

**Statement of  
Investment Policies  
and Procedures**

Pension Plans  
sponsored by the  
Province of Prince  
Edward Island

Effective  
July 1, 2019

Approved on this        day of  
by Order of Her Honour the  
Lieutenant Governor in Council  
attached hereto

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# **Section 1—Overview**

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## **1.01 Purpose of Statement**

This Statement of Investment Policies and Procedures (the “Policy”) provides the framework for the investment of the assets of the following plans (the “Plans”) invested in the Province of Prince Edward Island Master Trust (the “Master Trust”):

- (a) The Province of Prince Edward Island Civil Service Superannuation Plan, registration number 0307017 (the “Civil Service Plan”)
- (b) The Province of Prince Edward Island Teachers’ Superannuation Plan, registration number 0361576 (the “Teachers’ Plan”)
- (c) The Pension Plan for Members of the Legislative Assembly of the Province of Prince Edward Island, registration number 1015080 (the “MLA Plan”)

This Policy is based on the “prudent person portfolio approach” to ensure the prudent investment and administration of the assets of the Plans within the parameters set out in the federal *Pension Benefits Standards Act* and the Regulations thereunder.

The Executive Council of the Province of Prince Edward Island (the “Province”) is responsible for this Policy, which has been approved by the Lieutenant Governor in Council and a copy of the order approving this Policy is attached.

## **1.02 Background of the Plans**

### **Civil Service Superannuation Plan, Teachers’ Superannuation Plan**

#### **Description of Plans**

- (a) General

Both Plans are contributory defined benefit plans covering members as defined in the Civil Service Superannuation Act and the Teachers’ Superannuation Act.

Changes were made to both the Civil Service Superannuation Act and the Teachers’ Superannuation Act effective January 1, 2014 (conversion date). The main benefit provisions of the pre-conversion and post-conversion are expanded in the sections that follow.

- (b) Contributions

Under the Civil Service Superannuation Plan, members make contributions amounting to 8.09 percent of that part of the members’ salary up to the amount of the year’s maximum pensionable earnings (YMPE) as defined in the Canada Pension

Plan Act and 9.75 percent on the amount that exceeds the YMPE. Participating employers match member contributions.

Under the Teachers' Superannuation Plan members make contributions amounting to 8.3 percent of that part of the members' salary up to the amount of the year's maximum pensionable earnings (YMPE) as defined in the Canada Pension Plan Act and 10.0 percent on the amount that exceeds the YMPE. Participating employers match member contributions.

Herein these are considered the Base Contributions. For 2014 to 2016, contributions will remain fixed unless they are deemed ineligible based on the maximum contributions allowed under the Income Tax Act (ITA). After 2016, variable contributions have been introduced based on the funded benefits ratio as defined below (note that contribution changes by funded level are total and not cumulative):

Funded Benefits Ratio	Employee Contributions <sup>1</sup>	Participating Employer Contributions <sup>1</sup>
<100% <sup>2</sup>	Base Contributions plus 1%	Base Contributions plus 4%
100% to 110% <sup>3</sup>	Base Contributions plus 1%	Base Contributions plus 2%
110% to 135%	Base Contributions	Base Contributions
135% to 145% <sup>4</sup>	Base Contributions less 1%	Base Contributions less 2%
145% + <sup>5</sup>	Base Contributions less 1%	Base Contributions less 4%

<sup>1.</sup> Subject to the Income Tax Act Rules for maximum contributions.

<sup>2.</sup> If triggered, contributions based on funded benefits ratio <100% remain in effect until funded benefits ratio of  $\geq 105\%$  is attained.

<sup>3.</sup> If triggered, contributions based on funded benefits ratio <110% remain in effect until funded benefits ratio of  $\geq 115\%$  is attained.

<sup>4.</sup> If triggered, contributions based on funded benefits ratio  $\geq 135\%$  remain in effect until funded benefits ratio of  $\leq 130\%$  is attained.

<sup>5.</sup> If triggered, contributions based on funded benefits ratio  $\geq 145\%$  remain in effect until funded benefits ratio of  $\leq 140\%$  is attained.

### (c) Retirement Benefits

Pension Formula: The annual pension under the pre-conversion Plans' design was based on the number of years of service times two percent of the best three years' average salary with an offset at age 65 for estimated Canada Pension Plan ("CPP") benefits. Under the post-conversion Plans' design, the basic pension formula is maintained. However, in place of the three-year best average salary base for benefit determination, pension amounts will be based on an indexed average earnings formula in which the indexation is contingent on the Plan's financial health. A key aspect of the transition to rules-based, contingent inflation protection under the new design was that the dollars of pension benefits earned prior to the conversion not be reduced. This was accomplished by calculating member benefits at the conversion date based on the best three-year average salary up to the end of 2013 and using this as the starting point for future benefit determination.

The legislation requires that the salary amount used in benefit calculations as determined at December 31, 2013 never be reduced. Further, annual accruals after 2013 and any indexation that may be awarded in the future will, once awarded, also become part of the base pension and will not be reduced if the Plan's funded position deteriorates in the future.

#### (i) Pre-Retirement Indexation

Prior to conversion, pre-retirement inflation protection was enabled by using members' highest three-year average salary in the benefit calculation formula.

Post-conversion, indexation has become conditional on the funded level of the Plans. However, there are some transitional indexation rules for the first three years. For indexation awarded during 2014 to 2016, pensionable salaries and the year's maximum pensionable earnings will be automatically indexed at 1.5 percent per annum. As this indexation is guaranteed, it is included in the Base Benefits, which are the guaranteed Plans' benefits prior to any future contingent indexation. In 2017 and beyond, pre-retirement indexation will only be awarded if the funded benefits ratio (as determined at the April 1st immediately prior to the calendar year in which indexation is to be awarded) is greater than 100 percent.

If the funded benefits ratio is below 100 percent then no indexation will be awarded in that year. If there are years that full indexation is not awarded, and if the funded benefits ratio subsequently reaches 115 percent, then a portion of Plans' funds is available to make up for missed indexation in the past. The maximum indexation is 100 percent of the increase in the Average Industrial Wage ("AIW") in Canada, however, if in any year the assets available to be spent on inflation protection are not adequate to provide the full amount, partial indexation will be awarded.

(ii) Post-Retirement Indexation

Prior to conversion, the post-retirement benefit was automatically increased every year by 100 percent of the increase in CPI as measured over the previous year, to a maximum of six percent. Post-conversion, indexation has become conditional on the funded level of the Plans. However, there are some transitional indexation rules for the first three years. For 2014 to 2016, post-retirement indexation will automatically be awarded at 1.5 percent per annum. As this indexation is guaranteed, it is included in the Base Benefits, which are the Plans' benefits prior to any future contingent indexation.

In 2017 and beyond, post-retirement indexation will only be awarded if the funded benefits ratio (as determined at the April 1st immediately prior to the calendar year in which indexation is to be awarded) is greater than 110 percent. If the funded benefits ratio is below 110 percent, then no post-retirement indexation will be awarded in that year. If there are years that full post-retirement indexation is not awarded, and if the funded benefit ratio subsequently reaches 118 percent, then a portion of Plan funds is available to make up for missed past indexation on a go-forward basis (i.e. no retroactive payments). The maximum indexation is 100 percent of CPI; however, if the Plans cannot afford that amount, partial indexation will be awarded.

Indexation also applies to deferred vested benefits and is applied in the same manner as the post-retirement indexation described above.

(d) Retirement Age

For pensionable service prior to January 1, 2019 (5 years after the conversion date), the earliest unreduced retirement age remains at the earlier of 30 years of pensionable service (minimum of age 55) and attained age 60. For pensionable service after December 31, 2018, the earliest unreduced retirement age will be the earlier of 32 years of pensionable service (minimum of age 55) and attained age 62. The earliest retirement age remains at age 55 with two years of continuous service both prior to and after the conversion date. The early retirement reduction factor continues to be

0.25 percent per month for each month by which the early retirement date precedes the members earliest unreduced retirement age.

(e) Death Benefits

Less than two years of continuous service: On the death of a member prior to completing two years of pensionable service, or after completing two years of service but leaving no surviving spouse, or dependent children, the member's accumulated contributions with interest will be refunded.

Greater than or equal to two years of continuous service: If a member dies prior to retirement but after completing two years of service, the member's spouse is entitled to an immediate lifetime pension equal to 60 percent of the accrued, unreduced pension of the member at the time of death. In addition to the spousal pension, an allowance equal to one-sixth of the pension paid to the surviving spouse is payable in respect of each dependent child, up to a maximum of four children, until the child attains the age of 18 or until the age of 21 if the child is attending school full-time, or for life if the child is incapable by reason of mental or physical infirmity of pursuing on a regular basis any substantially gainful employment and is a dependent for life.

If the spouse of the member dies before the member, or where having survived the member the surviving spouse dies leaving children by the member, the sixty per cent pension that was payable to the spouse will be paid to the dependent children, until the child attains the age of 18 or until the age of 21 if the child is attending school full-time, or for life if the child is incapable by reason of mental or physical infirmity of pursuing on a regular basis any substantially gainful employment and is a dependent for life.

(f) Termination and Portability of Benefits

In the event of termination of employment for reasons other than retirement or death, a member may elect to receive either:

A refund of the member's own contributions with interest (provided the member is 60 years of age or less at the time the refund application is received), or

If the member has completed at least two years of service, a deferred pension subject to the provisions outlined in the Retirement Age section above.

Where there are portability arrangements between the Plan and other plans, members may be able to carry certain pension rights to those other plans or transfer contributions and service from those other plans to increase pension benefits under the Plan.

(g) Marriage Breakdowns

Upon application, the pension benefits to which a person is entitled may be divided between the person and the spouse or former spouse

(h) Income Tax

The Fund is a Registered Pension Plan as defined under the federal Income Tax Act and is not subject to taxation.

(i) Liabilities

The value of the accrued pension obligation of the Funds is based on an annual actuarial valuation prepared on an accounting and funding basis by an independent actuary. The accrued pension obligation is measured in accordance with accepted actuarial methods using actuarial assumptions and methods adopted by the Funds. The present value of the accrued pension obligation was determined using the projected unit credit method pro-rated on service and management's best estimate, as at the valuation date, of future economic events and involve economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality and retirement rates. The primary economic assumptions include the return on investment, discount, inflation, and salary escalation rates.

## **MLA Superannuation Plan**

### **Plan Description**

(a) General

The following description of the Pension Plan for Members of the Legislative Assembly of Prince Edward Island is a summary only. For more complete information, reference should be made to the full plan text.

The Pension Plan for Members of the Legislative Assembly of Prince Edward Island consists of a basic pension plan, which is a registered plan (the Plan).

The registered plan is a contributory defined benefit plan for Members of the Legislative Assembly of Prince Edward Island. The Province of Prince Edward Island is the sponsor of the Plan and guarantees that it will make contributions to the Plan when the Plan's funded status is determined to be in an unfunded position as per the actuarial funding valuation.

The Plan is established by an Indemnities and Allowances Commission, which is appointed pursuant to section 46 of the Legislative Assembly Act, for the purpose of reviewing and determining the remuneration and benefits, including pension benefits, to be paid to the Members of the Legislative Assembly, Ministers, Speaker, Deputy Speaker, Leader of the Opposition, Government House Leader, Opposition House Leader, Leader of a Third Party, Government Whip, and Opposition Whip. The Commission has designated the Minister of Finance as Administrator having responsibility for the day to day operation and administration of the Plan.

(b) Vesting Provisions

In the event of termination of service as a Member of the Legislative Assembly due to death, retirement, or Plan termination, participants become immediately entitled to pension benefits. There is no minimum required years of service.

(c) Contributions

Contributions are set at nine percent of annual salary. Effective April 13, 2014, contribution rates for the Plan increased from eight percent to nine percent of annual salary

(d) Retirement Benefits

(i) Service Prior to July 1, 1994

Any Member is entitled to a pension upon ceasing to be a Member or upon attaining the age of 50 years, whichever is later.

Annual Member pensions are equal to the lesser of 75 percent of contributions or the average annual indemnity during the last five years of service. Annual Minister pensions are equal to the lesser of 75 percent of contributions as a Minister or one half of the highest annual salary as a Minister.

(ii) Service Subsequent to June 30, 1994

The normal retirement date for any participant is the date of attaining the age of 60 years, or the date on which the participant's age plus years of continuous service after June 30, 1994, equals 80 years, whichever is earlier. Any participant who elects to retire early may receive a reduced pension upon attaining the age of 50 years.

Pensions for Participants who Retired Prior to April 1, 2001 were calculated as follows:

- Member pensions are equal to two percent of the average monthly indemnity received as a Member, excluding allowances, during the 36 consecutive calendar months, or less if there are less than 36 months, which produce the greatest average, multiplied by the number of years of continuous service as a Member after June 30, 1994.
- Monthly Minister pensions are equal to two percent of the average monthly salary received as a Minister during the 36 consecutive calendar months, or less if there are less than 36 months, which produce the greatest average, multiplied by the number of years of continuous service as a Minister after June 30, 1994. The definition of Minister includes non-Ministerial service to the executive branch of government in addition to service as a Member.

On June 28, 2001, the Indemnities and Allowances Commission approved a new Plan design which provides for annual pensions for participants who retire on or after April 1, 2001, to be calculated as follows:

- Two percent of:
  - the average annual indemnity received as a Member during the three years ended March 31, 2001, or less if there is less than three years of service during this period, multiplied by the number of years of service as a Member during the period from June 30, 1994 to March 31, 2001, plus
  - the average annual salary received as a Minister during the three years ended March 31, 2001, or less if there is less than three years of service during this period, multiplied by the number of years of service

as a Minister during the period from June 30, 1994 to March 31, 2001,  
plus

- for every appointment of paid non Ministerial service to the executive branch of government in addition to service as a Member, the average annual salary received for such service during the three years ended March 31, 2001, or less if there is less than three years of service during this period, multiplied by the number of years of such service during the period from June 30, 1994 to March 31, 2001, plus
  - 25 percent of the required contributions made by the participants commencing April 1, 2001 to April 12, 2014, plus 22.22 percent of the required contributions made by the participants commencing April 13, 2014, indexed annually.

(e) Indexation

Pre-retirement pensions are increased annually by an amount equal to the percentage increase in the Consumer Price Index, subject to a maximum increase of eight percent per annum.

Post-retirement pensions are increased annually by an amount equal to the percentage increase in the Consumer Price Index, less two percent per annum, to a maximum of eight percent per annum.

(f) Death Benefits

Upon death, the normal form of pension to which the member's spouse is entitled to is an immediate lifetime pension equal to 60 percent of the accrued pension of the member at the time of death. In addition to the spousal pension, an allowance equal to one-tenth of the pension paid to the surviving spouse is payable in respect of each dependent child, up to a maximum of three children, until the child attains the age of 18 or until the age of 25 if the child is attending school full-time, or for life if the child who is incapable by reason of mental or physical infirmity of pursuing on a regular basis any substantially gainful employment and is a dependent for life.

If the spouse of the member dies before the member, or where having survived the member the surviving spouse dies leaving children by the member, the sixty per cent pension that was payable to the spouse will be paid to the dependent children, until the child attains the age of 18 or until the age of 25 if the child is attending school full-time, or for life if the child who is incapable by reason of mental or physical infirmity of pursuing on a regular basis any substantially gainful employment and is a dependent for life.

At any time prior to retirement, the member has the ability to elect optional forms of survivor benefits. In the event of the pre-retirement death of a participant having no surviving spouse or dependent children, a cash lump sum will be paid to the participant's designated beneficiary or estate.

(g) Termination of Service Benefits

Any participant ceasing to be a Member of the Legislative Assembly prior to retirement or death may elect to defer the pension or transfer the value of the pension to another prescribed savings arrangement.

(h) Marriage Breakdown

Upon application, the benefits to which a participant is entitled may be divided between the participant and the spouse or former spouse.

(i) Income Taxes

The Plan is a registered pension plan as defined under the federal Income Tax Act and is not subject to taxation.

(j) Liabilities

The value of the accrued pension obligation of the Funds is based on an annual actuarial valuation prepared on an accounting and funding basis by an independent actuary. The accrued pension obligation is measured in accordance with accepted actuarial methods using actuarial assumptions and methods adopted by the Fund. The present value of the accrued pension obligation was determined using the projected unit credit method pro-rated on service and management's best estimate, as at the valuation date, of future economic events and involve economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality and retirement rates. The primary economic assumptions include the return on investment, discount, inflation, and salary escalation rates.

### **1.03 Objective of Plans**

The objective of the Plans is to provide a secure base on which to meet present and future pension obligations accumulated on behalf of the Plans' participants.

### **1.04 Investment and Risk Philosophy**

The Plans must provide levels of return to allow adequate benefit levels, which keep pace with inflation and maintain stability of employee and employer contributions. The Plans should be prudently managed to assist in avoiding actuarial deficits and excessive volatility in annual rates of return.

In order to achieve their long-term investment goals, the Plans must invest in assets that have uncertain returns, such as Canadian equities, global equities, alternative asset classes and non-government bonds. However, the Province of Prince Edward Island attempts to reduce the overall volatility level of the Plans by diversifying the asset classes and further diversifying within each individual asset class.

The Master Trust has been established as an investment vehicle for pension plans with a common investment risk profile, but there may be circumstances in which other pension plans could use the Master Trust. In particular, the Master Trust is a suitable investment vehicle for pension plans meeting the following criteria:

- (a) The plan characteristics meet the liability profile set out below; or
- (b) The plan characteristics may or may not meet the liability profile set out below, but it has been determined that the characteristics of the plan are similar to the liability profile set out below, the plan's pension fund is small and/or the Province is prepared to assume the additional funding risk, if any, of using the Master Trust.

Plans that are best suited for the Master Trust would have the following liability profile:

- (a) A medium to long-term time horizon indicating that the possibility exists that the assets may be held indefinitely. On the other hand, it would be inappropriate to assume a short-term investment focus at the expense of earning incremental investment returns over the longer term. In particular, it would be inadvisable to hold a significant portion of the portfolio in any one asset class that could experience a prolonged period of underperformance.
- (b) Below average to average liquidity needs indicating that the portfolio does not require a high level of predictable income and that the portfolio could have an allocation to illiquid investments. This consideration should not, however, justify the extensive use of less liquid investments; rather, these types of investments must be considered in light of the other options available.
- (c) An average to above average overall risk tolerance indicating that the investment strategy should not expose the fund to an excessive risk of a prolonged period of poor returns. This risk is normally associated with investing in only a few asset classes. Accordingly, a broadly diversified portfolio composed of fixed income securities, equities and alternative investments should be used. Risk should be mitigated further with a fixed income structure that is in-line with the liability characteristics.

## **1.05 Administration**

The Province is the legal administrator of the Plans and is therefore responsible for all matters relating to the administration, interpretation and application of the Plans, including developing, monitoring and amending this Policy. A Joint Investment Advisory Committee (the "Committee") has been formed for the purpose of assisting the Province with the investment of the assets of the Plans.

## Section 2—Asset Mix and Diversification Policy

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### 2.01 Portfolio Return Expectations

The investment managers appointed by the Province to manage the investment of part or all of the assets of the Plans (the “Investment Managers”), through the Master Trust, are directed to achieve a satisfactory return through a diversified portfolio, consistent with acceptable risks and prudent management. The long-term objective of the Plans is to achieve a total annual nominal rate of return, net of all expenses, of at least 5.60% which is to be measured over rolling ten-year periods. Return objectives include realized and unrealized capital gains or losses plus income from all sources. A long-term asset mix policy has been established in order to provide a reference for long-term return requirements which are consistent with the liabilities of the Plans at a risk level acceptable to the Province.

### 2.02 Expected Volatility

To achieve this long-term objective, the Master Trust has adopted an asset mix that has a bias to equity and other return seeking investments. Risk is managed by investing in a well-diversified portfolio of asset classes and managers.

### 2.03 Asset Mix

Taking into consideration the investment and risk philosophy of the Plans, the following long-term strategic asset mix has been established for the Master Trust:

Assets	Minimum %	Benchmark %	Maximum %
Canadian Equities	7.0	10.0	13.0
Global Equities	20.0	24.5 <sup>1</sup>	29.0
Emerging Markets Equities	0.0	5.0	8.0
<b>Total Equities</b>	<b>34.0</b>	<b>39.5</b>	<b>45.0</b>
Canadian Real Estate	0.0	3.0	5.0
Global Real Estate	2.0	5.0 <sup>1</sup>	8.0
Global Infrastructure	2.0	5.0	8.0
<b>Total Alternatives</b>	<b>4.0</b>	<b>13.0</b>	<b>16.0</b>
Universe Bonds	22.0	25.0	28.0
Long-term Bonds and Promissory Notes <sup>2</sup>	19.5	22.5	25.5
Cash and Short-Term Investments	0.0	0.0	4.0
<b>Total Fixed Income</b>	<b>41.5</b>	<b>47.5</b>	<b>53.5</b>
<b>Total</b>		<b><u>100.0</u></b>	

1. *50% of the global equity, global real estate and global infrastructure currency exposure shall be hedged to the Canadian dollar. However, the currency hedge ratio may vary from 0% to 100% at the discretion of the currency overlay manager (see Appendix D).*
2. *The March 31, 2019 Promissory Note balance of \$494 million will be reduced by \$23.1 million each April 1 for years 2019 to 2022 and by \$56.6 million each January 1 for years 2023 to 2029. These principal amounts and related interest payments will be reallocated to the long-term CorePlus bonds mandates.*

For purposes of the total asset mix described above, the Investment Managers' asset class pooled funds are deemed to be 100% invested, even though these funds may contain a portion held in cash & cash equivalent instruments.

The assets of the Master Trust may be invested with balanced managers, specialty managers and/or index managers. The Committee shall establish an investment management structure and manager asset mix guidelines such that, when combined, the total asset mix and asset mix ranges are consistent with the preceding table. The active component may be invested with more than one active manager with different active styles and mandates to provide diversification and returns in excess of indices returns. Individual manager mandates and their associated guidelines are attached as Appendices B to D. The assets of the Master Trust may also include Province of PEI promissory notes which are classified as fixed income assets at the Total Fund level.

## **2.04 Management Structure**

The Master Trust has adopted a specialist management structure target consisting of:

- (a) Two active fixed income managers
- (b) One active Canadian equity manager
- (c) Three active global equity managers, with a different equity management styles
- (d) One Canadian direct real estate manager
- (e) One Canadian mortgage manager
- (f) One U.S. direct real estate manager
- (g) One global real estate manager
- (h) One indexed global listed real estate manager
- (i) One direct infrastructure manager
- (j) One global listed infrastructure manager
- (k) One currency overlay manager
- (l) One cash equitization manager

Active management has been adopted in all asset classes, as it is expected to provide the opportunity to outperform specific investment benchmarks and it can provide lower absolute volatility of returns. A dynamic currency overlay strategy has been adopted to control currency risk opportunistically, within the parameters established in this policy. A cash equitization strategy has been introduced to optimize the utilization of cash and short-term investments and to increase the Master Trust efficiency, within the parameters established in this policy. This multi-manager approach diversifies the manager risk, making the Master Trust less reliant on the skills of a single investment manager.

The manager rebalancing guidelines and procedures are attached in Appendix A.

## **Section 3—Permitted and Prohibited Investments**

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### **3.01 General Guidelines**

The investment of the Plans in the Master Trust must comply with the requirements and restrictions set out in the federal *Income Tax Act (Canada)* and the federal *Pension Benefits Standards Act* and their respective Regulations.

### **3.02 Permitted Investments**

In general, and subject to the restrictions in this Section 3, the Investment Manager may invest in any of the following asset classes and in any of the investment instruments listed below:

- (a) Canadian and Global Equities
  - (i) Common and convertible preferred stock, listed on a recognized exchange
  - (ii) Debentures convertible into common or convertible preferred stock
  - (iii) Rights, warrants and special warrants for common or convertible preferred stock
  - (iv) Instalment receipts, American Depository Receipts and Global Depository Receipts
  - (v) Units of real estate investment trusts (REITs)
  - (vi) Units of income trusts domiciled in jurisdictions that provide limited liability protection to unitholders
  - (vii) Units of limited partnerships which are listed on developed country, globally recognized exchange
  - (viii) Exchange traded index participation units.
- (b) Bonds
  - (i) Bonds, debentures, notes, non-convertible preferred stock and other evidence of indebtedness of issuers, deemed to be Canadian, foreign or supranational issuers whether denominated and payable in Canadian dollars or a foreign currency, provided such instruments are traded on a recognized exchange or through established investment dealers
  - (ii) Mortgages secured against Canadian real estate

- (iii) Mortgage-backed securities
  - (iv) Term deposits and guaranteed investment certificates
  - (v) Asset-backed securities, provided they are ‘AA’ (or equivalent) or better rated and provided they meet the liquidity requirements of Section 3.03 below
  - (vi) Private placement bonds, provided the issue is \$250 million or more in size, and provided they meet the conditions in Section 3.03 (e) and 3.04 (b) (iii)
  - (vii) Real return bonds
  - (viii) Province of PEI promissory notes
- (c) Global Real Estate
- (i) The real estate portfolio should provide for a stable long-term income flow, capital gains should at least offset inflation over the long term;
  - (ii) The real estate portfolio should be diversified by property type (for example, office, retail, industrial); geographic distribution and investment size;
  - (iii) Land held for future development should be limited in amount, and only considered for investment if it is part of a defined development strategy;
  - (iv) There should be clearly stated investment goals and objectives in proposed investments (including the expected return on investment);
  - (v) The sponsor of the real estate investment should have an investment strategy or action plan that will enable it to carry out the stated objectives; and
  - (vi) The real estate manager must have clear policies to address and manage potential conflicts of interest.
- (d) Global Infrastructure
- (i) Infrastructure investments via independently managed pooled funds, limited partnerships or specialist corporate structures are permitted. The mandate of each fund, partnership or corporate structure will vary with the long-term goal of assembling a diversified portfolio
  - (ii) Permitted and prohibited investments in specific infrastructure transactions will be governed by the terms and conditions set out in the respective pooled fund contract, Offering Memorandum, Trust Agreement or similar document that is applicable to each Investment Manager.
- (e) Cash and Short-Term Investments
- (i) Cash on hand and demand deposits;

- (ii) Canadian and U.S. Treasury bills and bonds (with remaining maturities not exceeding 365 days) issued by the federal and provincial governments and their agencies
  - (iii) Sovereign short-term debt instruments of developed countries, with maturities not exceeding 365 days
  - (iv) Obligations of trust companies and Canadian and foreign banks chartered to operate in Canada, including bankers' acceptances
  - (v) Commercial paper and term deposits
  - (vi) Other money market instruments (maturity not exceeding 365 days)
- (f) Other Investments
- Deposit accounts of the custodian can be used to invest surplus cash holdings.
- (g) Derivatives
- The use of derivatives (such as options, futures and forward contracts) is permitted to protect against changes in exchange rates, interest rates and market indices; and for non-hedging purposes, as a substitute for direct investment. Sufficient assets or cash must be held to cover commitments due to the derivatives transactions. No derivatives can be used for speculative trading or to create a portfolio with leverage.
- (h) Pooled Funds
- Investment in pooled funds is permissible. While the guidelines in this Policy are intended to guide the management of the Master Trust, it is recognized that, due to the use of pooled funds, there may be instances where there is a conflict between this Policy and the investment policy of a pooled fund. In that case the pooled fund policy shall dominate.
- In addition, the Investment Manager will ensure that the Committee has received a copy of the most recent version of the pooled fund policy and of any amendments to the pooled fund policy.

### **3.03 Minimum Quality Requirements**

- (a) Quality Standards
- Within the investment restrictions for individual portfolios, all portfolios should hold a prudently diversified exposure to the intended market.
- (i) The minimum quality standard for individual bonds and debentures is 'BBB' or equivalent as rated by at least two Recognized Bond Rating Agencies, at the time of purchase.
  - (ii) Except for federal and provincial issues, the minimum quality standard for individual short-term investments is 'R-1' (low) or equivalent as rated by at least two Recognized Bond Rating Agencies, at the time of purchase.
  - (iii) The investment manager of publicly listed investments shall consider the liquidity impact of a security at the portfolio level.

(b) Split Ratings

In cases where the Recognized Bond Rating Agencies do not agree on the credit rating, the bond will be classified according to the methodology used by FTSE Canada, which states:

- (i) If two agencies rate a security, use the lower of the two ratings
- (ii) If three agencies rate a security, use the most common
- (iii) If all three agencies disagree, use the middle rating

(c) Downgrades in Credit Quality

The Investment Manager will take the following steps in the event of a downgrade in the credit rating of a portfolio asset by a recognized bond rating agency to below the purchase standards set out in Section 3.03 (a) Quality Standards:

- (i) The Committee will be notified of the downgrade by telephone at the earliest possible opportunity
- (ii) Within ten business days of the downgrade, the Investment Manager will advise the Committee in writing of the course of action taken or to be taken by the Investment Manager, and its rationale
- (iii) The Investment Manager will provide regular reporting on the status of the asset until such time as it matures is sold or is upgraded to a level consistent with the purchase quality standards as expressed in the above guidelines

(d) Rating Agencies

For the purposes of this Policy, the following rating agencies shall be considered to be ‘Recognized Bond Rating Agencies’:

- (i) Dominion Bond Rating Service (Canadian issuers only)
- (ii) Standard and Poor’s
- (iii) Moody’s Investors Services
- (iv) Fitch Ratings (foreign issuers only)

(e) Private Placement Bonds

Private placement bonds are permitted subject to all the following conditions:

- (i) The issues acquired must be ‘A’ (or equivalent) or better rated; and
- (ii) The Investment Manager must be satisfied that there is sufficient liquidity to ensure a sale at a reasonable price

### **3.04 Maximum Quantity Restrictions**

(a) Individual Investment Manager Level

The Investment Manager shall adhere to the following restrictions:

(i) Equities

- a. For the top 100 equity securities by market capitalization included in the S&P/TSX Composite Index (over the last four quarters), no one equity holding shall represent more than 10% of the market value of an Investment Manager's Canadian Equity portfolio **or** 125% of that equity's weight in the S&P/TSX Composite Index, whichever is greater subject to an absolute limit of 15% of the market value of the Investment Manager's Canadian equity portfolio.
- b. For all other equities, no one holding shall represent more than 10% of the market value of an Investment Manager's Canadian or global equity portfolio.
- c. No one equity holding shall represent more than 10% of the voting shares of a corporation.
- d. No one equity holding shall represent more than 10% of the available public float of such equity or private placement security.
- e. No more than 15% of the market value of the equity manager's portfolio shall be invested in income trusts and limited partnerships.

(ii) Bonds and Short-term

- a. Except for federal and provincial bonds, no more than 10% of an Investment Manager's bond portfolio may be invested in the bonds of a single issuer and its related companies
- b. Except for federal and provincial bonds, no one bond holding shall represent more than 10% of the market value of the total outstanding for that bond issue
- c. No more than 10% of the market value of an Investment Manager's bond portfolio shall be invested in bonds rated 'BBB' (or equivalent) or lower
- d. Net foreign currency exposure is limited to no more than 10% of the market value of the bond portfolio
- e. No more than 20% of the market value of a manager's bond portfolio shall be invested in bonds of foreign issuers

- (iii) Private Placement Bonds
  - a. No more than 5% of the market value of an Investment Manager's bond portfolio shall be invested in any one private placement issue
  - b. The Investment Manager's portfolio may not hold more than 5% of the market value of any one private placement
  - c. No more than 15% of the market value of an Investment Manager's bond portfolio shall be invested in private placement bonds
- (iv) Global Real Estate and Infrastructure

Investment in any one parcel of real property shall not have a book value greater than or equal to 5% of the book value of the Master Trust assets or an individual Plan's assets. The aggregate book value of all investment in real property and Canadian resource properties shall not exceed 25% of the book value of the Master Trust assets or an individual Plan's assets.
- (v) Other

The use of derivative securities shall be supported at all times by the explicit allocation of sufficient assets to back the intended derivative strategy. For greater certainty, Investment Managers are not permitted to leverage the Master Trust assets. The use of derivative securities is only permitted for the uses described in this Policy. Purchase or sale of any of these instruments for speculative purposes is prohibited.

### **3.05 Prohibited Investments**

The Investment Manager shall not:

- (a) Invest in companies for the purpose of managing them
- (b) Purchase securities on margin, engage in short sales or purchase options (calls or puts) and other similar investment activity, except in the case of a currency overlay strategy
- (c) Make any investment not specifically permitted by this Policy

### **3.06 Securities Lending**

The investments of the Master Trust or the Plans may be loaned, for the purpose of generating revenue for the Master Trust or the Plans, subject to the provisions of the federal *Pension Benefits Standard Act*, the federal *Income Tax Act* (Canada) and their applicable Regulations.

Such loans must be secured by cash and/or/readily marketable government bonds, treasury bills and/or letters of credit, discount notes and bankers' acceptances of Canadian chartered banks. The amount of collateral taken for securities lending should reflect best practices in local markets. The market value relationship between collateral and securities on loan must be calculated at least daily.

The terms and conditions of any securities lending program will be set out in a contract with the securities lending agent. The securities lending agent shall, at all times, ensure that the Committee has a current list of those institutions that are approved to borrow the Master Trust's or the Plans' investments. If the Master Trust or the Plans are invested in a pooled fund, security lending will be governed by the terms and conditions set out in the pooled fund contract.

### **3.07 Borrowing**

The Master Trust and the Plans shall not borrow money, except to cover short-term contingency and the borrowing is for a period that does not exceed ninety days, subject to the Pension Benefits Standards Act, the Income Tax Act and the written permission of the Province.

## **Section 4—Monitoring and Control**

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### **4.01 Delegation of Responsibilities**

The Province has overall responsibility for the Plans. However, the Plans permit the Province to delegate its administrative duties and responsibilities to the Committee and third party agents. This Policy is intended to provide a basis for ongoing communication between the Committee and the Investment Managers to ensure that the management of the Master Trust is consistent with market conditions and the objectives of the Plans.

(a) Joint Investment Advisory Committee

The Joint Investment Advisory Committee will:

- (i) Recommend the Statement of Investment Policies and Procedures for the Master Trust and the Plans for adoption by the Executive Council, reviewing the Policy at least annually and recommending to the Executive Council amendments, as appropriate
- (ii) Recommend a management structure for the investments of the Master Trust and the Plans for approval by the Minister of Finance
- (iii) Develop manager mandates, which outline the guidelines and objectives for each manager
- (iv) Recommend the appointment or removal of investment managers, trustees, custodians, consultants and others as required to carry out the administration of the Master Trust and the Plans, for approval by the Minister of Finance
- (v) Monitor and coordinate the activities of the investment managers and other service providers to the Master Trust and the Plans
- (vi) Review and evaluate, both quantitatively and qualitatively, the investment performance of the assets of the Master Trust, including the rates of return achieved relative to objectives established and the degree of risk assumed by the managers
- (vii) Create, and monitor the activities of, sub-committees to undertake specialized research for the Committee

(b) Investment Manager

The Investment Manager will:

- (i) Invest the assets of the Master Trust and the Plans in accordance with this Policy and with their individual manager mandates

- (ii) With the exception of pooled fund managers, avoid dealing with governments, corporations and organizations, which violate ethical and humanitarian principles to which the Province of Prince Edward Island subscribes, which are exemplified in Canada's support for the International Bill of Rights
  - (iii) Inform the Committee of any changes in their senior personnel, investment philosophy or style within one week of the change
  - (iv) Inform the Committee in writing, if the manager at any time feels any guidelines or restrictions are imprudent, or if these guidelines restrict the manager in achieving their performance objectives
  - (v) Inform the Committee of recommended strategies and investments, which would require revisions or exemptions to the stated guidelines
  - (vi) Meet with the Committee, with their firm's specialized asset investment personnel when reasonably requested and provide written reports regarding their past performance, their future strategies and other issues requested by the Committee
  - (vii) File quarterly compliance reports (see section 4.03), as required by the Committee
  - (viii) Provide the Custodian with all transaction and holdings information monthly and cooperate with the Custodian in resolving any discrepancies that may arise
  - (ix) Where investment via a pooled fund has been authorized by the Committee, the Investment Manager will provide the Committee with copies of each pooled fund's audited financial statements within 180 days of the pooled fund's fiscal year end
- (c) Custodian/Trustee
- The custodian/trustee will:
- (i) Maintain safe custody over the assets of the Master Trust and assets of the Plans
  - (ii) Meet with the Committee as required
  - (iii) Execute the instructions of the Executive Council, the Committee and, subject to any restrictions imposed by the Committee, any Investment Manager appointed to manage the assets of the Master Trust or of the Plans
  - (iv) Record income and expenses of the Master Trust and the Plans and provide monthly financial statements as required by the Committee

(d) Actuary

The actuary will:

- (i) Perform actuarial valuations of the Plans as required
- (ii) Advise the Committee on any matters relating to the design of the Plans, membership and contribution rates
- (iii) Assist the Committee in any other way required

(e) Investment Consultant

The investment consultant will:

- (i) Assist in the development and implementation of this Policy and related documentation and research alternative investment strategies, including investment manager searches
- (ii) Monitor the performance of the Master Trust and the Investment Managers on a quarterly basis
- (iii) Support the Committee on matters relating to investment management and administration of the Master Trust and the Plans
- (iv) Meet with the Committee and sub-committees as required

(f) Accountant

The accountant will provide annual audited financial statements of the Plans.

## **4.02 Performance Measurement**

For purposes of evaluating the performance of the Master Trust, and the Investment Managers, all rates of returns are measured over rolling four-year periods. Return objectives include realized and unrealized capital gains or losses plus income from all sources.

### (a) Total Fund Level

The primary objective for the Master Trust is to earn a rate of return that exceeds the rate of return earned on a benchmark portfolio consisting of the following returns, weighted as indicated:

Asset Class	Index <sup>(1)</sup>	%
Canadian Equities	S&P/TSX Composite Capped Index	10.0
Global Equities	MSCI World (ex-Canada) (NTR) Index	24.5
Emerging Markets Equities	MSCI Emerging Markets Index (Net)	5.0
Canadian Real Estate	MSCI/REALPAC Canada Quarterly Property Fund Index	3.0
Global Real Estate	50% NCREF Fund Index - ODCE (EW) (Net) + 50% Global Real Estate benchmark of 9.5% p.a.	5.0
Global Infrastructure	Global Infrastructure benchmark of 8 % p.a.	5.0
Bonds	Fixed Income Benchmark <i>FTSE Canada Universe Bond Index</i> <i>FTSE Canada Long-Term Bond Index</i> <i>Promissory notes (yield-to-book)</i>	47.5
Currency Hedge	50% of the foreign currency exposure <sup>(2)</sup>	25.0
	<b>Total</b>	<b>100</b>

1. In Canadian dollars unless otherwise stated  
2. Applicable to global equity, global real estate and global infrastructure investments.

### (b) Manager Level

The performance objectives for each manager are summarized in Appendix B.

## **4.03 Compliance Reporting by Investment Manager**

The Investment Manager is required to complete and deliver a compliance report to the Committee and the investment consultant each quarter. The compliance report will indicate whether the Investment Manager was in compliance with this Policy during the quarter. Copies of the compliance reports must be sent to the Committee and to the investment consultant.

In the event that the Investment Manager is not in compliance with this Policy, the Investment Manager is required to advise the Committee immediately, detail the nature of the non-compliance and recommend an appropriate course of action to remedy the situation.

The Master Trust and the Plans invest in pooled funds with separate investment policies. Should a conflict arise between those investment policies and this Policy, the Investment Manager is required to advise the Committee in the Compliance Report, detailing the nature of the conflict.

In the event an Investment Manager is not in compliance with the Investment Manager's own investment policy, the Investment Manager is required to advise the Committee immediately, detail the nature of the non-compliance and recommend an appropriate course to remedy the situation.

#### **4.04 Standard of Professional Conduct**

The Investment Manager is expected to comply, at all times and in all respects, with the Code of Ethics and Standards of Professional Conduct and Asset Manager Code of Conduct, as promulgated by the CFA Institute.

The Investment Manager will manage the Master Trust's and the Plans' assets with the care, diligence and skill that an investment manager of ordinary prudence would use in dealing with pension plan assets. The Investment Manager will also use all relevant knowledge and skill that it possesses or ought to possess as a prudent investment manager.

## **Section 5—Administration**

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### **5.01 Conflicts of Interest**

This standard applies to the Province and the members of the Committee, as well as to all agents employed by them, in the execution of their responsibilities under the *Pension Benefits Standards Act* (the “Affected Persons”).

An “agent” is defined to mean an organization, association or individual, as well as its employees who are retained by the Committee to provide specific services with respect to the investment, administration and management of the assets of the Master Trust and the Plans.

Any Affected Person is required to comply with the Conflict of Interest Guidelines for the Civil Service endorsed by the Executive Council of the Province of Prince Edward Island.

A copy of the Conflict of Interest Guidelines will be provided on request.

### **5.02 Related Party Transactions**

The Province, on behalf of the Plans, may not enter into a transaction with a related party unless:

- (a) The transaction is both required for operation and or administration of the Plan(s) and the terms and conditions of the transaction are not less favourable than market terms and conditions
- (b) The combined value of all transactions with the same related party is nominal or the transaction(s) is immaterial to the Fund

The Province, on behalf of the Plans, may not invest the moneys of the Plans in the securities of a related party unless those securities are acquired at a public exchange, as defined in the Regulations to the *Pension Benefits Standard Act* (Canada).

For the purposes of this Section 5.02, only the market value of the combined assets of the Plans shall be used as the criteria to determine whether a transaction is nominal or immaterial to the Plans. Transactions less than (0.5%) of the combined market value of the assets of the Plans are considered nominal.

A “related party” in respect of the Plans, means:

- (a) The administrator of the Plans or who is a member of the Committee, board of trustees or other body that is the administrator of the Plans
- (b) An officer, director or employee of the administrator of the Plans
- (c) A person responsible for holding or investing the assets of the Plans, or any officer, director or employee

- (d) An association or union representing employees of the Province, or an officer or employee
- (e) A member of the Plans
- (f) A person who directly or indirectly holds, or together with the spouse or a child of the person holds, more than ten percent (10%) of the voting rights attached to all voting securities of the Province
- (g) The spouse or child of any person referred to in any of paragraphs (a) to (f)
- (h) An affiliate of the Province
- (i) A corporation that is directly or indirectly controlled by a person referred to in any of paragraphs (a) to (g)
- (j) An entity in which a person referred to in paragraph (a), (b), or (f), or the spouse or a child of such a person, has a substantial investment
- (k) An entity that holds a substantial investment in the Province

Related party does not include government or a government agency, or a bank, trust company or other financial institution that holds the assets of the Plans, where that person is not the administrator of the Plans.

## **5.03 Selecting Investment Managers**

In the event that a new Investment Manager must be selected or additional Investment Manager(s) added to the existing Investment Manager(s), the Committee will undertake an Investment Manager search. The criteria used for selecting an Investment Manager will be consistent with the investment and risk philosophy set out in Section 1.04 (Investment and Risk Philosophy).

## **5.04 Monitoring of Asset Mix**

To ensure that the Master Trust operates within the guidelines stated in this Policy, the Committee shall monitor the asset mix quarterly. Rebalancing will take place, on a best effort basis, over a period of three months following the end of a quarter after which an imbalance has been identified. Rebalancing will be effected by redirecting the net cash flows to and from the Master Trust, or by transfers from one manager component to another within the Master Trust.

Rebalancing should occur if any manager component and/or asset class exposure exceeds a limit set out in this Policy or in the rebalancing guidelines established by the Committee. These guidelines are attached as Appendix A.

## **5.05 Monitoring of Investment Managers**

At least quarterly, the Committee will monitor and review the:

- (a) Assets and net cash flow of the Master Trust
- (b) Investment Manager's staff turnover, consistency of style and record of service
- (c) Investment Manager's current economic outlook and investment strategies
- (d) Investment Manager's compliance with this Policy, where a manager is required to complete and sign a compliance report
- (e) Investment performance of the Master Trust in relation to the rate of return expectations outlined in this Policy
- (f) Individual Manager Monitoring and Review Process in accordance with the following procedures

### **Quarterly Monitoring**

Each of the fixed income and equity asset class investment managers will be monitored using the following factors:

#### **Performance Factors:**

- Did the portfolio underperform the portfolio's performance objective in 3 of the last 5 annual periods?
- Did the portfolio's annualized 4-year return trail the portfolio's performance objective?
- Did the portfolio's 4-year annualized return rank below the median comparable fund manager return?

#### **Qualitative Factors:**

- Was there a significant change in the ownership structure of the firm?
- Was there turnover of key investment personnel?
- Was there a significant change in investment process?
- Did the number of clients/AUM change materially?
- Has there been a downgrade in the Investment Consultant's investment manager rating?

**An investment manager is placed on “Watch” if the answer to any of the questions above is “Yes”.**

### **Watch List Procedures**

If an investment manager remains on the watch list for a period of four consecutive quarters, the Joint Investment Advisory Committee must:

- 1) State the need and rationale for the investment manager to continue to remain on the watch list
- 2) Remove the investment manager from the watch-list, indicating the rationale for confidence in the investment manager's ability to meet its long-term objectives
- 3) Initiate a review of other suitable options for consideration as a potential replacement for the investment manager

### **5.06 Dismissal of an Investment Manager**

Reasons for considering the termination of the services of an Investment Manager include, but are not limited to, the following factors:

- (a) Changes in the overall structure of the Master Trust such that the Investment Manager's services are no longer required
- (b) Dissatisfaction with client servicing
- (c) Failure to adhere to this Policy or the applicable manager mandate

### **5.07 Voting Rights**

The Province has delegated voting rights acquired through the investments held by the Master Trust and the Plans to the custodian of the securities to be exercised in accordance with the Investment Managers' instructions. Investment Managers are expected to exercise all voting rights related to investments held by the Master Trust and the Plans in the interests of the Plans' members. On a quarterly basis, the Investment Managers shall report their voting activities to the Committee.

The Province reserves the right to take-back voting rights of assets held in segregated portfolios for specific situations.

## **5.08 Valuation of Investments Not Regularly Traded**

The following principles will apply for the valuation of investments that are not traded regularly:

- (a) Equities  
Average of bid-and-ask prices from two major investment dealers, at least once every month.
- (b) Bonds  
Same as for equities.
- (c) Promissory notes  
Promissory notes are valued at book value.
- (d) Mortgages  
Unless in arrears, the outstanding principal plus/minus the premium/discount resulting from the differential between face rate and the currently available rate for a mortgage of similar quality and term, determined at least once every month.
- (e) Real Estate  
A certified written appraisal from a qualified independent appraiser at least every two years.
- (f) Infrastructure  
A certified written appraisal from a qualified independent appraiser at least every two years or audited financial statements as applicable and available.
- (g) Pooled Funds  
According to the unit value calculated at least monthly by the Investment Manager or its custodian.

## **5.09 Policy Review**

This Policy may be reviewed and amended at any time, but it must be formally reviewed by the Province, or the Committee, at least annually.

## **5.10 Soft Dollar Arrangements**

The Committee may request Investment Managers responsible for segregated assets to direct security trades to specific investment brokers to generate commission rebates for the Master Trust or the Plans. This activity should in no way impact the Investment Managers' investment decisions or the Investment Managers' ability to trade securities for the Master Trust or the Plans.

# **Appendix A**

## **Province of Prince Edward Island Master Trust**

### **Investment Management Structure and Rebalancing Guidelines**

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#### **Purpose of the Investment Management Structure Rebalancing Guidelines**

The Joint Investment Advisory Committee for the Province of Prince Edward Island (the “Committee”) adopted the investment management structure and rebalancing guidelines outlined below to ensure that the asset mix of the Master Trust is maintained within the allowable ranges adopted by the Executive Council and outlined in the Statement of Investment Policies and Procedures.

The Committee is responsible for the Investment Management Structure and the Rebalancing Guidelines.

#### **Investment Management Structure**

The asset mix of the Master Trust will be maintained within the allowable ranges described in the table below:

#### **Rebalancing Ranges**

<b>Assets</b>	<b>Minimum %</b>	<b>Target %</b>	<b>Maximum %</b>
Canadian Equities	7.0	10.0	13.0
<i>Beutel Goodman Canadian Equity</i>	<u>7.0</u>	<u>10.0</u>	<u>13.0</u>
Global Equities	25.0	29.5	34.0
<i>TDAM Low Volatility All World Equity</i>	<u>11.5</u>	<u>14.5</u>	<u>17.5</u>
<i>Baillie Gifford Global Equity</i>	<u>6.0</u>	<u>9.0</u>	<u>12.0</u>
<i>Wellington Global Small Cap Equity</i>	<u>3.0</u>	<u>6.0</u>	<u>9.0</u>
<b>Total Equities</b>	<b><u>34.0</u></b>	<b><u>39.5</u></b>	<b><u>45.0</u></b>
Canadian Real Estate	0.0	3.0	5.0
<i>TD Greystone Canadian Real Estate</i>	<u>0.0</u>	<u>3.0</u>	<u>5.0</u>
Global Real Estate	2.0	5.0	8.0
<i>Morgan Stanley U.S. Real Estate</i>	<u>0.0</u>	<u>2.5</u>	<u>5.0</u>
<i>CBRE Global Fund of Funds Real Estate</i>	<u>0.0</u>	<u>2.5</u>	<u>5.0</u>
<i>SSGA Global Listed Real Estate</i>	<u>0.0</u>	<u>0.0</u>	<u>8.0</u>
Infrastructure	2.0	5.0	8.0
<i>Lazard Global Listed Infrastructure</i>	<u>0.0</u>	<u>0.0</u>	<u>8.0</u>
<i>Global Infrastructure Partners (GIP)</i>	<u>0.0</u>	<u>5.0</u>	<u>8.0</u>
<b>Total Alternatives</b>	<b><u>4.0</u></b>	<b><u>13.0</u></b>	<b><u>16.0</u></b>
Bonds	42.0	47.5	53.0
<i>GSAM Canadian Core Plus Bond</i>	<u>9.5</u>	<u>12.5</u>	<u>15.5</u>
<i>TDAM Canadian Core Plus Bond</i>	<u>9.5</u>	<u>12.5</u>	<u>15.5</u>
<i>GSAM Canadian Long-Term Core Plus Bond</i>	<u>0.0</u>	<u>3.75</u>	<u>6.75</u>
<i>TDAM Canadian Long-Term Core Plus Bond</i>	<u>0.0</u>	<u>3.75</u>	<u>6.75</u>
<i>TD Greystone Canadian Mortgage Promissory Notes</i>	<u>0.0</u>	<u>0.0</u>	<u>6.0</u>
Cash and Short-Term Investments	<u>0.0</u>	<u>0.0</u>	<u>4.0</u>
<b>Total Fixed Income</b>	<b><u>41.5</u></b>	<b><u>47.5</u></b>	<b><u>53.5</u></b>
<b>Total</b>		<b><u>100.0</u></b>	

These rebalancing guidelines may not apply if a manager is on the watch-list where:

- the manager may take priority as a source-of-funds for Master Trust withdrawals
- the manager will receive lowest or no priority in cases of contributions to the Master Trust

Maintaining similar manager weights may not be possible in illiquid asset classes such as Real Estate and Infrastructure with limited or no available ability to rebalance.

## **Rebalancing Guidelines**

The Committee shall monitor the asset mix quarterly, to ensure the Master Trust operates within the guidelines established in the Statement of Investment Policies and Procedures. Rebalancing will take place, on a best effort basis, over a period of three months following the end of a quarter after which an imbalance has been identified.

## Appendix B

### Summary of Investment Manager Mandates and Performance Standards

Asset Class / Manager	Mandate	Benchmark	Performance Objective (p.a.)	Benchmark Effective Date
Fixed Income				
Goldman Sachs Asset Management	Universe Core Plus Bonds	FTSE Canada Universe Bond	Benchmark + 0.8%	March 31, 2016
TD Asset Management	Universe Core Plus Bonds	FTSE Canada Universe Bond	Benchmark + 0.8%	February 29, 2016
Goldman Sachs Asset Management	Long-Term Core Plus Bonds	FTSE Canada Long-Term Overall Bond	Benchmark + 0.8%	April 30, 2017
TD Asset Management	Long-Term Core Plus Bonds	FTSE Canada Long-Term Overall Bond	Benchmark + 0.8%	April 30, 2017
TD Greystone Asset Management	Canadian Mortgage	60% FTSE Canada Short-Term Overall Bond 40% FTSE Canada Mid-Term Overall Bond	Benchmark + 0.5%	October 31, 2018
Promissory notes	Promissory notes	Yield-to-book	N/A	March 31, 2017
Canadian Equity				
Beutel, Goodman & Company Ltd.	Canadian Equity	S&P/TSX Capped Composite	Benchmark + 1.1%	March 31, 2016
Global Equity				
Baillie Gifford & Co.	Global Equity	MSCI ACWI (Net)	Benchmark + 2%	March 31, 2017
TD Asset Management	Low Volatility All World Equity	MSCI ACWI (Net)	Rate of return equal to the benchmark while maintaining a lower market risk	June 30, 2017
Wellington Management	Global Small Cap Equity	MSCI ACWI Small Cap (Net)	Benchmark + 2%	June 30, 2017

<b>Asset Class / Manager</b>	<b>Mandate</b>	<b>Benchmark</b>	<b>Performance Objective (p.a.)</b>	<b>Benchmark Effective Date</b>
<b>Real Estate</b>				
TD Greystone Asset Management	Canadian Real Estate	MSCI/REALPAC Canada Quarterly Property Fund Index	Strategic nominal gross target return of 7%	June 30, 2018
CBRE	Global Fund of Funds Real Estate	The Fund does not have a specific benchmark	Strategic nominal gross target return of at least 9.5% (in U.S. dollars)	April 30, 2018
Morgan Stanley	U.S. Real Estate	NCREIF Fund Index – Open-End Diversified Core Equity (“NFI - ODCE”) (EW) (Net)	Net return higher than NFI - ODCE (EW) (Net)	December 31, 2017
State Street Global Advisors	Global Listed Real Estate	FTSE EPRA/NAREIT Developed Liquid NTR	Positive tracking error of 0.6%	June 30, 2015
<b>Infrastructure</b>				
Lazard Asset Management	Global Listed Infrastructure	MSCI World Core Infrastructure (Hedged to CAD) (Net)	Benchmark + 1%	June 30, 2018
Global Infrastructure Partners (GIP)	Direct Infrastructure	The Fund does not have a specific benchmark	Strategic nominal gross IRR of at least 8%	July 31, 2012
<b>Cash Equitization</b>				
State Street Global Advisors	Optimization of the Master Trust's liquidities	60.5% FTSE Canada Federal Non-Agency Bond 29.5% MSCI ACWI ex. Canada 10.0% S&P/TSX 60	Positive tracking error vs benchmark	November 30, 2018
<b>Currency Overlay</b>				
State Street Global Advisors	Currency overlay on global equity, global real estate and global infrastructure exposure	Policy benchmark of a 50% currency hedged position.	Benchmark + 0.3%	June 30, 2018

Commingled or pooled funds are used for all mandates except for the Beutel Goodman Canadian equity mandate (Appendix C) as well as the cash equitization and the currency overlay mandates managed by SSGA (Appendix D and E). For commingled and pooled funds, the provisions of the investment policy of such pooled funds shall prevail over those of this Investment Policy. The investment policies applicable to the commingled or pooled funds are attached to the Investment Policy in Appendix E and the Managers must also promptly inform the Committee of any significant change to these investment policies.

# **Appendix C**

## **Province of Prince Edward Island Master Trust**

### **Investment Manager Mandate and Performance Standards**

### **Specialty Canadian Equity - Beutel, Goodman & Company Ltd.**

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#### **Investment Manager Mandates**

Beutel, Goodman & Company Ltd. has been appointed by the Joint Investment Advisory Committee of the Province of Prince Edward Island (the “Committee”) with approval of the Minister of Finance as a Canadian equity manager for a segment of the Master Trust. The Committee is responsible for this mandate.

Beutel, Goodman & Company Ltd. is responsible to invest in Canadian equity investments as defined in the Statement of Investment Policies and Procedures, in accordance with the guidelines outlined in this Appendix.

#### **Asset Mix and Asset Mix Ranges**

The table below lists the broad asset classes that may be used and the minimum and maximum exposures for each asset class (all percentages are based on market value) for the Investment Manager’s total portfolio.

	<b>Minimum %</b>	<b>Benchmark %</b>	<b>Maximum %</b>
Cash and Short-Term Investments	0	0	10
Canadian Equities	90	100	100

#### **Permitted Investments**

Investments in Canadian equities, short-term investments and cash are permitted subject to the above asset mix guidelines and Section 3 of the Statement of Investment Policies and Procedures.

#### **Other Investments**

No other type of investment is allowed without prior written approval of the Joint Investment Advisory Committee.

## **Quality and Quantity Guidelines**

Those set out in Section 3 of the Statement of Investment Policies and Procedures.

## **Return Objectives**

The Investment Manager should strive to obtain a rate of return on Canadian equities (including realized and unrealized capital gains and losses) which exceeds the total return on the S&P/TSX Composite Capped Index by 110 basis points, or 1.1%, per annum.

## **Measurement Basis and Time Frame**

Investment results will be monitored and reviewed on a quarterly basis. The return objective includes realized and unrealized gains or losses plus income from all sources. Investment returns are measured on a time-weighted basis. Measurement against performance objectives will normally be over four-year moving periods.

## **Statutory Requirements**

The Investment Manager must meet the requirements for eligible investments outlined in the Federal Pension Benefits Standards Act and the Income Tax Act and Regulations, and all subsequent amendments. No investment should be made or retained which could result in the imposition of any tax under the Income Tax Act.

## **Responsibility of the Investment Manager**

The Investment Manager is responsible for complying with the Statement of Investment Policies and Procedures for the Province of Prince Edward Island Master Trust.

**Effective Date:** March 31, 2016

# **Appendix D**

## **Province of Prince Edward Island Master Trust**

### **Investment Manager Mandate and Performance Standards**

#### **Cash Equitization - State Street Global Advisors**

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#### **Investment Manager Mandate**

State Street Global Advisors has been appointed by the Joint Investment Advisory Committee of the Province of Prince Edward Island (the “Committee”) with approval of the Minister of Finance as a cash equitization manager to optimize the cash exposure of the Master Trust. The Committee is responsible for this mandate.

As a cash equitization manager, State Street Global Advisors seeks to reduce the benchmark tracking error due to frictional cash, inefficient cash flow management, asset allocation mismatch, and implementation delays.

#### **Cash Equitization Guidelines**

The manager shall monitor the actual market exposure of the Master Trust relative to the target market exposure and shall adjust the difference through the use of permitted investments. The table below describes the target market exposure for the mandate.

	<b>Minimum %</b>	<b>Target %</b>	<b>Maximum %</b>
<b>Canadian equities</b>	4.5	10	15.5
<b>Global equities</b>	25.0	29.5	34.0
<b>Alternatives &amp; Bonds</b>	55.0	60.5	66.0

#### **Permitted Investments**

Investments in derivatives, short-term investments, cash and cash equivalents as well as exchange-traded products or other pooled or collective investment vehicles whether registered, institutional or otherwise, for which an affiliate of SSGA may act as Investment Advisor, are permitted subject to the above asset mix guidelines and Section 3 of the Statement of Investment Policies and Procedures.

#### **Other Investments**

No other type of investment is allowed without prior written approval of the Joint Investment Advisory Committee.

## **Quality and Quantity Guidelines**

Those set out in Section 3 of the Statement of Investment Policies and Procedures.

## **Return Objective**

The objective is to obtain a positive tracking error relative to the benchmark.

## **Measurement Basis and Time Frame**

Investment results will be monitored and reviewed on a quarterly basis. The return objective includes realized and unrealized gains or losses plus income from all sources. Investment returns are measured on a time-weighted basis. Measurement of the strategy's contribution in absolute terms will normally be over four-year moving periods.

## **Statutory Requirements**

The Investment Manager must meet the requirements for eligible investments outlined in the federal Pension Benefits Standards Act and the Income Tax Act and Regulations, and all subsequent amendments. No investment should be made or retained which could result in the imposition of any tax under the Income Tax Act.

## **Counterparties**

The Investment Manager will use best judgment, diversification and prudence to manage and minimize counterparty risk.

## **Responsibility of the Investment Manager**

The Investment Manager is responsible for complying with the Statement of Investment Policies and Procedures for the Province of Prince Edward Island Master Trust.

**Effective Date:** November 30, 2018

# **Appendix E**

## **Province of Prince Edward Island Master Trust**

### **Investment Manager Mandate and Performance Standards**

### **Currency Overlay Manager - State Street Global Advisors**

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#### **Investment Manager Mandate**

State Street Global Advisors has been appointed by the Investment Advisory Committee of the Province of Prince Edward Island (the “Committee”) with approval of the Minister of Finance as a currency overlay manager for the global equity and global listed real estate exposure of the Master Trust. The Committee is responsible for this mandate.

As a currency overlay manager, State Street Global Advisors is mandated to hedge 50% of the Master Trust’s developed market global equity, global real estate and global infrastructure currency exposures. The manager also has the discretion to adjust the hedge ratio, within the ranges established in this Policy, based on its views of the current market and/or expectations for future currency movements.

#### **Currency Hedge Guidelines**

The table below lists the target hedge ratio for the foreign exchange hedge that may be used and the minimum and maximum hedge ratio for each asset class (all percentages are based on market value) for the hedged portfolios.

	<b>Minimum %</b>	<b>Target %</b>	<b>Maximum %</b>
<b>Developed Country Currency Hedge Ratio</b>	0	50	100

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#### **Permitted Investments**

Investments in derivatives, short-term investments, cash and institutional based pooled funds are permitted subject to the above asset mix guidelines and Section 3 of the Statement of Investment Policies and Procedures.

#### **Other Investments**

No other type of investment is allowed without prior written approval of the Joint Investment Advisory Committee.

## **Quality and Quantity Guidelines**

Those set out in Section 3 of the Statement of Investment Policies and Procedures.

## **Return Objective**

The return objective is to add 30 basis points, or 0.30%, above the policy benchmark of a 50% currency hedge position.

## **Measurement Basis and Time Frame**

Investment results will be monitored and reviewed on a quarterly basis. The return objective includes realized and unrealized gains or losses plus income from all sources. Investment returns are measured on a time-weighted basis. Measurement against performance objectives will normally be over four-year moving periods.

## **Statutory Requirements**

The Investment Manager must meet the requirements for eligible investments outlined in the federal Pension Benefits Standards Act and the Income Tax Act and Regulations, and all subsequent amendments. No investment should be made or retained which could result in the imposition of any tax under the Income Tax Act.

## **Counterparties**

The Investment Manager will use best judgment, diversification and prudence to manage and minimize counterparty risk.

## **Responsibility of the Investment Manager**

The Investment Manager is responsible for complying with the Statement of Investment Policies and Procedures for the Province of Prince Edward Island Master Trust.

**Effective Date:** June 30, 2018

## **Appendix F**

### **Pooled Fund Investment Policies**

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