

**THE RETIREMENT PLAN FOR NON-TEACHING EMPLOYEES OF**  
**SCHOOL DISTRICT NO. 43 (COQUITLAM)**  
**STATEMENT OF INVESTMENT POLICY AND PROCEDURES (SIPP)**

**EFFECTIVE MAY 7, 1992**

(UPDATED AND CONSOLIDATED TO NOVEMBER 2018)

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## **I. BACKGROUND INFORMATION**

### **Overview of the Plan**

The Plan is a closed defined benefit pension plan registered under the Income Tax Act (Registration #0236430) and under the British Columbia Pension Benefits Standards Act (Registration #85320-1).

As at December 31, 2017, the Plan is closed to new members and, with few exceptions, active members and their accrued liabilities were transferred to the BC Municipal Pension Plan. Therefore, the Plan membership is now comprised almost entirely of inactive members, with most of the liabilities attributable to pensioners. The duration of the solvency liabilities is approximately 12 years. A portion of the pensions are indexed to inflation and the remainder are indexed at a fixed rate of 1.05%.

Only the employer makes contributions to the Plan. The employer is responsible for any deficits and may fund these with special payments and / or letters of credit, as permitted under applicable pension legislation. Under this financing arrangement, the employer bears essentially all of the investment risk. As at December 31, 2017, estimates of the Plan's liabilities indicate a solvency deficit and a going concern surplus. A letter of credit is currently in place for a portion of the solvency deficit. Because the Plan is closed, it is expected that it will be cash-flow negative unless special payments are made in excess of benefit payments.

### **Purpose**

The primary goal of the Plan is the provision of lifetime retirement income to members of the Plan. The prudent and effective management of the assets of the Plan will have a direct impact on the achievement of this goal. The purpose of this SIPP is to ensure that the Plan's assets are continually invested in a prudent and effective manner.

## **Pension Fund Governance**

Responsibility for the appointment of investment managers (also referred to as "Fund Managers" or "Managers") for the Plan lies with the Retirement Committee ("Committee") which has an equal number of members appointed by the Board of School Trustees of School District No. 43 (Coquitlam) ("Board") and by the Canadian Union of Public Employees (Local 561) to administer the Plan.

The Committee understands that the Plan's assets (the "Fund") which are invested in pooled funds are not subject to the Plan's SIPP, but rather to the pooled funds' internal investment policies. The Committee shall review the pooled funds' internal investment policies and accept its provisions in lieu of those in this SIPP so as to avoid conflict. However, the performance criteria in Section IV below will still apply.

This SIPP is to be reviewed by the Committee at least once annually, or as necessitated by changes in applicable laws and regulations, and confirmed or modified as appropriate.

## **II. GENERAL INVESTMENT GUIDELINES**

2.1 In respect of all monies allocated by the Committee from the Fund established for the Plan for investment by the Fund Managers, the following general principles apply:

- (a) investment decisions shall be made without distinction between principal and income. Capital gains or losses can be realized by the Managers based upon the outlook of the investments involved.
- (b) selection of investments shall be made in the context of the total portfolio managed by each Manager, without undue risk of loss or impairment and with a reasonable expectation of fair return or appreciation given the nature of the investment.

2.2 The general responsibilities of the Managers are as follows:

- (a) exercising full investment discretion within their mandates;
- (b) providing to the Committee a review of investment performance, statements of portfolio investments and a written commentary on economic and investment conditions, at least quarterly;
- (c) providing in writing to the Committee on at least an annual basis, and in person when requested by the Committee, the following information:
  - a discussion of the time-weighted rate of return of the total portfolio managed by the Manager during the last year and over the applicable 4-year period;
  - a comparison of the time-weighted rates of return to the appropriate benchmarks;
  - the Manager's outlook for the economy and for the relevant capital markets both in the short term (six months to one year) and the long term (four years or more), and, based upon these expectations, a proposed investment strategy for the following twelve to twenty-four-month period; and
  - confirmation that the investments are in compliance with this SIPP.

- (d) notifying the Committee promptly in writing of any significant changes in key investment personnel, ownership, structure or investment process.
- (e) notifying the Committee promptly in writing of any changes in the pooled funds' internal investment policies.

### III. ASSET CLASSES ELIGIBLE FOR INVESTMENT

From time to time, and subject to this SIPP, the Fund may invest in any or all of the following asset categories. These assets may be obligations or securities of Canadian or non-Canadian entities.

- (a) publicly traded Canadian and non-Canadian common stocks, convertible debentures or preferred securities, warrants, share rights, instalment receipts, units or other instruments convertible into equity;
- (b) bonds, debentures, notes, asset-backed and mortgage-backed securities, or other debt instruments of Canadian and non-Canadian governments, government agencies, or corporations;
- (c) Canadian commercial real estate mortgages;
- (d) Canadian commercial real estate and publicly-traded Real Estate Income Trusts (REITs);
- (e) futures, forwards, swaps, options or similar products, the value of which is based upon the market price value or level of an index, or the market price or value of a security, currency or financial instrument traded on a recognized exchange or dealt over-the-counter with counterparts of sound financial standing, provided that the use of derivatives is made without leverage and with the following intent:
  - i) **Hedge:** the offset or reduction of the risk associated with all or a portion of an existing investment or group of investments;
  - ii) **Create effective exposures to certain markets:** replication of equity, fixed income, money market, currency or other indices or securities, in order to reduce transaction costs and achieve greater liquidity;
  - iii) **Facilitate the investment management process:** increase the speed, flexibility and efficiency in the investment management operations of the Fund;
  - iv) **Provide additional income.**

- (f) Guaranteed Investment Contracts or equivalent financial instruments of insurance companies, trust companies, banks or other eligible issuers, or funds which invest primarily in such instruments;
- (g) annuities, deposit administration contracts or other similar instruments regulated by the Canadian and British Insurance Companies Act (Canada) or comparable provincial law, as amended from time to time;
- (h) term deposits or similar instruments of trust companies and banks;
- (i) cash, or money market securities issued by governments or corporations;
- (j) equity private placements that are subsequently to be cleared through the regulatory process and become public issues. Investment is restricted to those expected to become public issues within three months.
- (k) debt private placements. Investment is restricted to rated securities that readily trade in the secondary market.
- (l) income trusts, registered as reporting issuers under the Securities Act, domiciled in jurisdictions that provide limited liability legislation.
- (m) mutual, pooled or segregated funds eligible for pension fund investment, which may invest in any or all of the above instruments or assets. Notwithstanding the present guidelines, it is recognized that a Manager cannot necessarily adhere to these diversification and constraint standards within a pooled fund. In such situations, both the risk/return profile and the diversification standards should exhibit similar intent, with any differences to be communicated by the Manager to the Committee.

#### IV. ASSET MIX AND PERFORMANCE OBJECTIVES

##### **Long Term Target Asset Mix**

The Fund's long-term target weights are shown in the table below and have been determined by the Committee after consideration of the impact on the Plan's funding volatility and contribution rates. Long term bonds provide a hedge for the Plan liabilities and thus reduce funding and contribution volatility. Cash provides liquidity for benefit payments. The other asset classes are expected to provide long-term growth in excess of the liabilities and hence are expected to reduce contribution requirements, as well as provide diversification benefits. Excessive volatility of the Plan's funded status or contribution level is a signal for the Committee to reconsider the Fund's long term target weights.

##### **Primary Fund Objective**

To achieve an annualized rate of return before investment management fees that will exceed the annualized rate of return achieved by the benchmark portfolio outlined below by 1% over four-year moving periods:

<b>Asset Class</b>	<b>Long Term Target Weight</b>	<b>Index (in Canadian Dollars)</b>
Cash	2.0%	FTSE Canada 91-Day T-Bill
Mortgages	7.5%	FTSE Canada Short / Mid blend <sup>1</sup>
Long Core Plus Bonds	33.0%	FTSE Canada Long Term Bond
Real Estate	12.5%	REALpac / IPD Canada Property Fund Index (PFI)
Canadian Equities	15.0%	S&P/TSX Capped Composite
Global Equities	30.0%	MSCI ACWI (Net <sup>2</sup> ) (CAD)

Changes to the Fund's strategic asset mix, and other implementation issues (e.g. capital calls in illiquid asset classes such as real estate), mean that the Fund's actual benchmark

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<sup>1</sup> 60% FTSE Canada Short Term Bond Index + 40% FTSE Canada Mid-Term Bond Index

<sup>2</sup> Net of dividend withholding tax

experience may differ from the long-term benchmark portfolio noted above. The Fund’s current and past benchmarks are provided in Appendix A.

**Manager Performance Objectives**

***Primary Manager Objectives:***

To achieve an annualized rate of return before management fees that will exceed the annualized return achieved by the respective index and a value-added target over four-year moving periods.

<b>Asset Class</b>	<b>Manager</b>	<b>Index</b>	<b>Objective</b>
Mortgages	Greystone	60% FTSE Canada Short-Term Bond + 40% FTSE Canada Mid-Term Bond	+1.0%
Long Core Plus Bonds	Fidelity	FTSE Canada Long Term Bond	+0.75%
Real Estate	Greystone	REALpac / IPD Canada Property Fund Index (PFI)	---
Canadian Equities	Fidelity	S&P/TSX Capped Composite	+1.25%
Global Equities	MFS	MSCI ACWI (Net) (CAD)	+1.50%

***Secondary Manager Objectives:***

To achieve an annualized rate of return before management fees over four-year moving periods that is above the annualized return of the median investment performance of a peer group of comparable funds as measured by a recognized pooled fund survey.

## **Evaluation of Objectives**

Each Fund Manager should aim to exceed the investment performance objectives set out in this section, while not taking undue risk of loss or impairment to the assets under the Fund and within the investment constraints as described in this policy. Performance of the individual Managers and of the overall Fund will be monitored on a quarterly basis. A detailed review of the Managers and this SIPP will be conducted at least annually.

If the Fund fails to attain its primary objective, the Committee should determine the source of the underperformance. If an examination of the shortfall determines it has resulted from asset mix decisions at the Fund level, the Committee may choose to initiate a formal review of rebalancing procedures or benchmark composition. Decisions will be recorded in the minutes of a regular or special meeting of the Committee.

If a Fund Manager fails to attain either of the 4-year performance targets, the Committee should expect a satisfactory explanation of the shortfall. If the explanation of the shortfall is not satisfactory in the opinion of the Committee, the Committee may choose to initiate a formal review of the Fund Manager. The intent of such review will be to examine the overall performance of the Manager, and to either confirm their appointment or instigate a competitive process which may result in the selection of a new Manager. The decision will be recorded in the minutes of a regular or special meeting of the Committee.

The Committee may also decide to replace a Fund Manager for reasons not related to investment performance. Such reasons include, but are not limited to the following:

- significant turnover of the Fund Manager's staff
- significant change in the Fund Manager's ownership, structure or investment process
- desire to diversify investment management
- failure to satisfy the Fund Manager's responsibilities set out in that Manager's agreement with SD43
- failure to meet investment constraints set out in Section VI of this SIPP.

## V. REBALANCING GUIDELINES

If the market value of an individual asset class falls outside of the permitted range as outlined in the table below, the Fund will be rebalanced automatically back to the long-term asset class targets outlined in the table in Section IV of this SIPP. Rebalancing will be done quarterly using quarter-end market values or at such other time as requested by the Committee.

<b>Asset Class</b>	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>
Cash	0.0%	2.0%	5.0%
Mortgages	5.0%	7.5%	10.0%
Long Core Plus Bonds	28.0%	33.0%	38.0%
Real Estate	7.5%	12.5%	17.5%
Canadian Equities	10.0%	15.0%	20.0%
Global Equities	25.0%	30.0%	35.0%

## VI. CONSTRAINTS BY ASSET CLASS

Unless otherwise stated, or required by Schedule III to the Pension Benefits Standards Act (PBSA), 1985 (Canada) as amended from time to time, the following constraints apply as a percentage of the market value of the relevant asset class:

### **Equities**

- Maximum in emerging markets: 15%
- Maximum in voting shares of any single issuers: 30%
- Maximum cash: 5%

Manager(s) shall ensure adequate diversification by security, region, sector, and industry.

### **Mortgages:**

- Maximum Loan-to-Value, per mortgage: 85%
- Minimum Loan-to-Value of 75% or lower, aggregate: 85%
- Maximum Second Mortgages, aggregate: 15%
- Maximum cash: 10%

Constraints apply to uninsured mortgages. The Manager(s) shall ensure adequate diversification by security, region, and sector.

### **Real Estate:**

- Minimum in income-producing properties: 80%
- Maximum leverage, aggregate (gross market value): 50%
- Maximum leverage, per investment (gross, when assumed): 75%
- Maximum cash: 10%

The Manager(s) shall ensure adequate diversification by property, region, and sector.

### **Fixed Income:**

- Minimum credit rating (excluding high yield bonds): BBB or equivalent at purchase by at least one recognized rating agency
- Maximum exposure to BBB: 20%
- Maximum exposure to high yield bonds: 30%
- Maximum exposure to Municipals: 25%

- Maximum in single issuers: 10%; except government guaranteed bonds  
30% in provincials or guaranties with credit ratings less than AA
- Maximum in non-Canadian dollar domiciled bond: 30%
- Duration: Index duration +/- 2 yrs.

**Short-Term and Cash:**

- Minimum credit rating: R-1 (low) or equivalent
- Maximum term of any single investment: one year, except for floating rate notes having a coupon reset of no less than once per year

## **VII. LENDING OF SECURITIES**

The Fund may lend any securities held on a segregated basis through the Fund's custodian, subject to applicable legislation and provided that a minimum collateral coverage of at least 105% of the current market value of the loaned securities is held in cash or high quality, liquid securities. The 105% level of collateral must be maintained at least once daily. The Managers bear no responsibility for the securities lending activities of the Fund's segregated assets as such responsibility rests with the custodian.

It is acknowledged that securities lending may also be permitted under the pooled funds in which the Fund invests. The pooled funds may enter into securities loan agreements as long as the program is pursuant to an arrangement and agreement with the pooled fund custodian or an associate trust institution. Such agreements must meet the same collateral requirements as segregated assets.

Any Manager that engages in securities lending in their pooled funds is required to:

- report each year on whether their securities lending policy adheres to the Office of the Superintendent of Financial Institutions (OSFI) guidelines for security lending;
- fully disclose their securities lending policies to the Committee annually, and
- notify the Committee immediately of any changes in these policies.

## **VIII. CONFLICT OF INTEREST**

The Fund Managers must disclose any material interest in any investment or proposed transaction. All investment activities of the Managers and employees of the Managers shall be conducted in accordance with the Code of Ethics and Standards of Professional Conduct of the CFA Institute.

All activities of an agent of the Committee or of the Board shall be conducted in accordance with the professional standards and/or code of ethics generally applicable to such agents.

Should an actual or potential conflict of interest arise, the party to the conflict shall immediately disclose the conflict to the Chair of the Committee. The Chair will immediately advise all other members of the Committee. The party to the conflict will abstain from activity with respect to the area of conflict, unless otherwise determined permissible by unanimous decision of the Committee.

## **IX. LIQUIDITY**

In establishing and monitoring this SIPP, liquidity requirements of the Plan shall be evaluated. Available liquidity is evaluated within the context of the net cash flow, asset categories, and the marketable securities held within asset categories.

So that the Plan will always be able to meet its benefit payments without the distressed sale of assets, at least 75% of the Fund shall be invested in asset classes deemed to have daily liquidity (i.e. publicly traded fixed income and equities, or pooled funds valued daily).

## **X. VOTING RIGHTS**

The Managers are delegated the responsibility of directing the Fund's custodian in the exercise of voting rights acquired through the Fund investments. The Managers will exercise acquired voting rights with the intent of fulfilling the investment objectives and policies of the Plan.

The Managers must provide the Committee with a written summary of all significant and/or non-routine voting matters at least annually.

## **XI. RELATED PARTY TRANSACTIONS**

Transactions with a related party on behalf of the Plan are only permitted where the transaction is required for the operation or administration of the Plan and the terms and conditions of the transaction are not less favourable than current market terms and conditions. In addition, the Plan or Plan delegate may enter into a transaction with a related party on behalf of the Fund if:

- a) the investment is an investment fund in which other investors may invest and that

- complies with the regulations governing the investments in a plan or in member choice accounts; or
- b) the investment is in an unallocated general fund of an authorized Canadian life insurance company; or
  - c) the investment is in securities issues by or fully guaranteed by the Government of Canada, the government of a province, or an agency of either of these governments; or
  - d) the investment is in a fund composed of mortgage-backed securities that are fully backed by the Government of Canada, the government of a province, or an agency of either of these governments; or
  - e) the investment is in a fund that replicates the composition of a broad class of securities traded at a marketplace; or
  - f) the investment involves the purchase of a contract or agreement under which the return is based on the performance of a widely recognized index of a broad class of securities traded at a marketplace; or
  - g) the value of the transaction is nominal or the transaction is immaterial to the Fund. The market value of the Fund's assets shall be used as the criteria to determine whether a transaction is nominal or immaterial. Transactions amounting to less than 0.5% of the aggregate market value of the Fund's assets are considered to be nominal and immaterial. Two or more transactions with the same related party shall be considered as a single transaction.

## **XII. VALUATION OF INVESTMENTS**

The value of all regularly traded investments will be their market value. Where the market value cannot be readily determined by reference to generally-available price quotations, the investment shall be valued as frequently as is practical, but not less frequently than once every two years, by independent appraisal or by such other method as, in the opinion of the Committee, provides a fair and reasonable value in relation to the current situation in the relevant market. In the absence of a valuation on such basis, the investment will be carried at book value.

Approved by the Retirement Committee:

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Title

## **APPENDIX A. HISTORY OF THE FUND'S BENCHMARK PORTFOLIO**

Prior to October 2012:

<b>Index (in Canadian Dollars)</b>	<b>Asset Class</b>	<b>Weight</b>
FTSE TMX Canada 91-Day T-Bills	Cash and Equivalents	5%
FTSE TMX Canada Universe Bond	Canadian Bonds	40%
S&P/TSX Capped Composite	Canadian Equities	35%
S&P500 Composite	U.S. Equities	10%
MSCI EAFE (Net)	International Equities	10%

October 1, 2012:

<b>Index (in Canadian Dollars)</b>	<b>Asset Class</b>	<b>Weight</b>
FTSE TMX Canada Universe Bond	Canadian Bonds	45%
S&P/TSX Capped Composite	Canadian Equities	22.5%
MSCI World (Net)	Global Equities	32.5%

September 1, 2013:

<b>Index (in Canadian Dollars)</b>	<b>Asset Class</b>	<b>Weight</b>
FTSE TMX Canada Universe Bond	Canadian Bonds	31.5%
FTSE TMX Canada Long Term Bond	Canadian Long Term Bonds	13.5%
S&P/TSX Capped Composite	Canadian Equities	22.5%
MSCI World (Net)	Global Equities	32.5%

November 1, 2014:

<b>Index (in Canadian Dollars)</b>	<b>Asset Class</b>	<b>Weight</b>
FTSE TMX Canada Universe Bond	Canadian Bonds	24%
FTSE TMX Canada Long Term Bond	Canadian Long Term Bonds	16%
REALpac IPD Canada Property	Canadian Real Estate	5%
S&P/TSX Capped Composite	Canadian Equities	22.5%
MSCI World (Net)	Global Equities	32.5%

June 1, 2015:

<b>Index (in Canadian Dollars)</b>	<b>Asset Class</b>	<b>Weight</b>
60% FTSE TMX Canada Short-Term Bond + 40% FTSE TMX Canada Mid-Term Bond	Mortgages	5%
FTSE TMX Canada Universe Bond	Canadian Bonds	14%
FTSE TMX Canada Long Term Bond	Long Term Bonds	21%
REALpac / IPD Canada Property	Real Estate	10%
S&P/TSX Capped Composite	Canadian Equities	20%
MSCI World (Net)	Global Equities	30%