

TEACHERS'  
PENSION  
PLAN

STATEMENT OF  
INVESTMENT  
POLICIES AND  
PROCEDURES

As Amended: July 1, 2021

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## Section 1: Overview / Purpose

- 1.1 The purposes of this Statement of Investment Policies and Procedures (the "Statement" or "SIPP") are:
- (i) To ensure compliance with the British Columbia *Pension Benefits Standards Act*, as amended from time to time or replaced ("PBSA"), the *Pension Benefits Standards Regulation* ("PBSR"), which requires a written statement of investment policies and procedures, as well as the *Income Tax Act*.
  - (ii) To set investment guidelines and direction for the British Columbia Investment Management Corporation ("BCI") that are consistent with the investment policies and objectives established by the Teachers' Pension Board of Trustees (the "Board") for the Teachers' Pension Plan (the "Plan").
  - (iii) To provide objectives, policies and principles for the management of the assets of the Teachers' Pension Fund (the "Fund").
  - (iv) To set forth investment performance objectives and other criteria to be used by the Board to review and evaluate the investment results of the Fund.
- 1.2 The Plan is continued and maintained under the Teachers' Pension Plan Joint Trust Agreement ("JTA") and the Teachers' Pension Plan Rules ("the Rules"). The purpose of the Plan is to provide pension benefits to plan members in accordance with the JTA and the Rules.
- 1.3 The Board is responsible for the administration of the Plan and of this Statement. The members of the Board are trustees of the Plan and the Fund.
- 1.4 The Board is responsible for ensuring that all investments of the Fund are managed prudently and in accordance with the PBSA, the PBSR, the *Income Tax Act* and this Statement.
- 1.5 The Board has adopted this Statement after considering the benefit obligations of the Plan and the risk profile that the Board believes to be appropriate and the maturity of the Plan.
- Due to the maturity of the Plan, the Board is more risk averse than it would be for a less mature plan.
- 1.6 The Board will review and confirm or amend this Statement at least annually, but it can be amended at any time by a Board resolution.

- 1.7 BCI is required to have more detailed investment policies and procedures that detail their specific mandate, and they will acknowledge that these policies and procedures conform to this Statement.

## **Section 2: Plan Structure and Funding / Plan Description**

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

Normal retirement age is 65 for all members.

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

- a) 2% of the member's highest average salary (5-year average) multiplied by the number of years of pensionable service accrued before January 1, 1966.
- b) 1.3% of the lesser of:
  - i) the member's highest average salary, and
  - ii) 1/12 of the YMPE<sup>1</sup> for the calendar year immediately before the effective date of the pension,  
  
multiplied by the number of years of pensionable service accrued on and after January 1, 1966 not exceeding 35 years, and
- c) 2% of the excess of the member's highest average salary over the amount determined under paragraph (b) (ii), multiplied by the number of years of pensionable service accrued on and after January 1, 1966 not exceeding 35 years.

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<sup>1</sup> YMPE = Year's Maximum Pensionable Earnings, the maximum earnings on which Canada Pension Plan contributions are made.

- 2.2 The Plan is not subject to solvency tests but is required to meet the going concern funding requirements of the PBSR.

The financial statistics indicate that the Plan is mature.

- 2.3 The Rules establish three accounts for the Plan: a Basic Account, an Inflation Adjustment Account, and a Supplemental Benefits Account.

2.3.1 The "Basic Account" provides the non-indexed portion of the pension, based on the provisions in the JTA and the Rules.

2.3.2 The Inflation Adjustment Account ("IAA") was established in 1982 and provides cost of living increases for retired members. The IAA is funded through a portion of ongoing contributions from employers and members, from investment income earned on its own assets, and from excess interest earnings in the Basic Account. Increases to pension payments are not guaranteed but may be provided each January 1 in accordance with the cost-of-living adjustment provisions of the Plan. These cost-of-living adjustments are based on the increase in the Canada Consumer Price Index ("CPI") as at the previous September 30, subject to availability of funds in the IAA. The Board annually considers all relevant factors and its IAA funding policy to determine if a cost-of-living adjustment will be granted on pensions-in-pay.

2.3.3 The "Supplemental Benefits Account" has not been addressed by this Statement because it does not hold any investment funds.

### **Section 3: Plan Governance**

- 3.1 In accordance with the JTA, the Board has 10 members with equal representation from Plan members and the employers.
- 3.2 The Board is responsible for the administration of the Plan and the management of the Fund. Specifically, the Board has the responsibility to establish a written statement of the investment policies and procedures. The Board has a legal obligation to act in the best financial interest of the beneficiaries of the trust and exercise a high standard of care in protecting the Fund and its assets. This must override all other considerations.
- 3.3 BCI and the Plan Administrative Agent (British Columbia Pension Corporation) are agents of the Board. They must act in accordance with the direction and policies of the Board, subject to their fiduciary duty to the Plan beneficiaries, and in the case of BCI, other pooled funds participants.
- 3.4 The Board meets quarterly with BCI to review performance and discuss investment issues. In addition, the Board participates in the Interplan Investment Committee which meets with BCI at least three times per year,

and there are from time to time ad hoc meetings between the Board and BCI to pursue investment issues.

The reports set out in Section 8 are reviewed by the Board or committee of the Board.

As provided in Section 1.6, the Board performs an annual review and updating of its Statement.

At least once every three years the Board, with professional support from BCI, conducts an Asset-Liability Review. This process includes a review of investment objectives and risks, and typically results in amendments to the Board's asset allocations.

The Board considers BCI performance annually as part of its Governance Review process.

The Board has conducted a comprehensive Risk Management Review, which included an assessment of BCI's risk management activities. This review will be revisited annually, and a comprehensive Risk Management Review will be undertaken periodically.

- 3.5 The Fund is managed by BCI and other investment management firms contracted through BCI. In all cases, BCI and other investment managers will comply with this Statement, their internal policies, as well as the relevant laws and regulations governing pension fund management in the respective jurisdiction.
- 3.6 The following outlines the roles and responsibilities of parties involved with the Plan:

BCI:

- is an agent of the Board, and is responsible for day-to-day investment management of the Fund;
- ensures the Fund is managed in accordance with this Statement and the directions of the Board;
- hires and manages contract arrangements with the Custodian and other external providers of related services (e.g., external managers, data service providers, etc.) on behalf of the Board and as trustee of pooled funds. BCI's oversight of external public equity managers includes their hiring, monitoring and termination. Oversight of external public equity managers includes an analysis of results, processes, organizational changes, and client needs. Legal obligations are set out in BCI's Investment Management Agreements with each external equity manager;
- is responsible for fulfilling all reporting requirements outlined in Section 8 of the Statement; and
- has a role that goes beyond that of a typical fund manager, effectively functioning as the Board's internal investment staff. This is set out in

greater detail in the Board's Funds Investment and Management Agreement with BCI.

Custodian:

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

Auditor:

- audits the Plan's financial statements in accordance with existing legislation and Canadian Accounting Standards; and
- provides an opinion on the financial statements.

Actuary:

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

British Columbia Pension Corporation ("Pension Corporation"):

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

## **Section 4: Asset Allocation**

4.1 Meeting the pension benefits promise is the primary objective of the Board, so the Board aims to maintain the funded ratio of the Plan above 100%. Managing the volatility of contribution rates and providing non-guaranteed benefits are additional objectives of the Board. To achieve these objectives, the Board has adopted the following long-term asset mix and allowable ranges shown in Section 4.2.

4.1.1 Policy asset allocation is set by the Board and establishes the general framework for managing the Fund. This includes determining ranges for the debt and equity portions of the portfolio, as well as general ranges for individual asset classes (e.g., bonds). Policy asset allocation also establishes the amount of discretion provided to BCI and establishes the total Fund market benchmark.

4.1.2 Tactical asset allocation focuses on short-term conditions and attempts to increase investment return through opportunistic shifts

in the portfolio's asset class weighting. Tactical asset allocation decisions depend on shorter term market conditions, and, as such, are delegated to BCI. However, these asset allocation shifts must be within the policy ranges specified by the Board in this Statement. Asset mix rebalancing is useful to ensure that the Fund's desired risk exposure is maintained over the long term.

4.2 Policy asset mix and policy ranges for the Fund, effective July 1, 2020 are:

Asset Class <sup>1</sup>	Policy Range		Long-Term Policy Asset Mix
	Minimum	Maximum	
Short Term	0	10	2
Government Bonds	5	35	26
Credit	0	20	14
Mortgages	0	10	4
<b>Fixed Income Sub-total</b>	<b>15</b>	<b>60</b>	<b>46</b>
Canadian Equities	0	10	3
Global Equities <sup>2</sup>	5	30	13
Emerging Markets <sup>3</sup>	0	10	4
Private Equity <sup>4, 5</sup>	5	25	13
<b>Equity Sub-total</b>	<b>25</b>	<b>55</b>	<b>33</b>
Real Estate <sup>4</sup>	10	25	17
Infrastructure and Renewable Resources <sup>4</sup>	5	20	14
<b>Real Assets Sub-total</b>	<b>20</b>	<b>40</b>	<b>31</b>
Other <sup>6</sup>	0	5	0
<b>Total</b>	<b>100</b>	<b>115</b>	<b>110</b>

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

2 Global equities may include exposure to Canada and emerging markets.

3 Emerging Market equities may include exposure to developed markets.

4 Due to the illiquid nature of these assets, the upper limit may be exceeded on a temporary basis. BCI will use cashflow to rebalance as soon as is practical.

5 In addition to equity, investments may include debt (other than debt described in 5.3.4).

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

7 As a result of the inclusion of leverage the Asset Mix may sum to greater than 100%.

- 4.3 The Board recognizes that an appropriate implementation period is required to transition to the new policy asset mix identified in Section 4.2. This implementation timeframe is reflected in Section 8.4 for the purpose of the performance measurement framework.
- 4.4 If any liquid asset class moves outside of its policy range at any time, BCI shall notify the Board of the breach at or before the next meeting of the Board, and outline the steps taken to bring the Fund's asset mix back into compliance.
- 4.5 The Fund may be invested in the pooled funds listed in Appendix A, segregated funds, mutual funds, unit trusts, limited partnerships and similar vehicles, provided that they conform to this Statement. Despite any other provision of this SIPP, the Board agrees to participate in the Principal Credit Fund and the Global Partnership Fund. Investment in the absolute return, direct investment and co-investment portions of the

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Global Partnership Fund are not to exceed 4% of the Fund, with this threshold to be reviewed annually by the Board.

- 4.6 The Fund may loan its securities, or participate in pooled funds that lend securities provided that:
- the securities lending agent provides an indemnity for losses relating to a borrower failing to return securities on loan;
  - lent securities are indemnified by the securities lending agent;
  - the loan and collateral are valued daily on a “mark-to-market” basis;
  - the collateral consists of highly liquid and marketable securities under normal market conditions; and
  - the loans meet the terms and conditions of BCI's Securities Lending Program.
- 4.7 The total asset mix may sum to greater than 100 per cent as a result of the inclusion of leverage at the Fund level. For performance measurement purposes the liability benchmark is equal to the realized cost of financing such liabilities.

## **Section 5: Asset Class Policies**

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

### **5.1 Money Market Short-Term Policies**

- 5.1.1 Short-term includes money market instruments and bonds with a term to maturity of 15 months or less.
- 5.1.2 Corporate money market securities should be rated A-1 (Low) or better by Standard & Poor's ("S&P") or have an equivalent rating from another credit rating agency.
- 5.1.3 Short-term corporate bonds should be rated A- or higher by S&P or have an equivalent rating from another credit rating agency.
- 5.1.4 Up to 1 percent of short-term holdings can be in non-rated debt issued by financial institutions (e.g., credit unions).

### **5.2 Mortgage Policies**

- 5.2.1 The portfolio will consist of a broad range of mortgage products, diversified by geographic location, type of mortgage, size of mortgage, and type of real estate. It may include direct mortgage loans and mortgage instruments (e.g., mortgage bonds) as well as real estate loans, real estate-related debt and equity

investments, and equity interest in QuadReal. The aggregate exposure to equity investments (not including an equity interest in QuadReal) including preferred equity, and Structured Securities with a Structured Finance rating below BBB- by Standard & Poor's or an equivalent Structured Finance credit rating from another credit rating agency, may not exceed five percent of the net asset value of the Mortgage Program. All mortgage loans will be eligible investments under the PBSA and PBSR.

- 5.2.2 No debt will be assumed or created if, as a result, the Leverage Ratio would exceed 40 percent of the gross asset value of the Mortgage Program.

### 5.3 **Fixed Income/Bond Policies**

- 5.3.1 Fixed income portfolios shall consist of international and domestic corporate bonds, convertible bonds, preferred shares, asset-backed commercial paper and securities, government debt securities, exchange traded funds, and fixed income derivatives (e.g., futures, options, swaps). Equity securities derived from the conversion of fixed income securities or related derivatives are permissible investments and will immediately be reviewed to determine whether to sell the security immediately or hold to sell at a more appropriate time.
- 5.3.2 Publicly traded fixed income securities from issuers, other than securities issued by governments within Canada and securities held within the Corporate Bond Fund, when purchased must be rated BBB- or higher by S&P or have an equivalent credit rating from another credit rating agency. If any holdings are downgraded to below a BBB- rating, BCI will immediately review the downgraded security and determine whether to sell this security immediately or hold to sell at a more appropriate time.
- 5.3.3 Other than real return bonds, the Leveraged Bond Fund, and the Corporate Bond Fund, individual bond portfolios must be managed within  $\pm$  20 percent of the duration of their respective performance benchmark.
- 5.3.4 Investments in private debt (as part of the bond allocation) are permitted provided they meet the same credit quality standards imposed on other bond investments, and are expected to be readily marketable within six months.
- 5.3.5 Investments in illiquid private debt, in addition to those referred to in Section 5.3.4, are permitted as part of the Fixed Income/Bond allocation policy limits of the policy set out in Section 4.2.

#### 5.4 **Equity Policies**

- 5.4.1 Equity investments consist of common and preferred shares, common stock equivalents, income trusts, exchange traded funds, depository receipts, and equity derivatives (e.g., futures, options, equity swaps).
- 5.4.2 Not more than 10 percent of the total equity holdings will be in the shares of any one corporation or its related companies.
- 5.4.3 Investments in equity private placements are permitted as part of the Public Equity allocation policy limits as set out in Section 4.2.

#### 5.5 **Real Estate Policies**

- 5.5.1 Real estate investments consist of direct real estate holdings, units in real estate pooled funds, and real estate securities including trust units, shares in real estate companies, and debt.
- 5.5.2 Real estate investments will be well diversified by property type, property location, and property risk.
- 5.5.3 No debt will be assumed or created if, as a result, it caused the debt to market value of the real estate portfolio to exceed 55 percent.
- 5.5.4 No direct investment in real estate will be made without the benefit of a professional opinion regarding known or possible environmental contamination of the property.

#### 5.6 **Private Equity Policies**

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

#### 5.7 **Infrastructure and Renewable Resources Policies**

- 5.7.1 Infrastructure and Renewable Resource investments consist of tangible long-life assets with potential for strong cash flows and favourable risk-return characteristics that provide an attractive match with pension liabilities.

- 5.7.2 Infrastructure investments typically include physical assets that provide essential services such as utilities and transportation systems.
- 5.7.3 Renewable Resource investments will typically consist of timberland, farmland, and energy production assets such as wind and solar.

## **Section 6: Use of Derivative Instruments**

- 6.1 The use of derivatives is only permitted for the following purposes:
  - (i) Synthetic Indexing – Passively investing in an attempt to replicate the returns of an index.
  - (ii) Risk Control – Managing interest rate, equity, credit, currency, legal or tax risk through the use of hedging strategies.
  - (iii) Lower Transaction Costs and Liquidity Management – Reducing the transaction costs on trading, custody and brokerage costs through use of index futures. Substituting one combination of securities for another with the same net exposure to market variables for the purposes of exploiting pricing inefficiencies.
  - (iv) Asset Mix Shifts – Reduce market movement and transaction costs of shifting asset weights or rebalancing by allowing instantaneous implementation of the shift through derivatives.
  - (v) Their use through participation in the Canadian Quantitative Active Equity Fund, the Global Quantitative Active Equity Fund, the Leveraged Bond Fund and the Global Partnership Fund.
- 6.2 All derivative uses are to be structured to ensure that the aggregate amount of market exposure of the Fund does not increase as a result of derivative transactions, except as expressly permitted by the Pooled Fund Product Descriptions for the Canadian Quantitative Active Equity Fund, the Global Quantitative Active Equity Fund, the Leveraged Bond Fund and the Global Partnership Fund.
- 6.3 Derivatives include: forward contracts, futures, options, and swaps. The above derivatives can have equities, fixed income, interest rates, and currencies as underlying instruments.
- 6.4 When a swap or an option contract is entered into with an external counterparty (e.g., a financial institution), the counterparty will have at least an A- credit rating by S&P or an equivalent credit rating from another credit rating agency, unless otherwise approved by the Board. Forward contracts are restricted to financial institutions having a credit rating of A-

- or higher by S&P or an equivalent credit rating from another credit rating agency.
- 6.5 BCI may use derivatives to hedge the Plan's exposure to a specific foreign currency for defensive purposes.
- 6.6 The use of any additional derivative products other than that stated above will require the prior written consent of the Board.

### ***Section 7: Use of Leverage and Permitted Borrowing***

- 7.1 Leverage may be used for the purpose of managing risk and/or returns. Leverage magnifies actual returns beyond those experienced by the underlying securities, both on the upside and downside.
- 7.2 The use of leverage involves borrowing against assets to make additional purchases.
- 7.3 Leverage may be employed at the Fund level and within pooled funds as consistent with BCI's pooled fund policies.
- 7.4 Borrowing is permissible if supported, or covered, by appropriate liquid assets.
- 7.5 The Fund's use of leverage may result in commitments for which the Fund could retain liability even upon withdrawal, within pooled funds as consistent with BCI's pooled fund policies.

### ***Section 8: Performance Objectives and Reporting***

- 8.1 The long-term (30 years) investment objective of the Fund is to meet or exceed, net of all expenses incurred in the investment process:
- (i) the annual rates of return used in the actuarial report (CPI + 3.5 percent and 6.0 percent nominal); and
  - (ii) the benchmark portfolio's rate of return, which is the rate of return that would have been achieved if the Fund had held its policy asset mix and each asset class had earned the return of their respective benchmark as outlined in Table 1 below.
- 8.2 The short-term investment objective (5 years) is to earn the rate of return, net of all expenses incurred in the investment process, for the liquid assets (i.e., excluding real estate, private equity, infrastructure, and renewable resources), assuming that each liquid asset class had earned the return of its respective benchmark as outlined in Table 1 below.

- 8.3 The volatility of the Fund's rate of return over 5-year periods, as measured by standard deviation, is expected to be less than the volatility of the benchmark portfolio's rate of return.
- 8.4 The primary investment return objective of individual asset classes is for the rate of return, net of all expenses incurred in the investment process, to meet or exceed the respective benchmarks over 5-year periods. Certain asset classes such as real estate, private equity, infrastructure, and renewable resources do not lend themselves to good market indices, and it is more appropriate to evaluate their performance over longer periods such as 10 years. The benchmarks used for each asset class are listed in Table 1 below.
- 8.5 The returns of the Fund are calculated using market values derived from independent pricing sources. Returns are time-weighted so that cash flows have a minimal effect on return numbers. All income is included on an accrued basis. Return calculations are in accordance with industry standards. This includes using internal rates of return for private equity and similar type investments.
- 8.6 The return from foreign benchmarks applicable to asset classes will be calculated in Canadian dollar terms on an unhedged basis.
- 8.7 Each quarter BCI will provide the Board with reports on the performance of the Fund. These reports will include the following information:
- net cash flows;
  - Fund values;
  - investment returns for the total Fund and individual pooled funds as well as all stated benchmarks;
  - signed compliance certificate confirming compliance with this Statement;
  - key changes in investment personnel;
  - investment strategy for the next quarter; and
  - investment management fees (including external manager fees, custodial, legal, and audit fees).

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

**Table 1**

Asset Class	July 1, 2020 (%)	July 1, 2021 (%)	July 1, 2022 (%)	July 1, 2023 (%)	Benchmark
Short Term	2	2	2	2	50% FTSE Canada 91 Day T-Bill Index, plus 50% Citigroup 30 Day T-Bill Index
Universe Bonds	28	-	-	-	FTSE Canada Universe Bond Index
Government Bonds	-	25	25	26	FTSE Canada Universe All Government Bond Index
Credit	5	11	13	14	25% BofAML US Corporate Index (Hedged), plus 25% BofAML BB-B US Cash Pay High Yield Constrained Index (Hedged), plus 50% S&P/LSTA US Leveraged Loan 100 Index (Hedged)
Mortgages	4	4	4	4	ICE Bank of America Merrill Lynch 1-3 Year Canada Government Index + 270 basis points
Canadian Equities	4	3	3	3	S&P/TSX Composite Index
Global Equities	22	19	16	13	Morgan Stanley Capital International (MSCI) World ex-Canada Net Index
Emerging Market Equities	8	6	4	4	MSCI Emerging Markets Net Index
Private Equity	11	12	13	13	MSCI All Country World Net Index plus 200 basis points
Real Estate <sup>1</sup>	15	16	17	17	6.8% nominal return
Infrastructure and Renewable Resources <sup>1</sup>	11	12	13	14	Nominal Cost of Capital of 6.3%
Other <sup>2</sup>	0	0	0	0	Not applicable
<b>Total</b>	<b>110</b>	<b>110</b>	<b>110</b>	<b>110</b>	

1. Effective January 1, 2021, major currency exposures from these programs will not be hedged. The currency effects from these programs will be aggregated and reported separately. Benchmark foreign exchange hedging will be periodically set to actual for a transitional period of up to one year.
2. "Other" includes strategies or investments specifically approved by the Board that do not correspond to the listed asset classes. Refer to Appendix A.

BCI will trade as close to the transition dates as prudent while being mindful of operational considerations such as, but not limited to, market liquidity, trading costs and client fairness. In the event that BCI elects to deviate from the formal transition dates set out in the SIPP, BCI will disclose such deviations and the practical effect on the Plan's investment portfolio as part of its regular reporting activities.

- 8.8 The Board will compare the pooled fund's investment performance relative to the appropriate benchmark, and where appropriate will compare actively managed asset classes to a universe of managers with similar mandates, at least once a year. BCI will advise the Board quarterly of the portion of total public equities and of each equity asset class that are managed under active, indexed, and enhanced indexed strategies. BCI will advise the Board quarterly of the return of each equity asset class relative to its policy benchmark.
- 8.9 Once a year, BCI will provide a more comprehensive report outlining the performance of the Fund. This annual review will include an attribution analysis. Attribution analysis quantifies the impact of specific active management decisions (including security selection and tactical asset allocation) for the Fund relative to its benchmark. The report will also include a comparison of the volatility of the Fund's rate of return over a 5-year period, as measured by standard deviation, against the volatility of the benchmark portfolio's rate of return.
- 8.10 BCI will advise the Board quarterly of the diversification of the mortgage and real estate pools in which the Fund participates, and advise the Board annually of the diversification of the private equity pools in which the Fund participates.
- 8.11 The Pooled Fund Product Descriptions provide a detailed explanation of the valuation of each investment. Any material change to the Pooled Fund Product Descriptions is reported to the Boards.
- 8.12 Notwithstanding Section 8.7, Real Estate may not be valued quarterly due to cost and complexity of valuation. At least once a year, BCI will provide the Board with a report on the real estate programs in which the Fund participates.
- 8.13 Notwithstanding Section 8.7, Private Equity, Infrastructure, and Renewable Resources investment programs are valued less frequently than liquid assets due to the cost and complexity of valuation. At least once a year, BCI shall provide the Board with a report examining the performance of the pools in which the Fund participates.
- 8.14 BCI will inform the Board of any substantial change in the investment policy underlying any pooled fund in which the Fund is invested.
- 8.15 BCI will report to the Board on any changes to its securities lending policies.
- 8.16 The Board shall monitor BCI's performance and, if necessary, take steps as deemed appropriate to address any concerns. Concerns may include, but are not limited to, the following:

- performance results, which over a reasonable period of time, are below the stated performance benchmarks;
- changes to BCI's or a sub-advisor's organization, investment personnel, or investment process, which might adversely affect the performance of the Fund;
- legal or regulatory proceedings against BCI or a sub-advisor; and/or
- failure to adhere to this Statement.

## **Section 9: Risk Management**

- 9.1 The Board seeks to mitigate risk exposure of the Fund by maintaining a well-diversified portfolio. To reduce credit risk, the aggregate amount of the Fund that may be invested in the fixed income instruments or securities of, or loaned to, any one company or person shall be limited to 10 percent of the total market value of the Fund at the time the investment is made, unless the securities are issued or guaranteed by the Government of Canada or a province of Canada. This is in addition to the diversification requirements under the PBSA as outlined in Appendix B.
- 9.2 The Fund may not sell short or borrow securities or purchase securities on margin except as expressly permitted within this policy. Selling short and borrowing securities is permitted within the Canadian Quantitative Active Equity Fund, the Global Quantitative Active Equity Fund and the Global Partnership Fund.
- 9.3 The Board, or Pension Corporation, will inform BCI at least annually of anticipated liquidity requirements. The Fund will maintain sufficient liquidity to meet its financial obligations as they come due. In the event of unanticipated withdrawals or cashflows, BCI may run a temporary overdraft, rather than liquidate investments, if it is considered to be in the best financial interest of the Fund.

## **Section 10: Valuation of Assets**

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

**Section 11: Responsible Investing and Voting Rights**

- 11.1 At all times, this policy will be conducted within the framework of fiduciary responsibility. It will therefore be implemented in a manner which does not interfere with the efficient investment of the Fund to achieve investment return objectives, which are in the best financial interests of the Plan's current and future beneficiaries.
- 11.2 Pursuant to the Board's investment beliefs and subject to Section 11.1, favourable consideration is to be given by BCI and its investment managers to investment opportunities in corporations that meet or exceed all environmental regulations and aspire to reduce the impact of their operations on the environment, apply best practices for corporate governance, adopt good standards of safety and employee welfare, and are responsible in their operations by effectively managing relationships with suppliers, customers and communities.
- 11.3 In keeping with the Board's fiduciary responsibilities and framework, the Board believes that environmental, social, and corporate governance ("ESG") issues can affect investment performance to varying degrees across companies, sectors, regions, asset classes and through time. In this regard, the Board supports the UN-led Principles for Responsible Investment, introduced in April 2006 (<http://www.unpri.org/principles/>). By applying these principles, the Board recognizes that effective research, analysis and evaluation of ESG issues is a fundamental part of assessing the value and performance of an investment over the long term.
- 11.4 It is recognized that BCI is a signatory to the UN-led Principles for Responsible Investing, and as such, is expected to follow the organization's principles.
- 11.5 The Board delegates its voting rights to BCI and instructs BCI to act in the best financial interests of the Fund. In addition to proxy voting, BCI uses shareholder engagement (which includes constructive dialogue and all regulatory submissions) to encourage companies to focus on long-term value creation by effectively managing ESG risks that may emerge over time and materially affect the valuation of the company and/or asset. As an active and engaged investor, BCI expects and encourages the companies within its portfolio to comply with the laws of the jurisdiction within which they operate; aspire to align their practices and adhere to international standards; apply best practices for corporate governance and be transparent about their practices, risks, and opportunities; meet all environmental regulations and seek to reduce their operational impact on the environment; and, be responsible in their operations, adopt good standards of occupational health & safety, and effectively manage stakeholder relationships. BCI's engagement activities are based on strategic ESG priorities and, as a result, ESG matters are addressed to the extent that they influence risk and return.

- 11.6 At least once per year, BCI will provide the Board with the following:
- copies of its corporate governance guidelines;
  - updates on BCI's views with respect to ESG issues; and
  - details regarding any changes that were made to its shareholder engagement guidelines or proxy voting guidelines.
- 11.7 At least once per year, the Board will review BCI's voting record and shareholder initiatives.

## **Section 12: Conflict of Interest and Code of Ethics**

### 12.1 BCI's *Code of Ethics and Professional Conduct*

BCI and all BCI officers and employees (the "Covered Parties") are subject to BCI's *Code of Ethics and Professional Conduct* (the "BCI Code"). The BCI Code shall meet or exceed the standards established by the CFA Institute for the investment industry in the *Asset Manager Code of Professional Conduct*. The BCI Code includes a comprehensive and thorough conflict of interest policy (i) prohibiting Covered Parties from using their knowledge of the Fund's investments, or of investment decisions made on behalf of the Fund, to benefit anyone other than the Fund, and (ii) requiring Covered Parties to make disclosure if they, or any person over whom they have influence, may be reasonably thought to materially benefit by an investment of the Fund or by an investment decision made on behalf of the Fund. An example of such a material benefit would be if an employee owned, or had a significant financial interest in, real estate property that was acquired on behalf of the Fund. BCI will advise the Board of any material changes to the BCI Code.

### 12.2 Procedure on Disclosure of Conflict of Interest

Covered Parties are required to report any actual or perceived conflict of interest to BCI's Compliance Department. To protect the integrity of any ongoing conflict of interest investigation, BCI will make disclosure to the Chair of the Board promptly upon completion of its internal compliance investigation. This practice is consistent with the standard employed by BCI when reporting conflict of interest matters to its board of directors. Disclosure by BCI should also be made at the first Board meeting following disclosure to the Chair. BCI's obligation to disclose any actual or perceived conflict of interest is engaged whether any such conflict is identified by a Covered Party or through BCI's internal compliance investigations.

### 12.3 Related Party Transactions

The Plan shall not directly or indirectly enter into a transaction with, lend the moneys of the Plan to, or use the moneys of the Plan to hold an investment in, a related party that is prohibited under Schedule III of the federal Pension Benefit Standards Regulation, 1985 (the "Federal PBSR").

The term “related party” has the meaning given in Schedule III of the Federal PBSR. However, a transaction with, loan to, or investment in a related party to the Plan is permitted if the value is nominal or immaterial to the Plan. In assessing materiality of the transaction with, loan to, or investment in a related party, a value of 1% of the market value of the Plan assets is considered to be nominal. Two or more transactions with the same related party shall be considered a single transaction.

### ***Section 13: Implementation***

The Board has decided to implement the investment policy through investments managed by BCI in accordance with Section 4 and 8. The pooled funds in which the Board has agreed to participate are listed in the attached Appendix A.

By participating in a particular pooled fund, the Board acknowledges it has reviewed the pooled fund’s internal investment policy and finds it acceptable. If BCI makes any material change to the investment policy of a particular internal pooled fund listed in Appendix A, it will disclose the change to the Board and, subject to the pooled portfolio rules, the Board will decide whether it wishes to remain invested in that pooled fund.

**APPENDIX A**  
**Participating Pooled Funds**

<b>Asset Class Categories Under Section 4.2</b>	<b>Eligible Pooled Funds</b>	<b>Benchmarks</b>
<b>Short Term</b>	<i>Canadian Money Market Fund (ST1)</i>	<i>Canadian Overnight Repo Rate Average (CORRA)</i>
	<i>Canadian Money Market Fund (ST2)</i>	<i>FTSE Canada 91 Day T-Bill Index</i>
	<i>US Dollar Money Market Fund (ST3)</i>	<i>Secured Overnight Financing Rate (SOFR)</i>
	<i>Short Term Bond Fund</i>	<i>FTSE Canada Short Term Government Bond Index</i>
<b>Bonds</b>	<i>Government Bond Fund</i>	<i>FTSE Canada Universe All Government Bond Index</i>
	<i>Canadian Universe Bond Fund</i>	<i>FTSE Canada Universe Bond Index</i>
	<i>Leveraged Bond Fund</i>	<i>Assets: FTSE Canada Universe All Government Bond Index</i> <i>Liability: Realized cost of financing</i>
<b>Credit</b>	<i>Corporate Bond Fund</i>	<i>50 per cent Investment Grade</i> <i>The Bank of America Merrill Lynch US Corporate Index (CAD Hedged) plus</i> <i>50 per cent High Yield</i> <i>The Bank of America Merrill Lynch BB-B US Cash Pay High Yield Constrained Index (CAD Hedged)</i>
	<i>Principal Credit Fund</i>	<i>S&amp;P/LSTA U.S. Leveraged Loan 100 Index</i>
<b>Mortgages</b>	<i>BCI QuadReal Mortgage Program</i>	<i>ICE Bank of America Merrill Lynch 1-3 Year Canada Government Index + 270 bps</i>
<b>Canadian Equities</b>	<i>Indexed Canadian Equity Fund</i>	<i>S&amp;P/TSX Composite Index</i>
	<i>Canadian Quantitative Active Equity Fund</i>	<i>S&amp;P/TSX Capped Composite Index</i>
	<i>Active Canadian Equity Fund</i>	<i>S&amp;P/TSX Capped Composite Index</i>
	<i>Active Canadian Small Cap Equity Fund</i>	<i>S&amp;P/TSX Small Cap Index</i>
<b>Global Equities</b>	<i>Indexed U.S. Equity Fund</i>	<i>MSCI USA Total Return Index</i>
	<i>Active U.S. Small Cap Equity Fund</i>	<i>Russell 2000 Total Return Index</i>
	<i>Active European Equity Fund</i>	<i>MSCI Europe Net Index</i>
	<i>Active Asian Equity Fund</i>	<i>MSCI All Country Asia Pacific ex-Japan Net Index</i>
	<i>Indexed Global Equity Fund</i>	<i>MSCI World ex-Canada Net Index</i>
	<i>Global Quantitative ESG Equity Fund</i>	<i>MSCI World ex-Canada Net Index</i>
	<i>Global Quantitative Active Equity Fund</i>	<i>MSCI World ex-Canada Net Index</i>
	<i>Global Partnership Fund</i>	<i>MSCI World ex-Canada Net Index</i>
<b>Emerging Markets Equities</b>	<i>Active Global Equity Fund</i>	<i>MSCI World ex-Canada Net Index</i>
	<i>Thematic Public Equity Fund</i>	<i>MSCI World ex-Canada Net Index</i>
<b>Emerging Markets Equities</b>	<i>Indexed Emerging Markets Equity Fund</i>	<i>MSCI Emerging Markets Net Index</i>
	<i>Active Emerging Markets Equity Fund</i>	<i>MSCI Emerging Markets Net Index</i>
<b>Private Equity</b>	<i>Private Equity Vintage Funds</i>	<i>MSCI All Country World Net Index plus 200 basis points</i>
<b>Real Estate</b>	<i>Realpool Program</i>	<i>6.8% nominal return</i>
<b>Infrastructure and Renewable Resources</b>	<i>Infrastructure &amp; Renewable Resources Program</i>	<i>Nominal Cost of Capital of 6.3%</i>
<b>Other</b>		

**APPENDIX B**  
**Asset Class Policies – Legislative Constraints**

**Federal Pension Benefits Standards Act, 1985 Constraints**

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

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

**Income Tax Act and Canada Revenue Agency Constraints**

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

<sup>1</sup>The 10% rule need only be considered at the time an investment is made.

**APPENDIX C**

**Investment Beliefs**

The Teachers' Pension Board of Trustees (board) oversees an investment portfolio for the benefit of its plan members, with the primary financial objective to ensure the long-term sustainability of the plan. This is dependent upon several factors, including the generation of sufficient returns over a long-term horizon.

The board's mission is "To fulfill the trust the Partners have placed on us by effectively and efficiently meeting the pension promise to provide retirement income to the plan members." The board's guiding principles describe how the board translates its mission into action. They comprise the lens through which the board makes decisions and takes action.

The board's investment beliefs and supporting principles act as a guide for making investment decisions by aligning the implementation of the investment portfolio around a common set of core views or beliefs. In turn, the Statement of Investment Policies and Procedures outlines the board's investment strategy and overall framework for managing plan assets.

The objectives of the investment beliefs and supporting principles are to provide clarity of thought, combine individual perspectives into a common understanding and provide a basis to stay the course when most needed.

Beliefs		Supporting Principles
<b>Governance</b>	Good governance enhances the Plan's ability to achieve its mission.	<ul style="list-style-type: none"> <li>• The Board's responsibility lies within its strategic decisions, including mission, goals and risk tolerance</li> <li>• Recognizing the Board's goals and beliefs, investment implementation decisions are managed by BCI as delegated by the Board</li> </ul>
<b>Risk Management</b>	Taking and managing risk is critical to achieving the Plan's long-term goals.	<ul style="list-style-type: none"> <li>• Maintaining a well-diversified portfolio is the cornerstone of the Fund's risk management program</li> <li>• Risk cannot be defined in a single number, therefore, in addition to quantitative measures of risk, the Board will factor in qualitative assessments of risk when developing investment policy</li> <li>• Currency risk from shall be managed in the context of the overall liability profile of the Plan, also recognizing diversification benefits from unhedged foreign exposure</li> <li>• Rebalancing is beneficial in reducing exposure to extreme market valuations and</li> </ul>

		enhancing long term returns, while recognizing the need to manage different levels of liquidity within the portfolio
<b>Risk Management</b>	A long-term investment time horizon gives the Plan a competitive advantage and benefits the Fund if managed accordingly.	<ul style="list-style-type: none"> <li>Over the long-term, investors should receive additional compensation for taking investment risks</li> <li>The Fund's asset mix is the primary determinant of the risk and return of its investments</li> <li>As a long-term investor, the Plan can exploit different risk premia beyond equity risk to add value and/or improve diversification and as a board, open to illiquid alternatives such as private equity, real estate, infrastructure and private debt being considered in this regard</li> </ul>
<b>ESG/Climate Change</b>	Managing environmental, social and governance (ESG) matters lessens financial risk and financial performance performs better over the long term.	<ul style="list-style-type: none"> <li>ESG factors may affect investment performance over time and to varying degrees across companies, sectors, regions and asset classes</li> <li>The Board expects BCI to place a high priority on ESG issues in their selection of external managers, and their own internal process</li> <li>The Board recognizes that shareholder engagement is a more effective tool for seeking to initiate change and influence corporate practices than divesting of investments</li> </ul>
	Climate change is a complex issue that will have a significant long-term impact.	<ul style="list-style-type: none"> <li>Members expect the Board to consider climate change in their thinking of and approach to investment policy, including strategies which focus on reducing the carbon footprint of the Plan, with due consideration to the financial impact</li> <li>The Board expects BCI to consider climate change issues in their investment policy activities</li> </ul>

<b>Portfolio Management</b>	<p>Active management should only be undertaken when there is a reasonable expectation of generating higher returns.</p>	<ul style="list-style-type: none"> <li>• Active management performance will be assessed against an agreed benchmark and a relevant universe for similar mandates</li> <li>• The weightings between active and passive strategies is delegated to BCI with the understanding that:                             <ul style="list-style-type: none"> <li>○ the value added by active managers is low when it comes to bonds and limited in U.S. equities;</li> <li>○ active management can add value in Canadian equities, international equities, global equities, and emerging market equities; and</li> <li>○ active management is preferred for the real estate, infrastructure, private debt, and private equity asset classes</li> </ul> </li> <li>• Active management performance will be assessed against an agreed benchmark and a relevant universe for similar mandates and revisited from time to time to assess BCI's decisions and evolving model</li> </ul>
	<p>Costs matter and need to be effectively managed.</p>	<ul style="list-style-type: none"> <li>• The Fund's asset mix has an impact on the cost of investment</li> <li>• The Board expects transparency of total costs, including information supporting the justification of decisions made in managing the investment portfolio</li> <li>• There is a reputation risk management aspect to cost control</li> <li>• Over the long-term, investors should receive additional compensation for taking investment risks while at the same time It is the Board's expectation that a greater proportion of investment return will pass on to the Plan</li> </ul>
	<p>Understanding the nature and variability of the Plan's liabilities is critical to devising an appropriate investment strategy.</p>	<ul style="list-style-type: none"> <li>• Pension liabilities have an inverse relationship with the valuation discount rate and will decrease if the discount rate rises, and vice versa</li> </ul>

<p><b>Portfolio Management</b></p>	<p>No one investment style, region, or capitalization will consistently produce higher returns, and it is not possible for the Board to predict which will outperform over a given period.</p>	<ul style="list-style-type: none"> <li>• It is not possible to predict which asset class will outperform another over a given period</li> <li>• The Board has delegated the decision on the structuring of the equity, bond and alternatives portfolios to BCI, including decisions on:             <ul style="list-style-type: none"> <li>○ Manager mandates – regions and market capitalization</li> <li>○ Investment style</li> <li>○ Credit</li> <li>○ Hedging</li> <li>○ Internal vs external management</li> </ul> </li> <li>• In all cases, BCI will be held accountable for their decisions and is expected to weigh up the costs and risk/return benefits, and liquidity implications of the approach they choose in order to achieve optimal risk-adjusted net of fee results for the Plan</li> </ul>
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