET ALLOCATION POLICY AND RETURN OBJECTIVES**

### Asset Allocation

- 6.1 The policy asset allocation reflects a balance of investments in bonds, which are sensitive to interest rates, and equities, which are expected to provide both higher returns and inflation-sensitive returns over the long term. Consideration was given to the Plan Overview outlined in Appendices A, B, C, and
- (a) the long-term nature of the liabilities,
  - (b) the University's ability to absorb cost fluctuations and the sensitivity in University costs to changes in interest rates and inflation,
  - (c) the going-concern and solvency financial positions of the Plans including their sensitivity to changes in interest rates and inflation.
- 6.2 The policy allocation and ranges for the Fund have been determined as set out below. Over complete market cycles the allocation is expected to approximate the "Target Weight".

6.3

Component Asset Classes	Benchmark Index	Percentage of Fund at Market Values			
		Interim Target Weight	Final Target Weight	Permitted Range	
-	-	-	-	Low	High
Canadian Equities	S&P/TSX Composite	25%	20%	15%	35%
U.S. Equities	S&P 500 (\$Cdn)	20%	20%	15%	25%
International Equities	MSCI EAFE Net (\$Cdn)	20%	20%	15%	25%
Total Equities	-	65%	60%	55%	75%
Real Estate and Infrastructure	To Be Determined	5%	10%	0%	20%
Fixed Income	DEX Universe	28%	28%	23%	38%
Cash and Cash Equivalents	DEX 91 Day T-Bill	2%	2%	0%	15%
Total Fixed Income and Cash	-	30%	30%	25%	40%

6.4 The total fund benchmark is based on a blend of the individual underlying asset class indices in their proportions represented in the Target Weight. The Interim Target Weight is expected to gradually shift towards the Final Target Weight as the transfer of funds to real estate and infrastructure assets are approved by IS. At any point prior to implementation of the Final Target Weight the actual Target Weight will be between the interim and the Final Target Weights. Once the Target Weights for both of these asset classes is achieved, the Final Target Weight will become the benchmark.

6.5 Cash and cash equivalents may also be held from time to time on a short-term, temporary basis or as defensive reserves within the portfolios for each asset class at the discretion of each Manager within the constraints prescribed by its Mandate.

6.6 IS has implemented a policy to hedge 50% of the foreign currency exposure reflected within the various equity mandates.

6.7 If the asset mix deviates outside the above ranges, at the end of any quarter, the OIM shall take corrective action to bring the asset mix back within the range as soon as practicable.

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## Return Objectives and Risk Expectation

- 6.8 The objective of the Fund is to achieve a long-term (five to ten-year period) total rate of return at least equal to the going concern discount rate (currently 6.5%). It is recognized that, in any one period, the total return may be significantly above or below 6.5%
- 6.9 In order to achieve the long-term return objective, the Fund is targeting to achieve over moving four-year periods a return, net of all brokerage expenses but before all other fees, at least equal to a composite index made of passive investments in appropriate market indices, according to the normal allocation defined in section 6.2.
- 6.10 The risk inherent in the investment strategy over a market cycle (a five to ten year period) is three fold. There is a risk that the market returns will not be in line with expectations. To the degree that an active management style is employed, there is a risk that the added return expected of active management over passive management will not be realized, or will be negative. There is also the risk of annual volatility in returns which means that in any one year the actual return may be very different from the expected return (such return may also be negative).

## **VII. PORTFOLIO DIVERSIFICATION AND CONSTRAINTS**

- 7.1 The IS shall ensure that the diversification requirements in each Manager's Mandate, in combination with the amount of assets allocated to each Manager, are consistent with the limits outlined in this Section based on the market value of the Fund.
- 7.2 Further constraints are documented in the Act. For greater certainty, in respect of the total Fund and pursuant to the rules in the Act:
- (a) No more than 10% of the book value of the assets shall be invested in any one entity or group.
  - (b) The Fund shall not acquire securities of a corporation to which are attached more than 30% of the voting rights of any corporation.
- 7.3 In respect of the equity portfolio of the Fund:

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- (a) North American holdings shall be diversified by company, capitalization and industry, having regard to the relative sizes of industry sectors in the applicable stock market indices.
  - (b) Non-North American holdings shall be diversified by company, region, industry and country, having regard to the relative sizes of economic activity and stock market capitalization.
  - (c) Not more than 20% of each of the North American and of the non-North American equity portfolios shall be (in aggregate) invested in stocks having market capitalization, including closely held shares, below \$1 billion.
  - (d) Not more than 10% of the market value of the total equity portfolio shall be invested in any one entity.
  - (e) In respect of any Canadian income trusts and real estate investment trusts, such trusts:
    - (i) Must be reporting issuers under the applicable securities legislation in Canada; and
    - (ii) Must be governed by the laws of a province that limits the liabilities of unit holders by statute.
  - (f) Any interest in a partnership must be as a limited partner and not as a general partner.

7.4 In respect of fixed income:

- (a) Debt rated below “BBB (low)” shall not exceed 15% of the fixed income portfolio.
- (b) Not more than 20% of the fixed income portfolio shall be held in debt issues rated below “A (low)”.
- (c) Not more than 10% of the fixed income portfolio shall be held in debt issues of any one issuer, except for securities of or fully guaranteed by the Government of Canada or a province of Canada having at least an “A” credit rating.



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- (d) Unrated private placements may only be purchased if the most recent issue of the borrower or guarantor (if applicable) is rated "A" or better.
  - (e) Mortgages shall be restricted to first mortgages and/or mortgages secured under the National Housing Act (N.H.A.).
  - (f) Securities with a mandatory conversion provision (hybrid debt) shall be rated "BBB" or higher, and be limited to 10% of the fixed income portfolio and to 2% in any single issuer.
- 7.5 In respect of the Real Estate portfolio of the Fund or any Pooled Fund (excluding mortgage investments):
- (a) Properties shall be diversified by location, type of use and tenants.
  - (b) Not more than 10% of the Real Estate portfolio shall be invested in non-income producing property.
  - (c) Not more than 5% of the Fund may be invested in any one property
- 7.6 In respect of the infrastructure portfolio of the Fund:
- (a) Investments shall be diversified by region and sector.
  - (b) Investments shall be made to infrastructure funds whose assets are expected to have the following characteristics:
    - (i) Provide essential services to the community;
    - (ii) Have monopolistic characteristics;
    - (iii) Have sustainable and predictable cash flows; and
    - (iv) Target investments primarily in assets and businesses with comparatively lower exposure to economic cycles, providing essential services under predictable regulatory regimes and/or through long-term contracts with the public sector, creditworthy entities or a broad base of end-users, allowing for visibility of revenues, operating costs and capital expenditure requirements.
- 7.7 All cash equivalents, including those held within the portfolios for each asset class at the discretion of the Manager, shall have a minimum credit rating of "R-1 (low)" or equivalent.

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- 7.8 Securities of unrated issuers will be assumed to fail all of the credit ratings referred to in this section.
- 7.9 For purposes of this section, all debt rating requirements shall be met by a minimum of two Nationally Recognized Statistical Rating Organizations (NRSRO) as defined by the Securities and Exchange Commission.
- 7.10 If a security's credit rating falls below the required level after time of purchase, the Manager shall advise the IS immediately in writing and recommend a course of action for the IS's approval.
- 7.11 Each Manager shall be responsible for choosing brokers to execute investment transactions in the most effective manner and in the best interest of the Fund.
- 7.12 It is necessary to maintain a regular flow of investment income and to hold an appropriate portion of the Fund in highly liquid investments to ensure adequate liquidity.

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## VIII. LENDING AND BORROWING OF CASH AND SECURITIES

### 8.1 Borrowing of Cash and Securities

- (a) Money shall not be borrowed on behalf of the Fund and the Fund's assets shall not be pledged or otherwise encumbered in respect thereof, except:
  - (i) for the payment of refunds, benefits or administration costs of the Plans to the extent that such borrowing is limited to the amount of the current service contribution in any fiscal year of the Plans and that the term of the borrowing does not exceed 90 days;
  - (ii) for and to the extent of temporary overdrafts that occur in the course of normal day-to-day portfolio management.

### 8.2 Lending Securities

- (a) Permitted Circumstances: The IS may lend the securities of the Fund as a means of generating incremental income or cash for investment or otherwise supporting an investment strategy. Such loans shall be in writing. When the IS lends securities of the fund, the document shall provide for the IS's right to recall the loaned securities.
- (b) Use of Agents : Management may delegate, through the University's custodial trustee, to a lending agent the authority to select borrowers, negotiate terms and rates and invest cash or securities collateral under written procedures which specify securities available for loan, pre-approved borrowers, loan terms, and instruments for the investment of collateral as well as administrative, risk management and reporting arrangements.
- (c) Collateral and Margin Requirements: When the IS lends securities of the Fund as a means of generating incremental income or cash for investment, the following rules shall apply. The IS or its lending agent shall receive from the borrower collateral equal to no less than 105% of the market value of the securities loaned at the time of the transaction. The amount of collateral margin taken shall reflect best practices in local markets. Both loaned and collateral securities must be marked to market daily to account for increases in the market

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value of the securities loaned or decreases in the market value of the collateral. Shortfalls in the amount of collateral must be rectified by the following business day unless otherwise agreed to in writing. The collateral obtained to secure a loan of securities or any securities purchased with such collateral must be either cash or high quality, readily marketable securities acceptable as a direct investment under the IS's investment policies. Title to all collateral must be clear.

## **IX. VOTING RIGHTS**

- 9.1 The responsibility of exercising and directing voting rights acquired through Fund investments shall normally be delegated to the Manager, who shall at all times act prudently and in the best interests of the Fund's beneficiaries. The Manager shall provide the OIM with its proxy voting guidelines and notify the OIM of any changes to these guidelines.
- 9.2 The Manager shall maintain a record of how Fund voting rights have been exercised and provide the OIM with quarterly proxy voting results.
- 9.3 In case of doubt as to the best interests of the Plans' beneficiaries, the Manager shall request instructions from the OIM and act in accordance with such instructions.
- 9.4 The OIM reserves the right to direct, or override, the voting decisions of a Manager, if in its view such action is in the best interests of the Plans' beneficiaries, except for investments held in a Pooled Fund.
- 9.5 It is recognized, however, that the above constraints and policy on voting rights may not be enforceable to the extent that part of the Fund is invested in Pooled Funds.

## **X. VALUATION OF INVESTMENTS**

- 10.1 Investment in publicly traded securities shall be valued by the Custodial Trustee for the Fund no less frequently than monthly at their market value.
- 10.2 Investment in Pooled Funds comprising publicly traded securities shall be valued according to the unit values calculated at least monthly by the custodial trustee of the

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- Pooled Funds. The Custodial Trustee shall be responsible for requesting and recording the unit values on a monthly basis.
- 10.3 Where a security or asset is publicly traded but not frequently, the Plan's Custodial Trustee will determine the appropriate market value of the particular security or asset and, in the event of a conflict, the value that the Custodial Trustee has determined will be deemed as correct.
- 10.4 If a market valuation of an investment is not readily available, then a fair value shall be determined by or at the discretion of the OIM. For each such investment, an estimate of fair value shall be supplied by the Custodial Trustee with input from the Investment Manager no less frequently than quarterly. Such fair value may be determined by reference to the most recent independent expert appraisal or by other means such as risk-adjusted discounted cash flows or comparison with similar assets which are publicly traded. In all cases the methodology should be applied consistently over time.

## **XI. RELATED PARTIES AND CONFLICTS OF INTEREST**

### **11.1 Definition of Related Party**

For the purposes of this Policy, a Related Party means:

- (a) the University;
- (b) the Board;
- (c) a member of the Board Committee or IS;
- (d) an officer, director or employee of the University;
- (e) a person responsible for investing the assets of the Plans, or any officer, director or employee thereof;
- (f) an association or union representing employees of the University, or an officer or employee thereof;
- (g) a member of one of the Plans;

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- (h) the spouse or a child of any person referred to in any of paragraphs (b) to (f);
  - (i) an affiliate of the University;
  - (j) a corporation that is directly or indirectly controlled by a person referred to in any of paragraphs (a) to (h);
  - (k) an entity in which a person referred to in paragraph (a), (b) or (c), or the spouse or a child of such a person, has a substantial investment.

## 11.2 Related Party Transactions

- (a) The assets of the Fund shall not be used to invest in securities of Related Parties or lent to any Related Parties unless such securities are publicly traded and selected by a Manager acting independently on behalf of all that Manager's discretionary accounts or Pooled Funds having mandates similar to that of the Fund. Where applicable, a Manager shall provide the OIM with its internal guidelines on purchasing securities of the members of the Manager's organization or affiliates.
- (b) Notwithstanding paragraph (a), the assets of the Fund shall not be invested in any securities of the University or an affiliate of the University unless such securities are publicly traded, held within a Pooled Fund, and selected by a Manager acting independently.
- (c) Any other transactions with a Related Party must be required for the operation or administration of the Plans and be on terms and conditions that are not less favourable to the Plans than the then market terms and conditions.

## 11.3 Conflicts of Interest

- (a) If a member of the Board or Board Committee, or any agent of or advisor to the Board or Board Committee, or any person employed in the investment or administration of the Fund has or acquires any material interest, direct or indirect, in any matter in which the Fund is concerned or may benefit materially from knowledge of, participation in, or by virtue of an investment decision or holding of the Fund, the person involved shall within three business days after the individual becomes aware

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of the conflict of interest disclose in writing this conflict of interest to the Chair of the Board or Board Committee. The disclosure should also be made orally if awareness of the conflict occurs during the discussion of the Plan's business. The Chair shall then immediately advise all members of the Board or Board Committee, and the Board or Board Committee shall decide upon a course of action. Any such person will thereafter abstain from any decision making with respect to the area of conflict including the exercise of his/her votes, until the issue causing the conflict of interest is resolved independently by the remaining individuals with voting rights.

- (b) Every disclosure of interest, with the name of the individual declaring the conflict and how the conflict was resolved, under this Section shall be recorded in the minutes of the relevant Board or Board Committee meeting.
- (c) The failure of a person to comply with the procedures, described in this Section, shall not of itself invalidate any decision, contract or other matter.
- (d) The Board Committee shall satisfy itself that an appropriate policy regarding conflicts of interest exists and is followed by any Manager appointed by the IS. As a minimum, the Code of Ethics and Standards of Professional Conduct adopted by the CFA Institute shall be expected to apply to such Manager.

## **XII. MONITORING INVESTMENT PERFORMANCE**

12.1 The IS shall review on a regular basis, as needed, and at least once a year:

- (a) the current asset mix of the Fund;
- (b) statistics on the investment performance of the Fund and each Manager relative to the objectives of the Policy and of the Mandates.

12.2 The OIM shall meet at least once a year with each Manager to discuss investment performance, investment strategies, expected future performance and any changes in the Manager's organization, investment processes and professional staff.

12.3 The primary focus of performance assessment will normally be on a moving four-year basis, but performance over shorter time periods and the Manager's performance for other comparable accounts prior to appointment for the Fund may also be considered. The

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Manager will not necessarily be faulted for under-performing the agreed standard over short time periods.

### **XIII. POLICY REVIEW**

13.1 This Policy shall be reviewed at least annually by the Board Committee and the IS in order to determine whether any modifications are necessary or desirable. Such review shall consider whether there has been:

- (a) a fundamental change in the design of the Plans;
- (b) significant revisions to the expected long-term trade-off between risk and return on key asset classes;
- (c) a major change in the actuarial calculation basis, the membership/liability distribution, or the contribution/expense expectation in respect of the Plans;
- (d) a significant shift in the financial risk tolerance of the University;
- (e) shortcomings of the Policy that emerge in its practical operation;
- (f) significant recommendations by a Manager;
- (g) changes in applicable legislation.

13.2 A copy of this Policy and any amendments to it shall be delivered to the actuary for the Plans. A copy of this Policy, or relevant sections thereof, shall also be delivered to each Manager and to the Board, the Board Committee and the IS.



## **XIV. APPENDIX A PLAN OVERVIEWS**

### **A: PENSION PLAN FOR PROFESSIONAL STAFF OF UNIVERSITY OF GUELPH**

- A.1 The Plan provides defined pension benefits to Members. The benefit provisions of the defined benefit plan are described briefly as follows:
- (a) The pension is based on a formula utilizing a Member's final average earnings multiplied by total pensionable service, and includes post-retirement inflationary protection at a level of the Consumer Price Index for Canada (capped at 8.0%) minus 2.0% per annum.
  - (b) Member contributions are required.
  - (c) The University is required to contribute at a level sufficient to finance the defined benefits within the funding requirements of the Act and the limitations of the Income Tax Act (Canada). The amount of these contributions is calculated from time to time, based on the advice of the Actuary retained by the University for such purpose. University contributions, and pension expense for financial statement purposes, are dependent on many aspects of the Plan's actual experience, including the Fund's investment return.
- A.2 As of August 1, 2010, the date of the last completed valuation, the subject plan is 94% funded on a going-concern basis and 71% funded on a statutory solvency basis. On a wind-up basis the Plan is 67% funded. Approximately 52% of the going-concern liabilities are in respect of active members.

## B: PLAN OVERVIEW FOR PENSION PLAN FOR NON-PROFESSIONAL STAFF OF UNIVERSITY OF GUELPH

- B.1 The Plan provides defined pension benefits to Members. The benefit provisions of the defined benefit plan are described briefly as follows:
- (a) The pension is based on a formula utilizing a Member's final average earnings multiplied by total pensionable service, and includes post-retirement inflationary protection at a level of the Consumer Price Index for Canada (capped at 8.0%) minus 2.0% per annum.
  - (b) Member contributions are required.
  - (c) The University is required to contribute at a level sufficient to finance the defined benefits within the funding requirements of the Act and the limitations of the Income Tax Act (Canada). The amount of these contributions is calculated from time to time, based on the advice of the Actuary retained by the University for such purpose. University contributions, and pension expense for financial statement purposes, are dependent on many aspects of the Plan's actual experience, including the Fund's investment return.
- B.2 As of August 1, 2010, the date of the last completed valuation, the subject plan is fully funded on a going-concern basis, statutory solvency and wind-up basis. Approximately 28% of the going-concern liabilities are in respect of active members.

## C: PLAN OVERVIEW FOR RETIREMENT PLAN OF UNIVERSITY OF GUELPH

- C.1 The Plan provides defined pension benefits to Members. The benefit provisions of the defined benefit plan are described briefly as follows:
- (a) The pension is based on a formula utilizing a Member's final average earnings multiplied by total pensionable service, and includes post-retirement inflationary protection at a level of the Consumer Price Index for Canada (capped at 8.0%) minus 2.0% per annum.
  - (b) Member contributions are required.
  - (c) The University is required to contribute at a level sufficient to finance the defined benefits within the funding requirements of the Act and the limitations of the Income Tax Act (Canada). The amount of these contributions is calculated from time to time, based on the advice of the Actuary retained by the University for such purpose. University contributions, and pension expense for financial statement purposes, are dependent on many aspects of the Plan's actual experience, including the Fund's investment return.
- C.2 As of August 1, 2010, the date of the last completed valuation, the subject plan is 96% funded on a going-concern basis and 68% funded on a statutory solvency basis. On a wind-up basis the Plan is 64% funded. Approximately 61% of the going-concern liabilities are in respect of active members.