SIMON FRASER UNIVERSITY PENSION PLAN FOR
ADMINISTRATIVE/UNION STAFF

Statement of Investment Policies and Procedures

Effective November 3, 2017

It is hereby certified by the undersigned that this Statement of Investment Policies and Procedures was adopted by the Trustees of the Simon Fraser University Pension Plan for Administrative/Union Staff on November 3, 2017.

Denis Bérubé
(Name)
Chair, Administrative/Union Pension Plan
(Title)
November 3, 2017
(Date)
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SECTION 1 – OVERVIEW

1.1 Introduction

The Trust Agreement for the Simon Fraser University Pension Plan for Administrative/Union Staff (the “Plan”) authorizes the Trustees of the Plan to set investment policy and manage the assets of the Plan.

1.2 Purpose of Statement

This Statement of Investment Policies and Procedures (the “Policy”) is intended to set out the investment framework which shall apply for the Plan.

The purpose of this Policy is to formulate the investment principles, guidelines and monitoring procedures which are appropriate to the needs and objectives of the Plan in a manner conforming to the applicable rules in the BC Pension Benefits Standards Act and Regulations.

To the extent that the assets of the Plan (the “Fund”) are invested in Pooled Funds, and in the event that there is any conflict between the provision of the Policy and the guidelines of the Pooled Funds, the guidelines of the Pooled Funds shall prevail.

1.3 Background of the Plan

The Plan is a defined benefit plan into which the University makes contributions based on the recommendations from the actuary contained in the actuarial valuation report. Members of the Plan may make voluntary contributions. The Plan pays benefits on the termination, death and retirement of plan members. Expenses related to the on-going administration of the Plan are also paid from the Plan.
SECTION 2 – BACKGROUND, ASSET MIX AND DIVERSIFICATION POLICY

2.1 Background

The Fund will be managed on a going-concern basis. The long term investment objective is to earn sufficient returns to ensure that the benefits defined in the Plan can be paid.

In order to achieve this objective, the Trustees have adopted a diversified asset mix that currently includes allocations to equity, fixed income and real estate investments. Risk is managed by investing in a well-diversified portfolio of asset classes and Managers.

In developing the Policy, the Trustees have 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;
- historical and expected capital market returns; and
- the benefits of investment diversification

2.2 Overall Asset Mix

The following benchmark portfolio is currently expected to achieve the long term investment return objectives:

<table>
<thead>
<tr>
<th>Component Asset Classes</th>
<th>Percentage of Fund at Market Values</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percentage at Market Values</td>
</tr>
<tr>
<td>Canadian equities</td>
<td>30%</td>
</tr>
<tr>
<td>Foreign equities</td>
<td>30%</td>
</tr>
<tr>
<td>Total equities</td>
<td>60%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>35%</td>
</tr>
<tr>
<td>Cash &amp; Cash Equivalents</td>
<td>0%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>5%</td>
</tr>
<tr>
<td>Total Fixed Income</td>
<td>40%</td>
</tr>
</tbody>
</table>

Cash and Cash Equivalents may be held from time to time on a short-term, temporary basis or as defensive reserves within the portfolios for each asset class at the discretion of each Manager within the constraints prescribed by its mandate.
If the asset mix deviates outside the above ranges at the end of any month, the Trustees shall take corrective action to bring the asset mix back within the range as soon as practicable, unless the markets are in an extreme state, in which case, the corrective action may be delayed.

The Managers shall comply with restrictions imposed by Federal or Provincial legislation and regulations, as well as with their respective investment mandates and/or pooled fund policies.
SECTION 3 – PERMITTED AND PROHIBITED INVESTMENTS

3.1 General Guidelines

The investments of the Plan must comply with the requirements and restrictions imposed by the applicable legislation, including the BC Pension Benefits Standards Act, the federal Income Tax Act and any relevant regulations.

From time to time, and subject to this Policy, the Fund may invest in any or all of the following asset categories and subcategories of investments either directly or through Pooled Funds which hold only these investments. To the extent the Fund invests in a Manager’s Pooled Funds, the investment constraints outlined below 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 Pooled Fund policies.

Canadian Equity:
- Common stocks, exchange traded funds, convertible debentures, share purchase warrants, share purchase rights or preferred shares of Canadian public and private companies.
- Units in real estate investment trusts and income trusts that are reporting issuers under applicable securities legislation in Canada and that are governed by the laws of a province in Canada that limits the liability at unitholders by statute.

Foreign Equity:
- Common stocks, exchange traded funds, convertible debentures, preferred shares, share purchase warrants, share purchase rights or depositary receipts of publicly traded non-Canadian companies.

Real Estate:
- Real property, whether held directly or through open or closed-end pooled funds, participating debentures, shares of corporations or partnerships formed for pension funds to invest in real estate.

Infrastructure:
- Infrastructure investments, whether held directly or through open or closed-end pooled funds, participating debentures, shares of corporations or partnerships formed for pension funds to invest in infrastructure.

Fixed Income:
- Bonds, debentures, mortgages, notes or other debt instruments of governments, government agencies or corporations (public and private).
- Guaranteed investment contracts or equivalent financial instruments of Canadian insurance companies, trust companies, banks or other eligible issuers.
- Annuities, deposit administration contracts or other similar instruments regulated by the Insurance Companies Act (Canada) or comparable provincial law, as amended from time to time.
• Term deposits or similar instruments of Canadian trust companies and banks.

Cash or Cash Equivalents:
• Deposits with banks or trust companies.
• Money market securities issued by governments or Canadian corporations (public and private) with term to maturity of one year or less.

Derivatives:
• Options, futures and forward contracts on any securities allowable under the Policy, including index options and futures and equivalents.

Derivatives shall not be used for speculative purposes, and may only be used to:

• Hedge (i.e., reduce), fully or partly, any investment risk, including market, interest rate, credit, liquidity, and currency risk.
• Replicate direct investments in the underlying assets or groups of assets (i.e., indexes) so as to achieve some advantage of lower cost, transactional ease, or market exposure.

If there is any doubt prior to acquisition as to whether the derivative is permitted by this Policy, the permission of the Trustees must be received prior to entering into the transaction.

Other Investments:

The Fund may not invest in categories of assets or instruments not specifically provided for in this Section, including but not limited to commodities, precious metals, mineral rights, bullion or collectibles.

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

Environmental, Social and Governance Factors:

The Trustees have delegated to the Managers full discretion in regards to the Fund’s investments. Where relevant and material to the assessment of investment value and mitigation of investment risk, environmental, social and governance (‘ESG’) factors should be evaluated alongside other considerations by the Managers in the exercise of their duties. The Trustees do not impose specific constraints on portfolio investments on the sole basis of ESG factors.

3.2 Diversification

In respect of the equity portfolio of the Fund:

• North American holdings shall be diversified by stock, capitalization and industry, having regard to the relative sizes of industry sectors in the applicable stock market indices.
• Non-North American holdings shall be diversified by stock, region, industry and country, having regard to the relative sizes of economic activity and stock market capitalization.
• Not more than 20% of the equity portfolio shall be invested in stocks with a capitalization less than $1 billion at time of purchase.

In respect of the fixed income portfolio of the Fund:

• The portfolio holdings shall be broadly diversified in fixed income securities issued by Canadian governments and corporations and similar securities outside of Canada.
• No more than 5% of the portfolio shall be invested in the securities of any one corporate issuer at time of purchase. No more than 10% of the portfolio shall be invested in the securities of, or guaranteed by, the Government of Canada or a Canadian province.
• No more than 10% of the portfolio shall be invested in debt rated below BBB or equivalent at the time of purchase, including bonds of unrated issuers.
• The weighted average credit quality of the aggregate fixed income portfolio is expected to be A or higher.
• The aggregate duration of the portfolio shall be maintained within two years of the FTSE TMX Canada Universe Bond Index.

In respect of the real estate portfolio, properties shall be diversified by location, type of use and tenants.

All cash equivalents, including those held within the portfolios for each asset class at the discretion of the Manager, shall have a minimum credit rating of R-1 (low) or equivalent. If a security's credit rating falls below R-1 (low) after time of purchase, the Manager shall remove it from the portfolio as soon as practicable. Securities of unrated issuers will be assumed to fail all of the credit ratings referred to in this Section.

For purposes of this section, all debt ratings refer to the ratings of Dominion Bond Rating Service, however, equivalent ratings by another major credit rating agency can be used.

The Fund shall not purchase securities on margin or engage in short sales.

Each Manager shall be responsible for directing trades and paying the investment brokerage commissions unless otherwise specified. The Manager is responsible for choosing brokers to execute investment transactions in the most effective manner and in the best interests of the Fund.
3.3 Borrowing

No part of the Fund shall be loaned to any party, other than through the purchase of securities which otherwise meet the requirements of this Policy.

Money shall not be borrowed on behalf of the Fund and the Fund’s assets shall not be pledged or otherwise encumbered in respect thereof, except:

a) for the payment of refunds, benefits or administration costs of the Plan to the extent that such borrowing is limited to the aggregate of such disbursements in any one month;

b) for and to the extent of temporary overdrafts that occur in the course of normal day-to-day portfolio management.

3.4 Securities Lending

The Fund, on approval by the Trustees, may enter into securities lending agreements provided the loaned investments are secured by cash or readily marketable investments. The collateral must have a market value of 105% of the principal of the loan and accrued interest or such other percentage as reflects the current best market practices in the local market in which the securities are being lent, and that level of security is calculated daily and maintained throughout the period of the loan. The Custodian must guarantee any losses. Collateral provided with respect to any such securities lending agreements must have had free and clear title and may not be subject to any right of set-off. Securities lending is permitted by the Pooled Funds in accordance with their own Pooled Fund policies.

3.5 Liquidity

The Fund will maintain sufficient liquidity to meet its financial obligations as they come due. In the event of unanticipated withdrawals or cashflows, the Trustees may authorize the Custodian to run a temporary overdraft, rather than liquidate investments, if it is considered to be in the best financial interest of the Fund.
SECTION 4 – MONITORING AND CONTROL

4.1 Performance Measurement

The Trustees shall review on a regular basis, as needed, and at least once a year the investment performance of the Plan and each Manager relative to the objectives of the Policy.

Total Fund Benchmark

In order to achieve the long-term return objective, the Fund is targeting to achieve, over moving four-year periods a gross return, at least equal to a composite index made of passive investments in the benchmark allocation defined in Section 2.2 plus 1.0% per annum.

A secondary objective of the Fund is to achieve, over four year periods at least second quartile performance compared to a performance measurement service pension data base.

The risk inherent in the investment strategy over a market cycle (a five to ten year period) is three fold. There is a risk that the market returns will not be in line with expectations. To the degree that an active management style is employed, there is a risk that the added return expected of active management over passive management will not be realized, or will be negative. There is also the risk of annual volatility in returns which means that in any one year the actual return may be very different from the expected return (such return may also be negative).

4.2 Fund Managers

The primary objective of the Managers is to earn a rate of return that exceeds the total rate of return on a benchmark portfolio over rolling four year periods as follows:

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Weight</th>
<th>Value Add</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P/TSX Capped 10%</td>
<td>30%</td>
<td>1.0%</td>
</tr>
<tr>
<td>MSCI World Net</td>
<td>15%</td>
<td>1.5%</td>
</tr>
<tr>
<td>MSCI ACWI Net</td>
<td>15%</td>
<td>1.5%</td>
</tr>
<tr>
<td>FTSE-TMX Canada Universe Bond Index</td>
<td>35%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>5%</td>
<td>CPI + 3.0%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

A secondary objective for each Manager is to achieve, over four year periods at least second quartile performance compared to a performance measurement service pension data base of similar strategies.

In addition to assessing performance relative to the benchmark portfolio and peers, the Trustees will examine risk factors and performance by asset class.
The Trustees shall meet normally once a year with each Manager to discuss investment performance, investment strategies, manager fees and expenses, expected future performance and any changes in the Managers' organization, investment processes and professional staff.

The primary focus of performance assessment will normally be on a rolling four-year basis or longer but performance over shorter time periods may also be considered. The Manager will not necessarily be faulted for underperforming the agreed standards over short time periods. However, the Trustees may conclude that significant short-term under performance renders it unlikely that the performance standard can reasonably be achieved at an appropriate risk level over the remainder of a market cycle.

4.3 Dismissal of a Fund Manager

The Trustees shall consider from time to time whether a Manager’s investment performance or any other circumstances may warrant a change in a Manager. Such circumstances would include but not be limited to:

- Significant turnover in staff of the Manager
- Change in ownership of the Manager
- Unsatisfactory performance
- Failure to comply with the terms of this Policy
- Reduced conviction of the Trustees in that Manager’s prospects for future outperformance

4.4 Standard of Professional Conduct

The Managers are expected to comply at all times and in all respects with the Code of Ethics and Standards of Professional Conduct as promulgated by the CFA Institute.

The Managers will be expected to manage the assets with the care, diligence and skill that a fund manager of ordinary prudence would use in dealing with pension plan assets. The managers will also use all relevant knowledge and skill that they possess, or ought to possess, as prudent fund managers.
SECTION 5 – ADMINISTRATION

5.1 Valuation of Investments

Investment in publicly traded securities shall be valued no less frequently than monthly at their market value.

Investment in Pooled Funds comprising publicly traded securities shall be valued according to the unit values calculated at least monthly.

If a market valuation of an investment is not readily available, then a fair value shall be determined by or at the discretion of the Trustees. For each such investment, an estimate of fair value shall be supplied by the Manager no less frequently than quarterly. Such fair value may be determined by reference to the most recent independent expert appraisal or by other means such as risk-adjusted discounted cash flows or comparison with similar assets, which are publicly traded. In all cases the methodology should be applied consistently over time.

5.2 Conflicts of Interest

If one of the Trustees, or any agent of or advisor to the Trustees, or any person employed in the investment or administration of the Fund has or acquires any material interest, direct or indirect, in any matter in which the Fund is concerned or may benefit materially from knowledge of, participation in, or by virtue of an investment decision or holding of the Fund, the person involved shall as soon as practicable disclose this conflict of interest to the Chair of the Trustees. The Chair shall then immediately advise all the Trustees, and the Trustees shall decide upon a course of action. Any such person will thereafter abstain from any decision making with respect to the area of conflict, unless otherwise determined by unanimous decision of the remaining Trustees.

Every disclosure of interest under this Section shall be recorded in the minutes of the relevant Trustees meeting.

The failure of a person to comply with the procedures, described in this Section, shall not of itself invalidate any decision, contract or other matter.

5.3 Voting Rights

The Trustees have delegated voting rights acquired through the investments held by the Plan to the custodian of the securities to be exercised in accordance with the Managers’ instructions. Managers are expected to exercise all voting rights related to investments held by the Fund in the interests of the plan members. The Managers shall provide their proxy voting policies to the Trustees.

The Managers shall maintain a record of how voting rights have been exercised.
The Trustees reserve the right to direct, or override, the voting decisions of a Manager, if in their view such action is in the best interests of the Plan members.

It is recognized, however, that the above constraints and policy on voting rights will not be enforceable to the extent that part of the Fund is invested in Pooled Funds.

5.4 Related Parties and Conflicts of Interest

Related party transactions are permitted for the Plan if the transaction is for the operation or administration of the Plan, does not involve the making of loans to, or investment in, the related party, the terms and conditions of the transaction are not less favourable to the Plan than market terms or conditions, and investments in the securities of a related party are done on an indirect basis to the extent permitted by applicable legislation.

“Related Party” is defined in Section 1 of Schedule III to the Pensions Benefits Standards Regulation, 1985 (Canada) as amended from time to time. A related party is a person who is the administrator of the Plan including any officer, director or employee of the University, or any person who is a member of the Board of Governors. It also includes the Managers and their employees, a union representing employees of the University, a member of the Plan, a spouse or child of the persons named previously, or a corporation that is directly or indirectly controlled by the persons named previously, among others.

The materiality of a particular transaction shall be determined by the Trustees on both a qualitative and quantitative basis taking into account not only the amount involved but the nature and the circumstances of the transaction itself.

In determining the amount of any transaction:

1) any contingency or potential liability related to or arising from the transaction or series of transactions must be included;
2) if the level of risk attached to any assets of the Fund is affected by the transaction, the total value of these assets must also be included;
3) if the transaction is one of a series or group of transactions with that party, their materiality shall be determined in the aggregate; and
4) for this purpose, if the transaction is part of a series of transactions that may continue in the future, all projected transactions must be included in this aggregate.

The aggregate amount will be tested for materiality against the plan assets, the fund investment return, the operating expenses and the funding deficiency or surplus on a going concern or solvency basis.

5.5 Policy Review

This Policy may be reviewed and revised at any time, but it must be formally reviewed by the Trustees at least annually.

A copy of this Policy and any amendments to it shall be delivered to the actuary for the Plan.