



Statement of Investment Policies and Procedures  
for the  
Investment of the Pension Fund  
of the  
University of Windsor

Approved by:

The Board of Governors

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## TABLE OF CONTENTS

I. PENSION FUND – DESCRIPTION AND OBJECTIVES .....	3
II. ALLOCATION OF RESPONSIBILITIES.....	4
III. INVESTMENT POLICIES AND PROCEDURES.....	6
A. Asset Mix Benchmark .....	6
B. Investment Manager(s): Objectives and Evaluation.....	7
C. Investment Constraints.....	10
D. Evaluation of Service Providers .....	13
E. Conflict of Interest Policy and Disclosure Requirements .....	13
F. Other Investment Issues .....	15
G. Capital Market Assumptions.....	16

## TABLES

Table 1: Asset Mix Benchmark (at market value) .....	6
Table 2: Investment Managers and Mandates (percentage of market value of Portfolio).....	7
Table 3: Asset Class Input Factors.....	16
Table 4: Value-Added Targets by Asset Class (before fees) .....	17

## APPENDICIES

Appendix A: PH&N Fund Mandates – Core Plus Bond Fund & Long Bond Pension Trust .....	18
Appendix B: FGP Fund Mandates - Universe Bond Fund & Long Term Bond Fund .....	18

## **I. PENSION FUND – DESCRIPTION AND OBJECTIVES**

The following definitions will be used in the document:

- The Employees' Retirement Plan and the Retirement Plan for Faculty and Certain Employees will be referred to as the "Pension Plans";
- The assets of the Employee' Retirement Plan and the Retirement Plan for the Faculty and Certain Employees will be referred to as the "Fund" which are invested together under a Master Trust Agreement for cost efficiencies;
- The investments made from the Fund will be referred to as the "Portfolio";
- The participants of the Pension Plans refer to active and retired Employees who have become entitled to participate in the Pension Plans in accordance with the provisions of the Pension Plans and continue to retain a right to benefits under the Pension Plans;
- The Investment Committee of the Board of Governors will be referred to as the "Committee";
- The Statement of Investment Policies and Procedures for the Investment of the Pension Funds will be referred to as the "SIPP";
- The firm(s) hired to invest the monies allocated to them by the Committee in keeping with the mandate provided by the Committee will be referred to as the "Investment Manager(s)";
- The firm(s) engaged to assist or provide advice in the management of the Pension Fund will be referred to as the "Consultant(s)";
- The firm(s) engaged to provide custodial service for the administration of the Pension Funds will be referred to as the "Custodian(s)"; and
- The University of Windsor will be referred to as the "University".

### **Description of the Pension Plans**

The University provides pension benefits to employees through a hybrid pension plan and a defined benefits plan.

The Faculty and Certain Employees Plan is a hybrid plan and the University and employees are required to make contributions based on a specified percentage of employee's earnings. The amount of pension benefits provided to employees is based upon the accumulation of contributions and investment earnings, subject to a guaranteed minimum benefit amount.

The Employees' Retirement Plan is a defined benefit plan and both the University and the employees equally share in the cost of the plan.

### **Objective of the Fund**

The primary objective of the Fund is to provide a secure source of assets to meet present and future obligations accumulated on behalf of the Pension Plans' participants. The Fund aims to provide a sufficient return to maintain contribution requirements at reasonable levels. The Fund should be prudently managed to assist in avoiding actuarial deficits and excessive volatility in annual rates of return.

## **I. PENSION FUND – DESCRIPTION AND OBJECTIVES (cont'd)**

### **Purpose of the SIPP**

The following SIPP has been prepared to provide the approved policies and procedures by which the Committee, the Investment Manager(s), the Consultant(s), and the Custodian(s) can achieve the objectives of the Fund as stated herein and to meet applicable pension legislation.

### **Operational Risk Factors**

The SIPP has been prepared after careful consideration of the investment risks faced by the University and the participants in the operation of the Pension Plans. An asset-liability study was conducted in 2016/2017 to quantify these risks and guide the management of the Plan's assets to achieve the objectives of the Plan. In the course of the study and related discussions, the following risks were identified and considered in the development of the SIPP:

- Volatility of expected contributions under current going concern and solvency funding regulations;
- Overall long term expected contributions;
- Impact of investment volatility on pension payments;
- Level of inflation protection that can be provided; and
- Long term expected rate of return in real and nominal terms

## **II. ALLOCATION OF RESPONSIBILITIES**

This section outlines the responsibilities of those charged with managing the Fund.

### ***The Committee will:***

- recommend to the Board of Governors policies for the investment of pension funds;
- recommend to the Board of Governors the selection and respective mandate(s) of the Investment Manager(s), the Consultant(s), and the Custodian(s) as required;
- review and evaluate, both quantitatively and qualitatively, the Investment Managers' performance at least semi-annually, including an evaluation of the rates of return achieved relative to objectives established, and monitor the degree of risk assumed in pursuing the objectives;
- review and evaluate, on a periodic basis, the Consultant(s) and the Custodians(s) performance as it relates to their respective responsibilities;
- conduct a review of the SIPP annually or more often if necessary;
- monitor the administration of the SIPP to ensure compliance and to recommend changes, not less frequently than annually;
- provide Consultant(s) and the Custodian(s) with relevant information as it relates to the administration of the Pension Plans (i.e. Pension Plan changes);
- evaluate alternative investment vehicles not currently allowed in this SIPP on a periodic basis; and where appropriate, make recommendations to the Board of Governors for implementation;
- coordinate the dissemination of information to the participants as required;
- delegate any responsibilities not specifically mentioned in the SIPP; and

## II. ALLOCATION OF RESPONSIBILITIES (cont'd)

### ***The Committee will (cont'd):***

review pension governance as appropriate.

### ***The Investment Manager(s) will:***

- manage the asset mix and select securities within their respective mandate, subject to applicable legislation and the constraints set out in this SIPP;
- calculate monthly rates of return on their portion of the Portfolio and be prepared to report on all periods requested;
- provide the Committee and the Custodian with information in a common format as requested;
- provide trade execution including foreign exchange in timely and cost effective manner to benefit the Fund;
- provide the Committee with quarterly reports on the Portfolio, including a transaction listing, exposure to emerging markets, as applicable, and a Certificate of Compliance with the SIPP in a format determined by the Committee;
- provide the Committee with information regarding any material changes concerning their firm, including but not limited to, its key personnel or any legal or regulatory proceedings that may impact their specific company; and
- present to the Committee performance reviews at least semi-annually, as well as its expectations for future returns and proposed investment strategies for the following 12 to 24 months.

### ***The Consultant(s) will:***

- participate with the Committee and the Investment Manager(s) in the preparation and subsequent annual reviews of the SIPP if requested;
- in the event of changes in legislation, plan design, membership, business practices and/or cash flow that may affect investment of the Fund, the Consultant(s) would provide recommendations to changes in the SIPP if required;
- participate with the Committee and the Investment Manager(s) in the annual review of expectations about future returns on asset classes and planned investment strategies if requested;
- support the Committee in its quantitative and qualitative review and ongoing monitoring of the Investment Manager(s)' performance if requested;
- provide the Committee with necessary statistical information to review the SIPP if requested;
- provide the Committee with information regarding any material changes concerning their firm, including but not limited to, its key personnel or any legal or regulatory proceedings that may impact their specific company;
- support the Committee in the search and selection of potential Investment Managers if requested, and
- apprise the Committee with information of any alternate investment vehicles and/or alternative investment strategies that should be considered and make recommendations regarding these alternatives, if requested.

## II. ALLOCATION OF RESPONSIBILITIES (cont'd)

### *The Custodian(s) will:*

- fulfill the regular duties required by law of a Custodian in accordance with this SIPP;
- administratively support any movement of assets and collection of investment income that occur from time to time in the Fund in an efficient and timely manner;
- provide the Committee with quarterly performance reports of all Portfolio assets and monthly reports of all transactions during the period;
- maintain an accurate historical record of all holdings in the Fund;
- provide effective management of operational risks associated with capture and settlement of trading activity;
- provide the Committee with information regarding any material changes concerning their firm, including but not limited to, its key personnel or any legal or regulatory proceedings that may impact their specific company;
- assist staff at the University to reconcile asset market values reported by the Custodian(s) to the market values reported by the Investment Manager(s) on a monthly basis; and
- provide other information as requested concerning the Fund.

## III. INVESTMENT POLICIES AND PROCEDURES

### A. Asset Mix Benchmark

An asset mix analysis conducted in 2016/17 considered historic and expected rates of return, correlation of expected returns and the volatility of expected returns of various asset classes and a review of current economic expectations. The analysis identified a long term asset mix that would balance the various goals of the Fund. Implementation of a new long term asset mix is implemented in multiple stages. The asset mix benchmark described in Table 1, with the minimum and maximum allocations subsequently adopted, represents the benchmark asset mix. A summary of Capital Market Assumptions used in the analysis is provided in Section G.

**Table 1: Asset Mix Benchmark (at market value)**

<b>Asset Class</b>	<b>Benchmark (%)</b>	<b>Minimum (%)</b>	<b>Maximum (%)</b>
Cash/Short Term	0	0	20
Fixed Income – Universe Bonds	10	5	20
Fixed Income – Long Bonds	30	20	40
Canadian Equities	30	15	40
Global Equities	30	15	40
Alternative Investments	0	0	10

## B. Investment Manager(s): Objectives and Evaluation

As part of the 2016/17 asset mix review, the Committee completed a review of the mandates of the Investment Managers. Table 2 outlines the Investment Managers and their respective mandates.

**Table 2: Investment Managers and Mandates (percentage of market value of Portfolio)**

	<b>Universe Bonds (%)</b>	<b>Long Term Bonds (%)</b>	<b>Canadian Equities (%)</b>	<b>Global Equities (%)</b>	<b>Total Allocation (%)</b>
Foyston, Gordon & Payne	5	15	15		35
Fidelity Investments Canada			15		15
Phillips, Hager & North	5	15			20
Baillie Gifford				15	15
Burgundy Asset Management				15	15
<b>TOTAL</b>	<b>10</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>100</b>

Each Investment Manager will be allocated funds in accordance with the asset mix identified in Table 2. The portfolio will be rebalanced among the managers in accordance with the Rebalancing Policy approved by the Committee.

The indices used in this SIPP were chosen as they are established indices in their particular market.

For an Investment Manager with an active mandate, it is expected that the annualized returns of the Investment Manager's portfolio and its component asset classes shall exceed the returns of the representative benchmark indexes plus the value-added targets identified below for that Investment Manager. Total portfolio value-added for a particular Investment Manager shall be the principal measure of performance; asset class value-added shall be a supplemental measure of performance.

The assets of the Fund are invested together to maximize returns while minimizing costs to the Fund. The overall fund is expected to generate a long term rate of return of the Consumer Price Index (CPI) plus 4.7%. The overall expected return in excess of the CPI can be separated into two components as follows:

The Asset Mix Benchmark identified in Table 1 above has an expected real return of 3.8% and an expected annual surplus volatility of 10.9%, based on the analysis outlined in section G; and

The total fund return shall earn an annualized return of .90% before fees above the returns that could have been earned by passively investing the benchmark asset mix in the indices shown in the table below.

## B. Investment Manager(s): Objectives and Evaluation (cont'd)

For the purpose of measuring rates of return for the Investment Manager(s), all returns shall be measured before investment management fees, but after transaction costs, over rolling four-year periods. All index returns shall be total returns. All foreign returns shall be calculated in Canadian dollars. The returns of all portfolio benchmarks utilizing more than one asset class shall be calculated assuming quarterly rebalancing.

In the benchmark tables below, the portfolio benchmark allocations and the minimum and maximum ranges are measured at market value.

### Foyston, Gordon & Payne

Asset Class	Benchmark Index	Min. (%)	Max. (%)	Portfolio Benchmark (%)	Value-Added Target (% / annum)
Cash / Short Term	FTSE TMX Canada 91-Day T-Bill	0	20	0	0.00
Universe Bonds	FTSE TMX Canada Universe Bond	11	17	14.25	0.25
Long Bonds	FTSE TMX Canada Long Bond	34	52	42.75	0.25
Canadian Equities	S&P/TSX Capped Total Return Index	30	49	43	1.00
Total *	Portfolio Benchmark			100	0.65

\*Includes value-added expectation for asset mix management.

### Fidelity Investments Canada

Asset Class Pooled Fund	Benchmark Index	Min. (%)	Max. (%)	Portfolio Benchmark (%)	Value Added Target (% / annum)
Cash / Short Term	FTSE TMX Canada 91-Day T-Bill	0	10	0	0
Canadian Equities	S&P/TSX Capped Total Return Index	90	100	100	1.00



## B. Investment Manager(s): Objectives and Evaluation (cont'd)

### Phillips, Hager & North

Asset Class	Benchmark Index	Min. (%)	Max. (%)	Portfolio Benchmark (%)	Value-Added Target (% / annum)
Universe Bonds	FTSE TMX Canada Universe Bond	22	28	25	0.25
Long Bonds	FTSE TMX Canada Long Bond	66	84	75	0.25
Total *	Portfolio Benchmark			100	0.25

\*Includes value-added expectation for duration management.

### Baillie Gifford

Asset Class Pooled Fund	Benchmark Index	Min. (%)	Max. (%)	Portfolio Benchmark (%)	Value-Added Target (% / annum)
Global Equities	MSCI All Country World (Gross Dividend)	100	100	100	1.50

### Burgundy Asset Management

Asset Class Pooled Fund	Benchmark Index	Min. (%)	Max. (%)	Portfolio Benchmark (%)	Value-Added Target (% / annum)
Global Equities	MSCI World	100	100	100	1.50

The Committee will cause the Fund to be rebalanced in accordance with the approved Rebalancing Policy for the Pension Funds from time to time in order to:

- be consistent with the Asset Mix Benchmark in Table 1 above; and
- maintain the necessary allocations between the Investment Manager(s) to provide the desired level of style offset.

### Evaluation of Investment Managers

The Committee will consider the following criteria as it evaluates Investment Manager(s) or their respective mandates. Such criteria include but are not limited to:

- failure to meet the value-added or tracking error performance targets set out in this section;
- significant turnover in the Investment Manager(s)' key personnel;

### **Evaluation of Investment Managers (cont'd)**

- Committee decision to alter investment management strategy;
- significant change in the ownership of the firm, which may result in operational changes in the organization;
- dissatisfaction with client servicing;
- failure to satisfy the responsibilities set out in Section II - Allocation of Responsibilities;
- failure to meet the investment constraints set out in Section III - Investment Policies and Procedures subsection (c) Investment Constraints (1-5 inclusive) or any other expectations contained in the SIPP;
- significant changes in the method used by the firm to manage the funds and select investments (change in style), and;
- any legal proceedings and /or regulatory investigations that may impact their specific company.

### **C. Investment Constraints**

#### **1. Investment Constraints**

The following are the acceptable investment vehicles for the Portfolio:

##### Cash/Short Term:

Cash on hand, demand deposits, treasury bills, commercial paper, short-term notes and bankers' acceptances, term deposits and guaranteed investment certificates of less than or equal to a one-year term.

##### Fixed Income:

Bonds, debentures or notes of Canadian or developed market foreign issuers whether denominated and payable in Canadian or a foreign currency. Preferred shares, mortgage-backed securities, maple bonds and asset-backed securities are also permitted. See fixed income limits section.

Investments in mortgage-backed securities will be managed in accordance with the underlying credit rating of the security and the limits contained in the Fixed Income limits below.

The Board of Governors has approved an exception to the above-mentioned investment constraints regarding fixed income to allow for investment into:

- 1) the PH&N Core Plus Bond Fund (Appendix A)
- 2) PH&N Long Bond Pension Trust Fund (Appendix A)
- 3) FGP Universe Bond Fund, and (Appendix B)
- 4) the FGP Long Term Bond Fund (Appendix B).

For the purpose of these investments, the investment constraints contained in the respective Investment Policy Statements apply.

##### Equity:

Common shares, limited liability income trusts, rights, warrants, American deposit receipts (including Section 144a ADRs and EDRs), Global deposit receipts, and securities convertible into common shares

## C. Investment Constraints (cont'd)

(fixed income credit limit outlined below applies). All equity investment categories may be Canadian or non-Canadian funds.

### Currency Hedging and Derivatives, Options, and Futures:

Currency hedging and the use of derivatives including options, and futures **may only be used with the prior written permission of the Committee, to be provided by the Chair of the Committee, if such hedging is done outside a pooled fund.**

### Private placements

Illiquid Private placements may only be purchased with prior written permission of the Committee, to be provided by the Chair of the Committee.

## 2. Fixed Income Limits

The Investment Managers may invest in the permitted investment categories listed above, subject to the following quality constraints:

- The cash/short-term and fixed income investments in the securities of one issuer will not exceed 10% of the total market value of all cash/short-term and fixed income investments held by the fund, unless the issuer is guaranteed by the Government of Canada or one of the provinces in Canada.
- The purchase of short-term investments issued by corporations and financial institutions is restricted to those with a minimum rating of R1 (low) or Single A by the Dominion Bond Rating Service, or its equivalent.
- The purchase of fixed income instruments is restricted to those which have a minimum rating of BBB as established by the Dominion Bond Rating Service, Standard & Poor's or Moody's. In the event of a split rating, the more conservative rating will be used. The market value of fixed income instruments with a BBB rating shall not exceed 10% of the market value of the cash, short-term and fixed income securities. The average credit quality of the Portfolio shall be maintained at no lower than an A rating. The credit quality of the fixed income instruments shall be reported quarterly to the Committee.
- The market value of cash and bond investments in Canadian securities issued in a foreign currency will not exceed 20% of the total market value of the fixed income investments.
- The market value of investments held by non-Canadian bond issuers will not exceed 20% of the total market value of the fixed income investments.

Refer to Section C, Part 1 for exceptions to the above-mentioned investment constraints regarding fixed income.

## 3. Equity Limits

The market value of a single Canadian equity investment, represented as a percentage of the Canadian Equity portfolio, shall not exceed 10% of the portion of the Canadian Equity or Global Equity Portfolio

## **C. Investment Constraints (cont'd)**

managed by a particular Investment Manager. An Investment Manager may request permission of the Committee to hold more than 10% of the Canadian Equity in a single equity. Such a request shall be in writing and shall specify reasons for the request. In appropriate circumstances, the Committee is authorized to allow the Investment Manager to hold up to 10% of the Total Canadian Equity Portfolio in a single equity investment. A maximum of 10% of the Canadian equity portfolio may be invested in small cap stocks where small cap is defined to be stocks with a market capitalization of less than \$500 million.

For global equities, an investment in the shares of any single company should not exceed 10% of the market value of all non-Canadian equities held in the portion of the Non Canadian Equity Portfolio managed by a particular Investment Manager. A maximum of 10% of the global equity portfolio may be invested in small cap stocks where small cap is defined to be stocks with a market capitalization of less than \$750 million. Higher exposure is permitted within pooled funds.

The mandate for Global Equities is the MSCI All Country World Total Return Index (Baillie Gifford) or the MSCI World Index (Burgundy Asset Management). On a tactical basis within stated investment policies, Investment Managers for global equities may invest in emerging markets. Such investments provide an opportunity for excess returns. Exposure to emerging markets should not exceed the following % of the market values of each of the global equity managers:

- 1) Baillie Gifford – 33%; and
- 2) Burgundy Asset Management – 15%.

### **4. Other Limits**

All investments shall be made in accordance with all applicable legislation and with Standard III C of the Institute of Chartered Financial Analysts. The standard requires that when an Investment Manager(s) undertakes an investment action for a specific portfolio or client, they consider its appropriateness and suitability for the portfolio or client. In such matters, the Investment Manager(s) shall take into account:

- the needs and circumstances of the client;
- the basic characteristics of the investment involved; and
- the characteristics of the total portfolio.

The Investment Manager(s) will use reasonable judgment to determine the applicable relevant factors.

### **5. Policies of the Investment Manager(s)**

In some circumstances the Investment Manager(s) may have published policies in place, which are more restrictive than those outlined in this document. Should the Investment Manager(s) wish to change existing policy, while respecting the University's policy, he/she shall inform the Committee through the Chair of the Committee in writing. The Investment Manager(s) shall specify the reason for the proposed change and the proposed time at which the change would be effected. The Investment Manager(s) shall notify the Committee of any proposed changes. Unless the Chair of the Committee registers the Committee's concern within a reasonable mutually agreed period, the Investment Manager(s) will be authorized to effect the change.

## **C. Investment Constraints (cont'd)**

To the extent the Fund invests in an Investment Manager's pooled funds, the foregoing investment constraints, and any other provisions of the SIPP that may be affected (including the proxy voting guidelines), shall not apply. The Investment Manager(s) shall be governed by the Investment Manager's own investment policy for the applicable pooled funds. The Investment Manager(s) shall inform the Chair of the Committee when and how the guidelines of the pooled funds differ from the guidelines of the SIPP and provide a minimum of 45 days advance notice of any changes to their pooled fund policies.

### **6. Environmental, Social, and Governance Factors**

Environmental, Social, and Governance (ESG) factors can affect the performance of companies and other entities in which the plan invests, and may therefore be considered where relevant and material to the assessment of investment value and mitigation of investment risk.

The plan administrator has delegated to the investment portfolio managers full discretion in evaluating ESG risks and opportunities, alongside other considerations, in regards to the Pension Plans' investments.

## **D. Evaluation of Service Providers**

The Committee will consider the following criteria as it evaluates Consultant(s) and Custodian(s). Such criteria include but are not limited to:

- significant turnover in the firm(s) key personnel;
- significant change in the ownership of the firm, which may result in operational changes in the organization;
- dissatisfaction with client servicing;
- failure to satisfy the responsibilities set out in Section II - Allocation of Responsibilities; and any legal proceedings and/or regulatory investigations that may materially impact their specific company. Evaluation of Investment Managers is detailed in Section III (B).

## **E. Conflict of Interest Policy and Disclosure Requirements**

These requirements apply to:

- the Committee;
- the Board of Governors;
- the Investment Manager(s);
- the Custodian;
- the Consultant(s); and
- any individual involved in the administration or decision-making process relating to the investment of the Fund.

## **E. Conflict of Interest Policy and Disclosure Requirements (cont'd)**

### **1. Conflict of Interest**

Any person to whom these requirements apply must disclose any direct or indirect association or material interest or involvement in aspects related to their role with regard to the Fund that would result in any potential or actual conflict of interest.

Without limiting the generality of the foregoing, a conflict of interest arises when one of the individuals governed by the guidelines receives a material benefit from any asset held in the Portfolio, or a benefit from any actual or proposed contracts which are or will be included in the *Portfolio*, other than entitlements that accrue by virtue of being a member of the Pension Plans or arising out of other normal business relationships.

### **2. Procedure on Disclosure**

Any persons identified herein must disclose the nature and extent of their conflict to the Committee in writing, or request to have entered in the minutes of the meeting of the Committee at the earliest of:

- a) upon first becoming aware of the conflict;
- b) at the first meeting in which the matter at issue is discussed;
- c) at the first meeting and every subsequent meeting in which they know or ought to have known that they have an interest in the matter to be discussed.

The Committee will record every disclosure in the minutes of the relevant meeting.

For the purposes of b. above, the disclosure must be made verbally if knowledge of the conflict arises in the course of a discussion at the meeting.

If the party cannot exercise voting power on decisions affecting the Fund, they may elect not to participate in the activities related to the issue in conflict, or they may continue their activities with the approval of the Committee but shall not be present at the time of decision-making.

If the party disclosing the conflict does have voting power, s/he may remain at the meeting and participate in a discussion of the matter after which s/he shall withdraw from the meeting at the request of the Chair. During the absence of such person, the Committee will proceed with the discussion and reach its conclusion after which said person may return to the meeting. In this situation they may elect not to participate with respect to the issue in conflict, but s/he must not participate without the unanimous approval of the other members. The notification made by them shall be considered a continuing disclosure on that issue, subject to any future notification by him/her, for the purpose of the obligations outlined by these requirements.

Should any person fail to disclose his or her conflict and his or her conflict is known to the Chair or any member of the Committee, he or she shall forthwith be requested by the Chair to declare such interest.

No purchase by an Investment Manager is to be made of its own securities. Purchase of any related company, or companies in which the Investment Manager may have a conflict of interest, may not be made without prior approval by the Committee.

## **E. Conflict of Interest Policy and Disclosure Requirements (cont'd)**

### **3. Related Party Transactions**

For the purpose of this section, a “related party” and a “transaction” in respect of the Plan have the meanings given to such terms in Schedule III of the Pension Benefits Standards Regulation, 1985 (Canada). The following related party transactions are permitted for the Plan:

- any transaction that is required for the operation or administration of the Plan, the terms and conditions of which are not less favourable to the Plan than the market terms and conditions;
- any transaction the value of which is normal (that is, less than 3% of the market value of the Fund) or which is immaterial to the Plan (that is, the terms and conditions of the transaction are not less favourable to the Plan than the market terms and conditions); two or more transactions with the same related party shall be considered a single transaction; and
- any purchase of securities of a related party, provided that those securities are acquired at public exchange recognized under the Pension Benefits Standards Act and Regulations, 1985 (Canada).

## **F. Other Investment Issues**

### **1. Delegation of Voting Rights**

The Investment Manager is delegated the responsibility of exercising all voting rights acquired through the Portfolio’s investments. Subject to any securities that may be on loan in accordance with Section F3, the Investment Manager will exercise all acquired voting rights with the intent of fulfilling the investment objectives and policies as outlined in this SIPP. Should the Investment Manager vote against management of a particular investment, they will notify the Committee.

### **2. Valuation of Investments**

It is expected that all the securities held by the Portfolio will have an active market. Their valuation, therefore, will be based on their market value. If a security held by the Portfolio does not have an active market, it will be valued at least annually by the Investment Manager with the basis for such valuation made available to the Committee.

### **3. Lending of Cash and Securities**

The Portfolio may not lend cash for any purpose. The purpose of the Fund is to make investments permitted in the SIPP.

The Portfolio may enter into securities loan agreements providing the loaned investments are secured by cash or highly liquid investments having a market value of at least 102% of the loan, and that this 102% level of security is maintained at least daily.

## G. Capital Market Assumptions

The capital market assumptions were used in the development of the benchmark. These assumptions, contained in Table 3, are intended to represent reasonable expectations for the next 20 years.

The development of asset class assumptions incorporates a wide range of considerations including:

- Historical return, risk and correlation statistics of broad indices;
- Estimation of expected future bond yields and returns, based on:
  - Convergence to the equilibrium yield curve (EYC), with
  - 10-year maturity of the EYC set to 90% of assumed long-term nominal GDP growth;
  - Remainder of the EYC established using long-term average term premia for other maturities;
- Estimation of component returns to develop total equity returns, using as starting points such items as:
  - Current level of equity earnings yield;
  - Inflation expectations (based on the inflation target set by the central bank);
  - Expected economic growth;
- Expected relative relationships between asset classes;
- Some forward-looking judgment.

The use of different historical periods, different indices and/or different assumptions about the distribution of returns will produce different estimates of return and risk characteristics for the benchmark asset mix.

**Table 3: Asset Class Input Factors**

	Cash	Overall universe	Overall long-term bonds	Real return bonds	Ultra-long Bonds (Strips)	Can equity (large cap.)	Global equity (large cap.)	Global low vol equity	Global equity (small cap.)	Emerging equity	Real estate	Infra-structure	Hedge funds
Expected Return <sup>1</sup>	2.0%	3.2%	3.2%	2.6%	2.5%	6.6%	6.6%	6.0%	7.2%	8.5%	5.4%	6.2%	5.1%
Risk <sup>2</sup>	1.5%	5.4%	8.5%	7.5%	17.0%	19.5%	16.1%	13.0%	17.8%	25.0%	13.0%	13.0%	11.0%
Correlations													
Cash	1.00												
Overall universe	0.00	1.00											
Overall long-term bonds	-0.15	0.95	1.00										
Real return bonds	-0.19	0.66	0.70	1.00									
Ultra-long Bonds (Strips)	-0.10	0.89	0.97	0.66	1.00								
Can equity (large cap.)	-0.19	-0.30	-0.17	0.22	-0.16	1.00							
Global equity (large cap.)	-0.32	-0.16	-0.03	0.01	0.00	0.70	1.00						
Global low vol equity	-0.27	0.19	0.29	0.08	0.29	0.35	0.79	1.00					
Global equity (small cap.)	-0.34	-0.21	-0.10	-0.04	-0.09	0.71	0.95	0.74	1.00				
Emerging equity	-0.12	-0.10	0.00	0.21	-0.02	0.86	0.76	0.43	0.72	1.00			
Real estate	0.27	-0.23	-0.11	-0.09	-0.03	0.21	0.25	0.19	0.20	0.21	1.00		
Infrastructure	-0.18	0.00	0.10	0.38	0.15	0.62	0.64	0.53	0.56	0.64	0.26	1.00	
Hedge funds	-0.11	0.18	0.19	0.04	0.19	-0.03	0.33	0.49	0.28	0.13	0.15	0.35	1.00

<sup>1</sup> Expected returns include the expected level of inflation but do not include allowance for manager value added. Returns are gross i.e. do not reflect the expenses of investment management.

<sup>2</sup> Risk is measured as the annual standard deviation of returns of the asset class.



## G. Capital Market Assumptions (cont'd)

Based on the 2016/17 analysis, which used the foregoing inputs, the University's benchmark has an expected real return of 3.8%, plus expected manager value added of .9% to result in an overall expected real return of 4.7%. The expected annual volatility of return is 9.9% and the expected annual surplus volatility is 10.9%.

The asset classes reported in Table 3 are defined as follows:

Canadian T-bills:	FTSE TMX Canada 91-Day T-Bill Total Return Index
Canadian Universe Bonds:	FTSE TMX Canada Universe Bond Total Return Index
Canadian Stocks:	S&P/TSX Capped Total Return Index
Global Equities – Baillie Gifford	Morgan Stanley Capital International All Country World Total Return Index in Canadian Dollars (Gross Dividends)
Global Equities – Burgundy Asset Management	Morgan Stanley Capital International World Index

### Basis of Active Management Objectives

The following table was used to establish the Active Management Objectives of the Portfolio:

**Table 4: Value-Added Targets by Asset Class (before fees)**

Asset Class	Premium (Base Points)	Benchmark Index
Cash	0	FTSE TMX Canada 91-Day T-Bill Total Return Index
Fixed Income – Universe Bonds	25	FTSE TMX Canada Universe Bond Total Return Index
Fixed Income – Long Bonds	25	FTSE TMX Canada Long Bond Total Return Index
Canadian Equities	100	S&P/TSX Capped Total Return Index
Global Equities	150	MSCI All Country World Total Return Index (Gross of Dividends) or MSCI World Index
TOTAL*	90	

\*Based on the benchmark asset mix and on the allocation of active and passive mandates.

## **Appendices**

Appendix A: PH&N Fund Mandates - Core Plus Bond Fund & Long Bond Pension Trust Fund

Appendix B: FGP Fund Mandates - Universe Bond Fund & Long Term Bond Fund

Mandate Profile:  
**PH&N Core Plus Bond Fund**

**PHILLIPS, HAGER & NORTH**  
Investment Management®

<i>Fund type</i>	Canadian fixed income		
<i>Date of inception</i>	Series O - June 30, 2013		
<i>Manager &amp; principal portfolio adviser</i>	Phillips, Hager & North Investment Management		
<i>Benchmark</i>	FTSE TMX Canada Universe Bond Index		
<i>Investment objectives</i>	The fund seeks to provide relatively high yields and stability of capital by investing primarily in a diversified portfolio of fixed income securities issued by Canadian governments and corporations and similar securities outside of Canada. The fund targets to outperform the performance benchmark by 125 basis points over a market cycle.		
<i>Strategies &amp; approach</i>	To achieve its investment objective, the fund will utilize “core” fixed income instruments found in the FTSE TMX Canada Universe Bond Index, as well as contain a significant allocation to non-benchmark securities, including mortgages, international and high yield bonds.		
<i>Asset mix policy</i>	Target ranges:		
	Cash and equivalents	0%	- 25%
	Fixed income investments	75%	- 100%
<i>Investment guidelines</i>	The fund complies with investment restrictions set out in the federal <i>Pension Benefit Standards Act</i> , for registered Canadian pension plans.		
Permissible investments	<ul style="list-style-type: none"> <li>▪ Canadian, U.S. and foreign government and corporate fixed income securities;</li> <li>▪ Asset-backed securities</li> <li>▪ Infrastructure debt</li> <li>▪ First mortgages</li> <li>▪ Derivatives, such as, but not limited to, swaps, options, credit-linked notes, futures, and forwards</li> <li>▪ Convertible bonds, loans</li> </ul>		
Sector concentration		<u>Maximum</u>	
	Canadian Federal and Provincial Government Debt		100%
	Cash		25%
	Investment Grade Corporates		80%
	Mortgages		20%
	High Yield Corporate Bonds		20%
	Emerging Market Debt		20%
	Convertible Bonds and Bonds with Warrants		5%
	Common Equity, Preferred Shares, REITs and Income Trusts		5%
	Non-Canadian securities		30%
	Non-hedged currency exposure		15%
Single-issuer limits	Government of Canada		100%
	Provincials		40%
	U.S. Treasuries		10%
	Foreign Sovereigns (non-U.S.)/Agencies/Supranationals		
	▪ AA- and above		10%
	▪ A+ and below follow corporate credit maximums		
	Municipals and Corporates		
	▪ BBB- and above		5%
	▪ B- to BB+		2%
	▪ CCC+ and below		1%
	Guaranteed Mortgages		2%
	Conventional Mortgages		1%

*Investment guidelines continued*

Credit quality	BBB and above 100% BB+ and below 25% CCC+ and below 5% Unrated 5%
Ratings are determined by reference to a recognized agency, if available, and determined internally for securities that are not rated by a recognized agency. Ratings apply at the time of purchase.	
Interest rates	FTSE TMX Canada Universe Bond Index +/- 2 year duration.
Key risks	The principal risks are associated with interest rate, credit, liquidity, currency and foreign markets. The fund is suitable for investors with moderate tolerance for risk. Please see the fund's offering document for details.
Currency hedging	The fund will take on foreign exchange exposure through investments in international bonds, as a portfolio risk management tool or tactical lever where appropriate. The fund's maximum non-hedged currency exposure is 15%.
Securities lending	The fund may enter into securities-lending, repurchase and reverse-repurchase transactions to generate additional income and/or as a short-term cash-management tool.
Derivatives	Derivatives counterparty credit risk: counterparties must maintain a minimum "A" rating. In the case of underlying BlueBay Funds, the same minimum rating applies, unless otherwise agreed to in writing by RBC GAM. The fund may use derivatives, such as, but not limited to, swaps, options, credit-linked notes, futures, and forwards for: <ul style="list-style-type: none"> <li>■ hedging purposes, including to protect against fluctuations in the value of foreign currency relative to the Canadian dollar, and to offset exposures to interest rates; and</li> <li>■ non-hedging purposes, including as a substitute for direct investment</li> </ul>
Distributions	A distribution of net income is made in March, June and September. The remaining net income and net realized capital gains are distributed in December. We automatically reinvest all distributions in additional units of the fund unless explicitly instructed to distribute in cash.
Custodian & Trustee	RBC Investor Services Trust

**Disclosures**

The full name of this fund is "Phillips, Hager & North Core Plus Bond Fund".

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Investment objectives may only be changed as permitted under the Master Trust Agreement for the fund. Investment guidelines and strategies of the fund must always be consistent with the fund's investment objectives and may be adjusted over time without prior notice.

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**Global Asset  
Management**

Mandate Profile:  
**PH&N Long Bond Pension Trust**

**PHILLIPS, HAGER & NORTH**  
Investment Management®

Fund type	Canadian long term fixed income			
Date of inception	Series O - April 30, 1998			
Manager & principal portfolio adviser	Phillips, Hager & North Investment Management			
Benchmark	FTSE TMX Canada Long Term Overall Bond Index			
Investment objectives	The trust seeks to provide high level of total return through exposure to a well-diversified portfolio of longer term fixed income securities issued primarily by Canadian governments and corporations.			
Strategies & approach	To achieve the trust's investment objectives, we invest primarily in fixed income securities issued primarily by Canadian governments and corporations, as well as mortgages.			
Asset mix policy	Target ranges: Cash and equivalents0% - 25% Fixed income investments75% - 100%			
Investment guidelines	The trust complies with investment restrictions set out in the federal Pension Benefit Standards Act, for registered Canadian pension plans.			
Permissible investments	<ul style="list-style-type: none"><li>Canadian, foreign government and corporate fixed income securities</li><li>Asset-backed securities</li><li>Infrastructure debt</li><li>First mortgages</li><li>Derivatives, such as, but not limited to, swaps, options, futures, and forwards</li></ul>			
Sector concentration				Maximum
	Canadian Federal & Provincial Government			100%
	Corporate			50%
	Foreign securities			30%
	Non-Canadian dollar securities			20%
	Non-hedged currency exposure			10%
	Mortgages			10%
	Illiquid assets			10%
	Real return bonds & treasury inflation protected securities			10%
Single-issuer limits	Government of Canada			100%
	Provincials			40%
	Foreign Sovereigns/Agencies/Supranationals			10%
	Municipals and corporates			
	<ul style="list-style-type: none"><li>A- or higher</li></ul>			5%
	<ul style="list-style-type: none"><li>BBB- to BBB+</li></ul>			2%
	<ul style="list-style-type: none"><li>BB+ and below</li></ul>			0%
	Mortgages			2%
Credit quality	A- and above			100%
	BBB- to BBB+			20%
	BB+ and below			0%
Interest rate guideline	FTSE TMX Canada Long Term Overall Bond Index +/- 1 year duration.			
	Ratings are determined by reference to a recognized agency and apply at the time of purchase.			
	All cash equivalents shall be rated R-1 (low) or better (using DBRS or its equivalent).			

*Investment guidelines continued*

	Investments in bank deposits and short-term government and commercial paper shall be limited to maturities of one year or less.
<i>Key risks</i>	The principal risks are associated with derivatives, interest rate and credit risks, and the trust is suitable for investors who have a moderate tolerance for risk.
<i>Currency hedging</i>	Unless there is a compelling foreign exchange return opportunity, the trust will hedge all foreign currency exposure.
<i>Derivatives</i>	<p>The trust may use derivatives, such as swaps, options, futures and forward contracts:</p> <ul style="list-style-type: none"> <li>▪ for hedging purposes, including to protect against fluctuations in the value of foreign currency relative to the Canadian dollar, and from changes in interest rate and market indices; and to expand the investment opportunities available and/or to achieve an intended term structure object</li> <li>▪ for non-hedging purposes, including as a substitute for direct investment, to generate income or extend or reduce the duration of fixed-income investments.</li> </ul>
<i>Securities lending</i>	The trust may, with six months prior notice to unitholders, enter into securities lending, repurchase and reverse repurchase transactions, as permitted by the Canadian securities regulatory authorities, to generate additional income and/or as a short-term cash management tool.
<i>Distributions</i>	<p>A distribution of net income is made in March, June and September. The remaining net income and net realized capital gains are distributed in December.</p> <p>We automatically reinvest all distributions in additional units of the trust unless explicitly instructed to distribute in cash.</p>
<i>Custodian &amp; Trustee</i>	RBC Investor Services Trust

**Disclosures**

*The full name of this fund is “Phillips, Hager & North Long Bond Pension Trust”.*

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*Investment objectives may only be changed as permitted under the Master Trust Agreement for the fund. Investment guidelines and strategies of the fund must always be consistent with the fund's investment objectives and may be adjusted over time without prior notice. Phillips Hager & North Investment Management is a division of RBC Global Asset Management Inc. (RBC GAM Inc.), an indirect, wholly-owned subsidiary of Royal Bank of Canada. RBC GAM Inc. is the manager and principal portfolio adviser of the Phillips, Hager & North investment funds.*

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# FGP UNIVERSE BOND FUND

Investment Policy Statement | April 1, 2015



## INVESTMENT OBJECTIVE

The FGP Universe Bond Fund (the “Fund”) aims to generate an attractive total investment return through income and long-term capital appreciation primarily through investments in debt obligations and other evidences of indebtedness of Canadian, U.S., and international issuers. To achieve this, the Fund will invest in a diversified mix of fixed income securities.

## INVESTMENT STRATEGY

FGP utilizes a multi-strategy approach, including: interest rate anticipation, credit sector/security selection, and yield-enhancing strategies in the context of a long-term, value-oriented approach. The portfolio managers, supported by FGP’s research team, are responsible for security selection and portfolio construction within FGP’s diversification and risk control guidelines.

## PERFORMANCE OBJECTIVE

The Fund’s objective is to exceed the return of its Performance Benchmark over five-year periods.

### Performance Benchmark

FTSE TMX Canada Universe Bond Index.

## PERMISSIBLE INVESTMENTS

Eligible fixed income investments include bonds, debentures, notes, coupons, residuals and other evidence of indebtedness of Canadian or foreign issuers, whether denominated and payable in Canadian dollars or a foreign currency, mortgage-backed securities, asset-backed securities, floating rate notes, private placements, real return bonds, extendible/retractable bonds, and other fixed income oriented securities. Private placements over \$100 million in issue size may be included in the Fund as long as the securities have received an investment grade rating from a recognized credit rating agency, and a liquid market for the securities is maintained by a recognized broker/dealer.

Eligible cash and money market investments include cash and demand deposits, short term debt securities of Canadian government(s) and corporate issuers including treasury bills issued by the Federal, Provincial or Territorial governments or any of their agencies; bankers’ acceptances, term deposits, commercial paper, the FGP Short Term Investment Fund, and any other evidences of indebtedness with terms to maturity of less than one year.

The Fund may use derivatives, such as currency forwards as permitted by Canadian securities laws, to hedge against potential currency fluctuations.

### Diversification and Risk Control Guidelines

The Fund has established guidelines to ensure the investments of the Fund are diversified. The assets of the Fund are invested in a prudent fashion, with securities selected for their overall contribution to the investment objective of the Fund.

**Security Level Guidelines:** The number of direct and indirect holdings will typically range from 25 to 50 fixed income investments.



# FGP UNIVERSE BOND FUND

Investment Policy Statement | April 1, 2015

Investment limits for fixed income securities as a percentage of the portfolio are as follows:

TYPE OF ISSUE	GUIDELINES
Total Federal and Federally-Guaranteed Issues	Minimum: Benchmark Index weight - 20%
Total Provincial, Provincially-Guaranteed and Municipal Issues	Range: Benchmark Index weight +/- 20%
Total Corporate Issues	Maximum: Benchmark Index weight + 20%
Inflation Linked Issues	Maximum 15%
Foreign Currency Issues and Foreign Issuers	Maximum 20%
Foreign Currency Issues	Maximum 10%
Foreign Issuers – C\$ pay	Maximum 20%
Corporate Issuers rated 'BBB'	Maximum: Benchmark Index weight + 15%
Single Corporate Issuer rated 'AA' or higher	Maximum 4%
Single Corporate Issuer rated 'A'	Maximum 3%
Single Corporate issuer rated 'BBB'	Maximum 2%

**Cash Level Guidelines:** The Fund may have maximum cash or money market holdings of 5%.

**Credit Quality Guidelines:** The minimum credit quality for a fixed income investment is 'BBB' as determined by a recognized credit rating agency or as assessed by FGP portfolio managers or analysts. The minimum overall credit quality for the fixed income portfolio is 'A', and the minimum credit quality for any money market investments is 'R1' or 'A'.

**Duration/Term to Maturity Guidelines:** The modified duration range for the fixed income portfolio is plus or minus two years around the duration of the FTSE TMX Canada Universe Bond Index.

## FUND FACTS

Fund Code	1032
Fund Class	A
Performance Inception Date	TBD
Taxable Investors (Non-Registered Plans)	Eligible
Non-Taxable Investors (Registered Plans)	Eligible
Valuation Frequency	Daily
Distribution Frequency	Income – Monthly Capital Gains – Minimum Annually
Expense Ratio *	(See note)
Trustee	CIBC Mellon Trust Co.
Custodian	CIBC Mellon Trust Co.
Auditor	Deloitte LLP

The units of the Fund are issued and redeemed at the applicable net asset value per unit. The net asset value is determined daily at the close of each business day.

Net investment income and net realized gains on investments are paid to unitholders on a periodic basis as indicated. Distributions are made to unitholders of record at the close of business on the second last day of the month, pro rata to their holdings in the Fund as of that date.

Temporary variances from these investment policy guidelines will generally be corrected within 90 days.

\*The Fund incurs direct expenses for services provided by the Trustee, Custodian, Registrar and Auditor. FGP does not charge management fees directly to the Fund. The intent is for the Fund's annual expense ratio not to exceed 0.10%. FGP will directly cover costs to ensure this expense ratio is not exceeded.



# FGP LONG TERM BOND FUND

Investment Policy Statement | April 1, 2015



## INVESTMENT OBJECTIVE

The FGP Long Term Bond Fund (the “Fund”) aims to generate an attractive total investment return through income and long-term capital appreciation primarily through investments in debt obligations and other evidences of indebtedness of Canadian, U.S., and international issuers. To achieve this, the Fund will invest in a diversified mix of long term fixed income securities.

## INVESTMENT STRATEGY

FGP utilizes a multi-strategy approach, including: interest rate anticipation, credit sector/security selection, and yield-enhancing strategies in the context of a long-term, value-oriented approach. The portfolio managers, supported by FGP’s research team, are responsible for security selection and portfolio construction within FGP’s diversification and risk control guidelines.

## PERFORMANCE OBJECTIVE

The Fund’s objective is to exceed the return of its Performance Benchmark over five-year periods.

### Performance Benchmark

FTSE TMX Canada Long Term Overall Bond Index.

## PERMISSIBLE INVESTMENTS

Eligible fixed income investments include bonds, debentures, notes, coupons, residuals and other evidence of indebtedness of Canadian or foreign issuers, payable in Canadian dollars, mortgage-backed securities, asset-backed securities, floating rate notes, private placements, real return bonds, extendible/retractable bonds, and other fixed income oriented securities. Private placements over \$100 million in issue size may be included in the Fund as long as the securities have received an investment grade rating from a recognized credit rating agency and a liquid market for the securities is maintained by a recognized broker/dealer.

Eligible cash and money market investments include cash and demand deposits, short term debt securities of Canadian government(s) and corporate issuers including treasury bills issued by the Federal, Provincial or Territorial governments or any of their agencies; bankers’ acceptances, term deposits, commercial paper, the FGP Short Term Investment Fund, and any other evidences of indebtedness with terms to maturity of less than one year.

The Fund may use derivatives, such as currency forwards as permitted by Canadian securities laws, to hedge against potential currency fluctuations.

### Diversification and Risk Control Guidelines

The Fund has established guidelines to ensure the investments of the Fund are diversified. The assets of the Fund are invested in a prudent fashion, with securities selected for their overall contribution to the investment objective of the Fund.

**Security Level Guidelines:** The number of holdings will typically range from 25 to 50 fixed income investments.

# FGP LONG TERM BOND FUND

Investment Policy Statement | April 1, 2015

Investment limits for fixed income securities as a percentage of the portfolio are as follows:

TYPE OF ISSUE	GUIDELINES
Total Federal and Federally-Guaranteed Issues	Minimum: Benchmark Index weight - 20%
Total Provincial, Provincially-Guaranteed and Municipal Issues	Range: Benchmark Index weight +/- 20%
Total Corporate Issues	Maximum: Benchmark Index weight + 20%
Inflation Linked Issues	Maximum 15%
Foreign Currency Issues and Foreign Issuers	Maximum 20%
Foreign Currency Issues	Maximum 10%
Foreign Issuers – C\$ pay	Maximum 20%
Corporate Issuers rated 'BBB'	Maximum: Benchmark Index weight + 10%
Single Provincial or Territorial Issuer rated 'AA' or higher	Maximum 25%
Single Corporate Issuer rated 'AA' or higher	Maximum 4%
Single Provincial or Territorial Issuer rated 'A'	Maximum 15%
Single Municipal Issuer rated 'A'	Maximum 5%
Single Corporate Issuer rated 'A'	Maximum 3%
Single Provincial or Territorial Issuer rated 'BBB'	Maximum 5%
Single Corporate issuer rated 'BBB'	Maximum 2%

**Cash Level Guidelines:** The Fund may have maximum cash or money market holdings of 5%.

**Credit Quality Guidelines:** The minimum credit quality for a fixed income investment is 'BBB' as determined by a recognized credit rating agency or as assessed by FGP portfolio managers or analysts. The minimum overall credit quality for the fixed-income portfolio is 'A', and the minimum credit quality for any short term investments is 'R1' or 'A'.

**Duration/Term to Maturity Guidelines:** The modified duration range for the fixed income portfolio is plus or minus two years around the duration of the FTSE TMX Canada Long Term Overall Bond Index.

## FUND FACTS

Fund Code	1029
Fund Class	A
Performance Inception Date	January 31, 2014
Taxable Investors (Non-Registered Plans)	Eligible
Non-Taxable Investors (Registered Plans)	Eligible
Valuation Frequency	Daily
Distribution Frequency	Income – Monthly Capital Gains – Minimum Annually
Expense Ratio *	(See note)
Trustee	CIBC Mellon Trust Co.
Custodian	CIBC Mellon Trust Co.
Auditor	Deloitte LLP

The units of the Fund are issued and redeemed at the applicable net asset value per unit. The net asset value is determined daily at the close of each business day.

Net investment income and net realized gains on investments are paid to unitholders on a periodic basis as indicated. Distributions are made to unitholders of record at the close of business on the second last day of the month, pro rata to their holdings in the Fund as of that date.

Temporary variances from these investment policy guidelines will generally be corrected within 90 days.

\* The Fund incurs direct expenses for services provided by the Trustee, Custodian, Registrar and Auditor. The intent is for the Fund's annual expense ratio not to exceed 0.10%. For 2014, the expense ratio was 0.06% with all expenses covered directly by FGP.