

**Statement of Investment Policies and Procedures**  
**for the**  
**Trust Fund Created Under**  
**The Carleton University Retirement Plan**

Prepared pursuant to  
The Pension Benefits Act of Ontario

Registration Number 0526616

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## **Section 1 – Purpose**

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- 1.1 Carleton University (the “University”) provides pension benefits to its employees through the Carleton University Retirement Plan (the “Plan”). The primary goal of the Plan is to assist Plan beneficiaries in providing for a financially secure retirement income at a reasonable cost. The prudent and effective management of the Trust Fund (the “Fund”), as described in Section 13 of the Plan, will have a direct impact on the achievement of this goal.
- 1.2 This statement of investment policies and procedures (the “Statement”) addresses the manner in which the Fund shall be invested to achieve the primary goal of the Plan. The University has prepared the Statement to ensure continued prudent and effective management of the Fund so that there will be sufficient amounts to meet the obligations of the Plan as they come due. The Statement also defines the management structure and other procedures adopted for the ongoing operation of the Fund.
- 1.3 This statement has been prepared in accordance with all relevant legislation relating to the investment of registered pension plans assets. Investments shall be selected in accordance with the criteria and limitations set forth herein and in accordance with applicable legislation.
- 1.4 All references to the terms of the Carleton University Retirement Plan contained in this Statement are of a summary nature only. The Plan is administered in accordance with the terms of the Plan text as amended from time to time.
- 1.5 In accordance with section 78 of Regulation 909 of the Ontario Pension Benefits Act, this policy complies with the federal investment rules under Canada’s Pension Benefits Standards Regulation, 1985.

## **Section 2 – Governance and Administration**

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- 2.1 Section 15 of the Retirement Plan states that the Plan will be administered by the University. Section 15 also describes the composition and role of the Pension Committee (the “Committee”). The Committee is responsible for all matters in regard to the administration of the Plan. Various agents may be retained to assist the Committee in carrying out their duties in respect of the Fund. From an investment standpoint, the Committee is responsible for reviewing the performance of the Fund, and for the preparation of recommendations to the Board of Governors (the “Board”) of the University as to the appointment of the investment managers (the “Managers”) and the custodian.

- 2.2 The Board, the Committee, the Managers, and any agent or adviser providing services in connection with the investment of the Fund accepts and adheres to this Statement.
- 2.3 This Statement provides broad investment guidelines for the management of the Fund. The management of the assets of the Fund is delegated to professional investment managers. Neither the Board of Governors, the Pension Committee nor any employee of the University shall select securities on behalf of the Fund.
- 2.4 In developing the Statement, the Committee has considered factors such as the following:
- the nature of the Plan's liabilities;
  - the allocation of such liabilities between active members and retired members;
  - the funded and solvency positions of the Plan;
  - the net cash flow position of the Plan;
  - the investment horizon of the Plan;
  - expected risk tolerance of the University and Plan beneficiaries,
  - historical and expected capital market returns and volatilities; and
  - the benefits of investment diversification.
- 2.5 The mandate of each Manager appointed shall be determined by the Committee, subject to approval by the Board.
- 2.6 A Custodian will be appointed for all or part of the Fund assets. Any Custodian shall be a trust company registered in Canada. All investments and assets of the Fund shall be held by a Custodian.
- 2.7 The Fund's financial statements shall be audited by an independent auditor at least annually. The audited statements shall be reviewed and approved by the Committee and reviewed by the Board of Governors.
- 2.8 This policy shall be reviewed and approved by the Committee at least annually. It may be reviewed and amended from time to time by the Committee. It must be reviewed and approved annually by the Board of Governors.

## Section 3 – Plan Overview

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3.1 The Plan is fundamentally a money purchase plan, with contributions of 4.37% of pensionable earnings up to the Year's Maximum Pensionable Earnings (YMPE) plus 6% of pensionable earnings above the YMPE being made by each active member to that member's Money Purchase account. The University makes contributions of 4.62% of pensionable earnings up to the YMPE plus 6.25% of pensionable earnings above the YMPE to the member's Money Purchase account.

Members make an additional contribution of 1.7% of pensionable earnings up to the YMPE and 2.4% above the YMPE, to a maximum of an additional 2% of pensionable earnings to the Minimum Guarantee Fund. The University makes an additional annual contribution, based on actuarial requirements, and in accordance with relevant legislation to the Minimum Guarantee Fund.

Contributions to the Minimum Guarantee Fund are essentially used, as required, to ensure that an active member's pension on retirement is not less than that produced by a defined benefit formula.

3.2 An account is maintained for each active member and for each former member for whom a balance has been left in the Fund. This account is credited with relevant contributions as well as a proportionate share of the Fund's investment return. Money Purchase Pensions are based on the amount in a member's account. Active members and these former members therefore have a direct interest in the Fund's return.

3.3 For pensioners, annual member pension benefits, including lifetime and bridge benefits, are adjusted by a percentage equal to the four-year arithmetic average investment return earned by the fund minus 6%. So that annual adjustments are reasonably smooth, a four-year moving average of the Fund's return is used in the formula and there is a non-reduction provision for service prior to July 1, 2003. Pensioners therefore have a direct interest in the Fund's return.

3.4 As the Sponsor of the Plan, the University always has an interest in the success of the Plan, and therefore in the Fund's return.

## Section 4 – Investment Objectives and Mandates

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### Investment Objectives

- 4.1 The Committee shall manage the Fund on a going concern basis, with the primary objective of providing reasonable rates of return, consistent with available market opportunities, a quality standard of investment, and commensurate with the University's risk tolerance level.
- 4.2 As the result of analyzing the relevant investment-related features of the Plan's design, the Committee has identified the fundamental risk policy issue as follows:
- To identify the best way of achieving an acceptable degree of opportunity for high long-term returns, subject to the following constraints:
    - safeguarding the University's contribution rate;
    - maintaining reasonable stability in pensioners' annual increases;
    - acceptably protecting the money purchase balances of active members nearing retirement.
- 4.3 After studying several different approaches, the Committee has noted that there is invariably a conflict between increased long-term investment opportunity and increased short-term safety.
- 4.4 The Committee expects the Benchmark Portfolio (as outlined in Section 4.5) to earn a 4.1% long-term real return, after investment management fees, over the long term (10 years or more). In any one year, however, the annual real return may be significantly above or below 4.1%

### Benchmark Portfolio

- 4.5 The Committee believes that a portfolio (the "Benchmark Portfolio") invested in the following asset mix (based on market value) can, over the long term, achieve the stated investment objectives:

<b>Asset Class</b>	<b>Investment Category</b>	<b>Benchmark Index</b>	<b>Benchmark Portfolio (%)</b>
Cash and Short-Term <sup>(1)</sup>	Short term notes and Treasury Bills	FTSE Canada 91-Day T-Bill Index	0.0
Fixed Income <sup>(2)</sup>	Canadian bonds and debentures	FTSE Canada Bond Universe Index	20.0
Canadian Equities	Canadian stocks	S&P/TSX Capped Composite Index	25.0
High-Yield Debt	Non-Canadian bonds and debentures	BoAML US High Yield Constrained Index	5.0
Global Infrastructure	Other investments	CPI + 5.0%	15.0
Non-Canadian Equities, Core	Non-Canadian stocks	Morgan Stanley Capital International (MSCI) World Index	25.0
Emerging Markets Equity	Non-Canadian stocks	MSCI Emerging Markets Equity Index	5.0
Non-Canadian Equities, Small Cap	Non-Canadian stocks	MSCI World Small Cap Index	5.0
	Total		100.0

(1) Excludes temporary cash holdings arising from portfolio adjustments.

(2) Cash used as part of a bond duration strategy shall be deemed to be bonds for asset mix purposes

Where cash and short-term investments are held as part of a derivatives strategy to gain exposure to a particular asset class, then, for the purpose of the Fund's asset mix, such investments shall be deemed not to be cash and short-term investments, but rather investments of the asset class to which the derivatives relate.

Since the Fund will be actively managed, and since asset classes provide different returns, the actual asset mix at any time may deviate from the above. Section 5 defines the limits for such deviations.

### **Rate of Return Objectives**

4.6 The Committee expects the total annualised returns of the Fund to exceed by 1.00% the returns that could have been earned by passively managing the Benchmark Portfolio, assuming quarterly rebalancing of the Benchmark Portfolio. For the purpose of measuring rates of return of the Fund, all returns shall be measured before investment management fees, but after transaction costs, and over rolling four-year periods. All index returns shall be total returns. All foreign index returns shall be Canadian dollar returns.

To achieve its rate of return objectives, the Committee shall recommend the appointment of Managers. The Managers will be assigned such mandates and performance targets as the Committee deems to be in the best interests of the Fund. The Committee shall monitor the Managers both qualitatively and quantitatively.

## Section 5 – Asset Mix and Rebalancing Policies

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### Asset Mix Policy

5.1 The market values of the individual asset class components of the Fund shall be within the following minimum and maximum aggregate investment limits:

Asset Class	Investment Category	Minimum (%)	Benchmark (%)	Maximum (%)
Cash and Short-Term	Short-term notes and Treasury Bills	0.0	0.0	5.0
Fixed Income	Canadian bonds and debentures	10.0	20.0	30.0
High Yield Debt	Non-Canadian bonds and debentures	2.0	5.0	8.0
Global Infrastructure	Other Investments	5.0	15.0	20.0
Equities				
Canadian Equities	Canadian stocks	15.0	25.0	35.0
Non-Canadian Equities				
Global Core	Non-Canadian stocks	15.0	25.0	35.0
Emerging Markets	Non-Canadian stocks	2.0	5.0	8.0
Global Small Cap	Non-Canadian stocks	2.0	5.0	8.0
Total Equities		50.0	60.0	70.0

5.2 Notwithstanding the asset mix ranges shown above, the Committee may authorize temporary asset mix positions outside those ranges to accommodate a Fund restructuring, a Manager restructuring, or a Manager request submitted in writing and providing the rationale for the request.

## Rebalancing Policy

- 5.3 The Committee believes, for the reasons set out below, that it is in the best interests of the Fund to control asset mix deviations:
- The Committee has adopted the Benchmark Portfolio and ranges based on the acceptability to the Committee of its risk/return trade-offs. Significant asset mix deviations from the Benchmark Portfolio would for the Committee's purposes, be sub-optimal.
  - The Committee has established the investment manager structure to achieve goals of diversification and efficiency.
- 5.4 Therefore, the Committee may, from time to time and in its absolute discretion, rebalance the actual asset mix back to the Benchmark Portfolio so as to align the two more closely. Between rebalancing events, cash flow may be used to rebalance towards the asset mix of the Benchmark Portfolio.
- 5.5 Infrastructure assets are, by their nature, illiquid and may not be able to be rebalanced immediately; however the objective is to methodically move the allocation to within the investment policy range as soon as practicable.

## Section 6 – Permitted Investments and Constraints

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### Permitted Investments and Constraints by Asset Class

- 6.1 The following investments may be made either directly, through pooled or mutual funds, private investment funds or through insurance contracts. The list of permitted investments and constraints outlined below apply to all relevant mandates. Additional constraints may be imposed by the Committee on certain mandates. Such additional constraints shall be documented in a separate manager mandate.

#### **A. Cash**

##### Permitted Investments

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

### Investment Constraints

All cash investments shall have a minimum rating of R1 by the Dominion Bond Rating Service (DBRS) or equivalent.

### **B. Fixed Income**

The provisions of this section do not apply to high-yield debt mandates. Permitted investments and constraints for high-yield debt mandates are outlined in Section 6.1.E of this document.

### Permitted Investments

Bonds, debentures, or other debt instruments of corporations, Governments, Government agencies, or guaranteed by Governments, mortgage-backed securities, mortgages, preferred shares, and bonds where capital, interest, or both are linked to increases in the cost-of-living (i.e., real return bonds).

### Investment Constraints

The investment constraints below apply to the total fixed income portion of the Fund and each Manager's fixed income portfolio.

1. Not more than 5% of the market value of fixed income securities shall be invested in any one non-government entity.
2. The bond portfolio may be invested to a maximum market value of:
  - 100% in Federal government bonds and guaranteed Federal agency bonds;
  - 60% in provincial bonds and guaranteed provincial agency bonds, subject to a single province a maximum of 15% for provinces rated AA or better and 10% for provinces rated less than AA (Standard and Poor's, DBRS, or equivalent rating);
  - 10% in municipal bonds; and
  - 50% in corporate issues and other bonds.
3. Investments in bonds and debentures shall have a minimum rating of BBB by Standard and Poor's or DBRS, or an equivalent minimum rating by at least one credit rating agency that is recognized by a competent authority. Not more than 10% of the market value of the fixed income portfolio shall be invested in BBB bonds or debentures. Where an investment in the portfolio is downgraded to below BBB, the Manager, in consultation with the Committee, shall use its best judgement to determine whether the BBB rating is likely to be restored within a reasonable period of time. If so, the Manager may retain the investment and shall keep the Committee informed of its rating. If not, the Manager shall take all reasonable steps to liquidate the investment in an orderly fashion with due regard to price and liquidity

constraints, while keeping the Committee informed.

4. Any direct mortgages in the fixed income portfolio shall meet the following requirements:
  - shall only be first mortgages, shall not exceed 75% of the appraised value, and shall be in metropolitan areas;
  - no one mortgage shall exceed 2% of the total market value of the fixed income portfolio, and the total value of all mortgages shall not exceed 5% of the total book value of the Fund.

## **C. Equity**

### Permitted Investments

Common shares, American depository receipts, global depository receipts, rights, warrants, installment receipts, securities convertible into common shares, real estate, venture capital, exchange traded index participation units or exchange traded funds, and Canadian income trusts which provide provincially-legislated limited liability protection to the unitholder.

### Investment Constraints – Canadian Equities

The investment constraints below apply to the total Canadian equity portion of the Fund and to each Manager's Canadian equity portfolio.

1. The market value of any single equity holding shall not exceed its weight in the S&P/TSX Capped Composite Index plus 5 percentage points.
2. The proportion of the market value of the Canadian equity portfolio invested in one sector of the S&P/TSX Capped Composite Index shall not exceed the sector's weighting in the S&P/TSX Capped Composite Index plus 10%.
3. Not more than 10% of the Canadian equity portfolio shall be invested in small cap stocks (i.e., market capitalization of less than \$500 million).
4. Not more than 10% of the outstanding securities of any one company shall be purchased.
5. To achieve a reasonable level of diversification, there shall be at least 20 different Canadian equity holdings.

### Investment Constraints – Non-Canadian Equities

The investment constraints below apply to the total non-Canadian equity portion of the Fund and to each Manager's equity portfolio.

1. An investment in the shares of any single company shall not exceed 5% of the market value of all non-Canadian equities held.

2. Not more than 10% of the outstanding securities of any one company shall be purchased.
3. Not more than 5% of the market value of the Fund shall be invested in small cap stocks.
4. Not more than 5% of the market value of the Fund shall be invested in emerging markets equities.
5. To achieve a reasonable level of diversification, there shall be at least 20 different foreign equity holdings.

For greater clarification, the investment constraints relating to non-Canadian small cap stocks and emerging market equities may from time to time exceed 5% in accordance with the asset mix ranges outlined in section 5.1.

#### Investment Constraints – Real Estate and Venture Capital

The investment constraints below apply to the real estate and venture capital portion of the Fund.

1. Investments in real estate shall not exceed 5% of the market value of the Fund, and an investment in any one parcel of real estate shall not exceed 2% of the market value of the Fund.
2. Investments in venture capital shall not exceed 3% of the market value of the Fund, and an investment in any one venture shall not exceed 1% of the Fund.

#### **D. Other - Global Infrastructure**

Infrastructure investments will be held through private long-term investment funds. The investment criteria for each fund (e.g. type of assets, geographic and sector focus) are outlined in the respective Private Placement Memoranda and related documents such as side letters. The Committee will review the investment guidelines for each infrastructure fund prior to recommending approval to the Board.

#### **E. High Yield Debt**

##### Permitted Investments

Bonds, debentures or other debt instruments of corporations, Governments, Government agencies, or guaranteed by Governments, private placement securities classified as 144a debt securities, bank loans, U.S. Treasury futures and options, currency forward or futures contracts, credit default swaps, common and preferred shares and warrants.

## Constraints

The investment constraints below apply to the total high-yield debt portion of the Fund and each Manager's high-yield debt portfolio.

1. No more than 5% of the market value of high-yield debt securities shall be invested in any one non-government entity.
2. The maximum allocation to securities with ratings below B- or B3 is the Index weight +5%. If a security is unrated, a comparable rating shall be determined by the Manager. In the event that a security within the Manager's portfolio is downgraded and causes the Manager's portfolio to exceed the limit, the Manager shall immediately notify the Committee in writing of this occurrence and recommend a course of action for approval by the Committee.
3. No more than 25% of the market value of high-yield debt securities shall be invested in any one industry.
4. No more than 2% of the market value of high-yield debt securities shall be invested in equity or equity-related securities.
5. Short sales of securities are not permitted.
6. Security purchases on margin are not permitted except for futures or other over-the-counter derivatives.

## **F. Derivatives**

1. Where appropriate and prudent, derivatives are used as a risk management tool. Derivatives will only be used after full consideration of the related risks and in compliance with market and regulatory obligations. Risk (such as counterparty risk) will be identified, measured, managed and monitored on an ongoing basis.

The Fund may use exchange-traded, over-the-counter and other forms of bilateral derivative contracts to gain or reduce exposure to interest rates, foreign exchange rates, credit debt instruments, commodities and public equities. Exchange-traded derivative positions are regularly valued using quoted market prices, where available, or discounted cash flows using current market yields for over-the-counter derivatives. Derivative instruments are classified in accordance with the underlying exposure to fixed income or public equity.

### 2. Permitted Investments

Permitted derivative investments are:

- Option contracts, including stock, stock index, currency, bond, bond futures and interest rate
- Futures contracts, including stock index, currency, bond and interest rate

- Forward contracts, including currency, and interest rate
- Swap contracts, including credit default, equity, currency and interest rate
- Mortgage derivatives

#### Guidelines and Restrictions

1. Derivatives may only be used with the expressed written consent of the Committee.
2. Derivatives may be used as a hedge against existing investments or liabilities, provided their particular purpose/usage has been fully disclosed to the Committee.
3. Derivatives may be used to hedge financial risks associated with the underlying portfolio when they hedge those risks more efficiently than cash market instruments. Derivatives used for hedging purposes must have a reasonably high negative correlation with the underlying asset or liability being hedged.

#### Investment Constraints

1. Derivatives shall not be used to create leverage or for speculative purposes.
2. Counterparties will carry a minimum BBB or its equivalent credit rating unless approved by the Committee. The Managers shall be responsible for assessing all counterparty risk associated with derivative instruments, with regards to credit rating, and total exposure limits for each derivatives securities dealer and bank.
3. These guidelines and restrictions on derivative investments are not intended to restrict investments in derivative instruments by pooled vehicles, including limited partnerships, whose primary investment focus is to invest in other asset classes such as real estate, private debt and infrastructure.
4. The Managers shall implement internal procedures and controls in order to ensure that derivatives are used in compliance with the Statement at all times.
5. Derivatives shall be sold only for securities held in the Fund, and bought only when the Fund holds sufficient cash to make the required payment at maturity.
6. The Fund may post collateral as required to complete derivative transactions. Pledging of collateral for purposes of derivatives is permitted. Assets that can be pledged for collateral are set out in legal agreements or are defined by exchanges. The level of collateral pledged is determined and monitored as part of liquidity management.

## **G. Currency**

A currency hedge on a portion of the Funds' U.S. and Non-North American equity and infrastructure exposure will be used to manage currency risk. This hedging activity will be subject to the constraints outlined in Section 6.1.F above. Those managers whose mandate(s) permit hedging of the foreign exchange risk of the underlying foreign equity securities may do so directly into Canadian dollars, or into U.S. dollars and then back into Canadian dollars. Speculative currency management is not allowed.

### **Investments Requiring Prior Written Approval**

6.2 The Managers shall not make investments in investment categories other than those explicitly permitted in the Statement, unless the Committee first consents in writing.

### **Other Constraints**

6.3 The Fund shall not borrow funds to acquire securities or otherwise deal in margin trading.

6.4 All investments shall be made in accordance with the Code of Ethics and Standards of Practice of the CFA Institute.

### **Exceptions to Statement**

6.5 If at any time an investment or group of investments does not conform with the limitations provided herein, the Manager, in consultation with the Committee, shall use its best judgement as to the action required to correct the situation. If it appears that the situation shall be corrected within a reasonably short period of time through cash flow into the Fund, the Manager - with the approval of the Committee - may elect not to liquidate the temporarily non-conforming investments.

6.6 The Committee may direct a Manager to deviate from the investment guidelines of the Statement with respect to a portion of the Fund. Such direction shall be in writing and shall specify the value of the assets to be invested and how those assets are to be invested. Unless instructed otherwise by the Committee in the written direction, each Manager shall invest the remaining portion of the Fund according to the normal investment guidelines of the Statement as if the assets subject to the special instructions were not part of the Fund.

6.7 To the extent that the Committee invests all or part of the Fund in a Manager's pooled funds or private investment funds, the foregoing investment constraints, and any other provisions of the Statement that may be affected, shall not apply, but the Manager shall be governed by the Manager's own investment policy for the pooled funds or private investment funds. The Manager shall provide such policy to the Committee and shall inform the Committee when and how the guidelines of the pooled funds or private investment funds differ from the guidelines of the Statement.

## Section 7 – Liquidity

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- 7.1 It is expected that cash flow from contributions and regular income (i.e., interest, coupons and dividends) generated from securities held in the Fund will be sufficient to meet most or all of the required disbursements under the Plan.
- 7.2 Disposing of securities from time to time can make up any shortfall. Considering the type of investments held in the Fund and the relatively small anticipated shortfalls, it is not expected that the disposal of securities will have significant implications on the investment of the Fund.
- 7.3 The difference between cash flow/income and disbursements will be monitored by the Committee on an ongoing basis. Should the shortfall become sizeable in the future, the Committee will consider the options available to meet the Plan's liquidity requirements in order to avoid untimely disposal of securities, and instruct the Managers of any related modification to their mandates.

## Section 8 – Conflict of Interest Policy

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### Conflict of Interest and Procedures for Disclosure

- 8.1 A conflict of interest refers to a situation where financial, professional or other personal consideration may compromise or have the appearance of compromising an individual's professional judgment in the performance of his or her duties or in the exercise of his or her fiduciary obligations as a member of the Pension Committee.

A conflict of interest exists where (1) the member owes a duty to the beneficiaries of the Retirement Plan, and (ii) the member has a personal interest in the matter or owes a duty to act in the matter in the interests of a different person, group of persons, institution or organization.

A conflict of interest may arise in various cases. The following are definitions of the various types of interests that a member may have, which could give rise to a conflict of interest:

Financial Interest: A member has a pecuniary or financial interest where he or she stands to gain a financial advantage from a decision made. The financial interest may take the form of money, gifts, favors or other special considerations. This does not apply to

compensation paid to University employees who are Members of the Pension Committee nor reimbursement of approved expenses to Members of the Pension Committee in the discharge of their duties.

Undue Influence: A private or personal interest that impairs, influence or appears to influence the objective exercise of his or her duties as a member of the Committee.

Adverse Interest: A member is a party to a claim or proceeding against the University.

Personal Relationship: A non-arm's length relationship, including but not limited to family members and persons with whom there is or has recently been a close personal relationship.

Apparent/Perceived Conflict of Interest: A reasonable apprehension which a reasonable person may have, that a conflict of interest exists, even if there is neither a potential nor a real conflict.

8.2 For purposes of this section 8, a Pension Committee member shall not be considered to have any such interest merely by virtue of being a member of the Plan.

8.3 Process for Dealing with a Conflict of Interest

Both prior to serving on the Pension Committee and during their term of office, Members must openly disclose a potential, real or perceived conflict of interest as soon as the issue arises and before the Pension Committee deals with the matter at issue.

If there is any question or doubt about the existence of a real or perceived conflict, the matter may be referred to the Pension Committee, as the case may be, who will determine by majority vote if a conflict exists. The Member potentially in a conflict of interest shall be absent from the discussion and shall not vote on the issue.

It is the responsibility of other Members who are aware of a real, potential or perceived conflict of interest on the part of a fellow Member to raise the issue for clarification, first with the Member in question and, if still unresolved, with the Chair of the Pension Committee.

If a conflict is identified, the Member must abstain from participation in any discussion on the matter, shall not attempt to personally influence the outcome, shall refrain from voting on the matter and, unless otherwise decided by the Pension Committee, must leave the meeting room for the duration of any such discussion or vote.

The disclosure and decision as to whether a conflict exists shall be duly recorded in the minutes of the meeting.

8.4 The Committee shall satisfy itself that an appropriate policy regarding conflicts of interest exists and is followed by any Manager recommended by it to the Board. As a minimum,

the Code of Ethics and Standards of Professional Conduct adopted by the CFA Institute shall be deemed to apply to such Manager. Any investigation required by the Committee shall be carried out before the recommendation is made.

- 8.5 The failure of a person to comply with the procedures described in this Section 8 shall not of itself invalidate any decision, contract or other matter.
- 8.6 If after a decision has been made, it comes to the attention of the Committee that a member had or has had a conflict of interest, the Chair will appoint an "ad hoc" committee of the members, excluding the person with the alleged conflict, to review all the circumstances and to recommend to the Committee the action to be taken.
- 8.7 This policy shall apply also to the Board of Governors, and any agent or advisor to the Committee who assists the Committee in the execution of its responsibilities under the Pension Benefits Act (Ontario).

### **Related Party Transactions**

- 8.8 For the purpose of this section, a "related party" in respect of the Plan has the meaning given to such term in Schedule III of the Pension Benefits Standards Regulations, 1985 (Canada).
- 8.9 Prior to July 1, 2016, 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 market terms and conditions; and
  - any purchase of securities of a related party, provided that those securities are acquired at a public exchange recognized under the Pension Benefits Standards Act and Regulations, 1985 (Canada).
- 8.10 On and after July 1, 2016, the following related party transactions are permitted for the Plan:
- any transaction for the operation or administration of the Plan, the terms and conditions of which are not less favourable to the Plan than market terms and conditions and the transaction does not involve the making of loans to, or investments in, the related party.
- 8.11 On and after July 1, 2016, the following exceptions apply to the restrictions on transactions with related parties:
- i. investments in an "investment fund" (as defined in the Pension Benefits Standards Regulations, 1985) or a segregated fund in which investors other than

Carleton University and its affiliates may invest and which complies with the requirements applicable to a pension plan under Schedule III of the Pension Benefits Standards Regulations, 1985;

- ii. investments in an unallocated general fund of a person authorized to carry on a life insurance business in Canada;
  - iii. investments in securities issued or fully guaranteed by the Government of Canada or a Province of Canada or an agency thereof;
  - iv. investments in a fund composed of mortgage-backed securities that are fully guaranteed by the Government of Canada or a Province of Canada or an agency thereof;
  - v. investments in a fund that replicates the composition of a widely recognized index of a broad class of securities traded at a marketplace; and
  - vi. investments that involve the purchase of a contract or agreement in respect of which the return is based on the performance of a widely recognized index of a broad class of securities traded at a marketplace.
- 8.12 A related transaction is also permitted if the value of the transaction is nominal or immaterial to the Plan. A transaction will be considered to be nominal or immaterial if its value is no more than one percent of the market value of the assets of the Fund at the time the transaction is entered into or completed.

## **Section 9 – Delegation of Voting Rights**

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- 9.1 The Committee delegates to the Managers the responsibility of exercising all voting rights acquired through the Fund. The Managers shall exercise such voting rights with the intent of fulfilling the investment objectives and policies of the Statement and for the long-term benefit of the Fund.
- 9.2 The Managers shall provide their voting rights policies to the Committee. Each Manager shall prepare an annual report to the Committee outlining and explaining any departures from, or exceptions to, the policies, any issues where the Manager has voted against corporate management, and any other extraordinary matters.
- 9.3 The Committee retains the right to exercise acquired voting rights at any time by notifying the Managers.

## **Section 10 - Valuation of Investments Not Regularly Traded**

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- 10.1 It is expected that most of the securities held by the Fund will have an active market and that the values of such securities will be based on their market values.
- 10.2 Investments that are not regularly traded shall be valued at least annually by the Custodian in co-operation with each Manager. In making such valuations, considerations shall be given to bid and ask prices, previous transaction prices, discounted cash flow, independent appraisal values, the valuations of other comparable publicly-traded investments and other valuation techniques that are judged relevant to the specific situation.
- 10.3 For untraded investments on which the Custodian has not been provided with a valuation, the Manager shall report to the Committee within ten days after such time as the investment became untraded.

## **Section 11 – Securities Lending**

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- 11.1 The Fund may enter into securities lending agreements provided the loaned investments are secured by cash or readily marketable investments having a market value of at least 105% of the loan, and that level of security is maintained daily. Collateral provided with respect to any such securities lending agreements shall be held by the Lending Agent for the benefit of the Fund, and the collateral will not be subject to a right of set-off by a third party. For purposes of securities lending, acceptable collateral shall consist of the following:
- Obligations of or guaranteed by the respective governments of Canada or the United States, their respective agencies, or any Canadian province;
  - Widely-traded debt instruments having a rating of at least single A (low) or the equivalent from a nationally recognized statistical rating organization (“NRSRO”);
  - Commercial paper rated at least R-1 (low) or the equivalent by a NRSRO;
  - Acceptances of banks and trust and loan companies whose short-term deposits are rated at least R-1 (low) or the equivalent by a NRSRO;
  - High quality common and preferred shares;
  - Shares of an exchange-traded fund that trade on a major stock exchange, commonly known as Index Participation Units (when immediately convertible into the underlying securities);
  - Unconditional, irrevocable letters of credit that comply with the standards of the

International Chamber of Commerce and which are issued by banks and trust and loan companies whose short-term deposits are rated at least R-1 (low) or the equivalent by a NRSRO;

- Convertible preferred shares and convertible debt instruments (when immediately convertible into the underlying securities);
- Sovereign debt obligations of countries other than Canada or the United States who are members of the Organization for Economic Co-operation and Development (OECD); and
- Canadian Hydro Bonds guaranteed by the respective Provincial governments having a rating of single A (low) or the equivalent by a NRSRO.

## **Section 12 – Soft Dollar Policy**

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- 12.1 No Manager shall enter a soft-dollar arrangement for trades on behalf of the Fund for the payment of third party services without the prior written approval of the Committee.
- 12.2 In the event a Manager receives soft dollars, these monies shall be used for the benefit of the Plan and not for the benefit of the Manager's firm.
- 12.3 The Managers shall be governed by the Soft Dollar Policy of the CFA Institute.

## **Section 13 – Statement Review**

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The Committee shall review the Statement at least annually, taking into account whether any developments such as the following have occurred:

- governance changes;
- changing investment beliefs;
- changing risk tolerance;
- changes to benefits provided by the Plan;
- changes to the Plan's membership demographics and liability distribution;
- changes to the Plan's cash flow and surplus/deficit position;
- changed expectations for the long term risk/return trade-offs of the capital markets;
- new investment products;
- changes to legislation; and
- any practical issues that arise from the application of the Statement.

**Implementation Guidelines  
for the  
Statement of Investment Policies and Procedures  
for the  
Trust Fund Created Under  
The Carleton University Retirement Plan**

**June 30, 2020**

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## Section 1 - Purpose

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- 1.1 This Appendix forms part of the Statement and shall be interpreted in accordance with and subject to the Statement. Except where the context requires otherwise, a capitalized term in this Appendix shall have the meaning that is given to that term in the Statement.
- 1.2 Carleton University (the “University”) administers the Trust Fund (the “Fund”) to pay benefits in accordance with the terms of the Carleton University Retirement Plan (the “Plan”). The Pension Committee (the “Committee”), acting through the Board of Governors (the “Board”), has prepared a statement of investment policies and procedures (the “Statement”) pursuant to the requirements of The Pension Benefits Act of Ontario.
- 1.3 The Committee has prepared these guidelines (the “Guidelines”) to support the Statement and direct its implementation.

## Section 2 – Fund Governance – Roles and Responsibilities

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2.1 The University is the legal administrator of the Plan and is responsible for all matters relating to the administration of the Plan. The Board delegates tasks to the Committee, and through the Committee to various agents retained to assist it in carrying out its duties. The Board, however, retains overall responsibility for the Fund. The Board has allocated its responsibilities in respect of the Fund as set out below.

### 2.2 **The Pension Committee**

The Committee shall:

- establish the Statement for approval by the Board;
- review the Statement at least annually, and recommend confirmation or amendment to the Board as needed;
- recommend for the Board's approval one or more custodians (the "Custodian") to hold the assets of the Fund;
- establish the specific investment mandates and recommend for the Board's approval the investment managers (the "Managers") to manage the Fund in accordance with such mandates;
- Engage and monitor one or more investment consultants (the "Consultants") to assist the Committee with its fiduciary duties in respect of the Fund;
- Engage and monitor an actuary (the "Actuary") to review the financial status of the Fund at regular intervals and to perform such other duties as are required by legislation or deemed necessary by the Committee;
- evaluate, both quantitatively and qualitatively, each Manager's performance at least annually. The review shall include a comparison of the rates of return achieved relative to the objectives established, an analysis of the reasons for such return, and an assessment of the risk assumed in the pursuit of such returns;
- ensure that the Custodian's reports are prepared and reviewed by a designated body;
- review and recommend for approval to the Board the audited financial statements of the Fund; and
- delegate tasks relating to the overall management of the Fund to selected agents or advisers retained by the Committee.

## 2.3 **The Managers**

The Managers shall:

- manage the short-term asset mix within the long-term guidelines of the Statement and Guidelines and select securities within each asset class, subject to all relevant legislation and the constraints and directives contained in the Statement and Guidelines and in any supplementary document provided by the Committee;
- meet with the Committee at least annually, or more often if the Committee so requests, to present their analysis of the investment performance and to describe their current and future investment strategies regarding their specific investment mandates;
- prepare written reports of investment performance results at least quarterly;
- submit certificates at least annually, or more often if the Committee so requests, attesting to their compliance with the Statement and Guidelines, and notify the Committee if at any time an investment or group of investments does not comply with the Statement and Guidelines;
- give prompt notice to the Custodian of all purchases and sales of securities;
- advise the Committee on an ongoing basis of any changes in the organization, personnel or investment process;
- permit a tour of their premises and a review of their internal control systems and procedures by the Committee at least once a year;
- identify provisions in the Statement and Guidelines that may need to be revised due to new investment strategies or changes in the capital markets; and
- be governed by the Code of Ethics and Standards of Professional Conduct of the CFA Institute.

## 2.4 **The Custodian**

The Custodian shall:

- perform the regular duties required of a custodian by law;
- maintain safe custody over the assets of the Fund,
- perform the duties required of the Custodian pursuant to agreements entered into from time to time with the University, including the collection of contributions and payment of pension benefits and expenses relating to the administration of the Plan.
- Execute instructions of the University and the Investment Managers, process the security transactions that result from the buy and sell orders placed by the Managers

and record income; and

- provide the Committee with monthly portfolio reports of the assets of the Fund and monthly reports of the transactions during the period, as well as any reports containing additional information agreed upon between the Committee or its agents and the Custodian.

## 2.5 **The Performance Measurement Consultants**

The Performance Measurement Consultant shall:

- At least quarterly, provide the Committee with the annualised time-weighted rates of return for the Fund, for each asset class component of the Fund, and for each Manager;
- At least quarterly, provide the Committee with analyses of Fund performance relative to market indices or custom indices as may be agreed upon with the Committee, on a total Fund basis and for each Investment Manager,
- provide such other information and analysis as the Committee may from time to time as requested.

## 2.6 **The Actuary**

The Actuary shall:

- perform actuarial valuations of the Plan as required, but no less frequently than every three years,
- advise the Pension Committee on any matters relating to Plan design, funding, and regulatory matters,
- assist the Pension Committee in any other way as required in order for the Committee to meet its fiduciary duties,

## 2.7 **The Consultants**

From time to time the Committee may engage experts to assist them in meeting their fiduciary responsibilities in managing the Fund. Such consultants shall

- provide advice and deliverables to the Committee per the terms of the engagement;
- adhere to this policy as per section 2.3 of the Statement.

## Section 3 – Investment Beliefs

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3.1 The Committee has from time to time reviewed and confirmed its investment beliefs.

Currently, the Committee believes:

- that equity investments will provide greater long-term returns than fixed income investments, although with greater short-term volatility;
- that it is prudent to diversify the Fund across the major asset classes;
- that a meaningful allocation to foreign equities increases portfolio diversification and thereby decreases portfolio risk while, at the same time, providing the potential for enhanced long-term returns;
- that investment managers with active mandates can add after-fee value mostly through security selection strategies and/or reduce portfolio risk below market risk, and that most of the Fund should be allocated to such managers;
- that investment managers with active balanced mandates can add incremental value through their short-term and mid-term asset allocation strategies and/or reduce portfolio risk below the risk of a portfolio with a static asset mix, and that a portion of the Fund should be allocated to such managers;
- that multiple investment managers are appropriate, given the size of the Fund, provided they offer asset class or style diversification;
- that the overall Fund should be rebalanced within prescribed limits to manage the risk of deviating too far away from the Benchmark Portfolio; and
- that it is prudent to manage currency risk on a non-speculative, non-leveraged manner to control the overall foreign currency exposure of the Fund.

### 3.2 Responsible Investing

The University provides pension benefits to its employees through the Plan. The primary goal of the Plan is to assist Plan beneficiaries in providing for a financially secure retirement income at a reasonable cost. The Committee has a fiduciary duty to act in the long-term interests of the beneficiaries of the Plan. The prudent and effective management of the Fund as described in this Statement has a direct impact on the achievement of this goal.

In this fiduciary role, the Committee is guided by certain principles as they relate to responsible investing. These are:

- That the fund must be invested to achieve the best possible risk-adjusted rate of return on the Fund's assets.
- That portfolio diversification is necessary to achieve these returns.
- That responsible corporate behaviour with respect to environmental, social and governance (ESG) factors can have a positive effect on long-term financial performance (to varying degrees across companies, sectors, regions, assets classes and time)
- That taking into account ESG issues may better align the portfolio with the interests of our plan members.
- That imposing constraints on portfolio investments may increase risk or reduce returns or both.

These beliefs are consistent with the United Nations Principles for Responsible Investment (UNPRI) which are considered best practice in the area of responsible investing.

The principles will be applied by

- Encouraging investment counsel and other service providers to incorporate ESG issues into investment analysis and decision making,
- Requiring annual disclosure by Investment counsel of the processes by which ESG factors are incorporated into the investment decision making process,
- Examining ways to support the UNPRI by aligning with coalitions and/or industry groups that support ESG principles within the investment industry,
- Requiring disclosure of proxy voting records by investment managers.

## Section 4 – Managers, Mandates and Objectives

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Not included for confidentiality reasons.

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## **Section 5 – Monitoring and Control**

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### **5.1 Performance**

The performance of the Investment Managers will be reviewed at least quarterly by the Committee. Both quantitative and qualitative criteria will be used, including those listed in section 4.6 of the Appendix.

In cases of manager underperformance, the Committee will undertake a detailed review of the manager and record same in the Committee minutes and/or notes held in the Office of Pension Fund Management.

### **5.2 Compliance Reporting by Investment Managers**

Each Fund Manager is required to complete and deliver a compliance report to the Committee on a quarterly basis. The report will indicate compliance with this policy. In the event that a Manager is not in compliance with this policy, the Manager shall advise the Committee immediately and recommend a course of action to remedy the situation.

### **5.3 Selection of Investment Managers and Consultants**

In the event that a new Investment Manager must be hired, whether to replace a terminated manager or to expand the existing Manager structure, the Committee will undertake an Investment Manager search with the assistance of a third-party investment consultant. The criteria for selecting new managers will be consistent with the investment beliefs outlined in Section 3 of the Implementation Guidelines, the fit of the Manager within the policy asset mix and existing manager structure, and the investment constraints detailed in section 6. Other factors include, but are not limited to, the investment style and process of the Manager, risk controls, depth of key personnel, and organizational stability.

The process for selecting consultants to assist the Committee in the discharge of its duties shall follow the guidelines applicable to the Broader Public Sector for the sourcing of such services.

### **5.4 Control Reporting by Custodian**

Annually, the Custodian will be required to provide a Service Organization Control report to the Office of Pension Fund Management and to the external auditors for the Fund.