

STATEMENT OF INVESTMENT POLICIES AND PROCEDURES

Board Policy



Effective:
December 5, 2024

Overview

The Statement of Investment Policies and Procedures (the "SIPP") is established in accordance with sections 78 and 79 of the General Regulation under the *Pension Benefits Act* (Ontario) (the "PBA").

Plan Description

The OPSEU Pension Plan (the "Plan") was established as a successor to the Public Service Pension Plan pursuant to an Agreement and Declaration of Trust dated October 25, 1994 in accordance with a Sponsorship Agreement dated April 18, 1994 between the Ontario Public Service Employees' Union ("OPSEU") and the Province of Ontario (the "Province") and the *Ontario Public Service Employees' Union Pension Act, 1994*.

The Plan is a jointly-sponsored defined benefit pension plan ("JSPP") as defined in the PBA and is subject to the rules for JSPPs under the PBA. Members and employers contribute equally to the Plan and share in the Plan governance. OPSEU and the Province are equally represented on the Board of Trustees (the "Board") with five members each and share equal responsibility for funding decisions. The Board and our employees are collectively referred to in this SIPP as "OPTrust."

The Plan has over 111,000 members and retirees and consists of two schedules of benefits. The Plan's primary schedule provides pension benefits mainly for employees of the Province in bargaining units represented by OPSEU and certain other bargaining units and employers. The second schedule of benefits, known as OPTrust Select, was launched on April 19, 2018 to provide pension benefits for employees of participating employers in the broader public sector and in the non-profit and charitable sectors. OPTrust Select members and employers make lower contributions and members receive a more modest benefit than under the primary schedule.

The Plan's overarching mandate is to keep the Plan sustainable over the long term, as articulated in its mission statement – pay pensions today and preserve pensions for tomorrow.

Investment Governance

The Board has delegated the day-to-day administration and investment of the Fund to the Plan Manager, President & Chief Executive Officer (the “CEO”), and the CEO, in turn, has delegated responsibility for the investment of the Fund to the Chief Investment Officer (the “CIO”). The CIO provides the Board with such reporting as the Board requires to fulfill its strategic oversight and monitoring roles.

Prudent Person Approach to Investing

OPTrust is subject to a prudent person standard of care under the PBA. OPTrust understands that prudence in investing is to be assessed mainly by the process through which investment strategies are developed, adopted, implemented and monitored in light of the purposes for which the funds are held.

Since prudence is measured principally by the process through which investment decisions are made, OPTrust (i) is committed to establishing a strong governance system that clearly allocates responsibility between the Board and management, (ii) utilizes the expertise of OPTrust’s investment professionals in setting the investment strategy within the parameters established by the Board, (iii) includes a robust reporting system on matters delegated by the Board to management through the delegation to the CEO, (iv) engages in deliberate decision-making based on proper consideration of adequate information, and (v) ensures that the reasons for decisions and the circumstances that were considered are documented.

Compliance with Regulatory Requirements

The SIPP must satisfy the prescribed requirements and the Fund must be invested in accordance with the SIPP. The CIO has overall responsibility for monitoring investments to ensure compliance with the SIPP and for ensuring that the SIPP is filed with the Chief Executive Officer of the Financial Services Regulatory Authority of Ontario (“FSRA”) within the prescribed timeframes.

The investment of the Fund must also comply with the prescribed requirements for pension investing, including the limits and other restrictions in Schedule III to the *Pension Benefits Standards Regulations, 1985*, which is incorporated by reference into the PBA Regulations (subject to any modifications in the PBA Regulations).

Finally, in investing the Fund, OPTrust shall have regard to applicable policies of the regulatory authorities.

Annual Review

The SIPP shall be reviewed, amended (if necessary) and approved by the Board at least annually, and the SIPP and any amendments thereto will be filed with FSRA and delivered to the Plan’s actuary within the prescribed timeframes.

Factors Affecting the Ability of the Plan to Meet its Obligations

In developing the SIPP, OPTrust has taken the following factors into account:

- Plan funding risk;
- the nature of the Plan's liabilities;
- the possible effects of inflation, deflation or stagflation;
- the expected total return of the portfolio;
- liquidity; and
- the characteristics of different asset classes, their relationships to each other and their risk and return characteristics.

Categories of Investments

The following categories of investments (on a direct and indirect basis) are permissible for the purposes of the Plan.

Equity and Growth

Equities – Public and private equities including but not limited to common stocks, preferred stocks, private placements, rights, installment receipts, warrants, income trusts, securities convertible into equity and limited partnerships, royalties and streaming contracts.

Real Assets

Infrastructure – Interests in infrastructure investments including investments across the capital structure including, but not limited to, debt, equity and other credit or financial support and commitments in private entities that either hold or are seeking to develop or hold infrastructure assets.

Real Estate – Interests in private real estate and public real estate securities including debt investments and other real estate related investments.

Commodities – Natural and processed inputs to industrial and commercial production such as energy, industrial and precious metals, agriculture and livestock, the exposure to which may be gained through derivatives, or physical with respect to precious metals.

Fixed Income

Nominal Bonds and Credit – Debt securities of Canadian and foreign government, corporate entities, financial institutions and special purpose vehicles including but not limited to bankers' acceptances, commercial paper, mortgages, related asset-backed securities, loans, public and private debt.

Real Return Bonds – Debt securities with cash flow streams linked to inflation.

Multi-Strategy

Multi-Strategy – Investments that take both long and/or short positions, with absolute or hurdle rate of return expectations (e.g. Systematic and Discretionary Hedge Fund Strategies, Alternative Risk Premia Strategies, Multi-Asset Strategies, Digital Assets, Tail Hedging Strategies).

Insurance Linked Securities – financial instruments whose values are driven by insured loss events.

Cash and Funding

Net Cash Positions – Cash or funding accounts after giving consideration to the Fund’s funding and liquidity needs.

Diversification of the Investment Portfolio

Diversification is a key element of the long-term investment strategy for the Fund. By selecting an appropriate mix of asset types and investing in a range of markets and sectors, Plan management aims to achieve a number of objectives, including:

- managing the Plan’s exposure to funded status risk;
- managing the Plan’s exposure to investment risk;
- reducing the impact of poor returns from particular markets or asset classes in any given year; and
- maximizing the ability to achieve the Plan’s funding target return over time.

Asset Mix and Rate of Return Expectations

The Fund's long-term target rate of return (net of all investment expenses) is 3%-4% real.

A summary of the long-term strategic allocation ranges is shown below:

Asset Type	Minimum	Target	Maximum
1. Equity and Growth			
Public and private equities	15%	30%	50%
2. Real Assets			
Infrastructure	8%	15%	22%
Real Estate	10%	17%	24%
Commodities	0%	0%	20%
3. Fixed Income			
Nominal Bonds, Credit and Real Return Bonds	10%	45%	65%
4. Multi-Strategy			
Multi-Strategy & Insurance Linked Securities*	0%	10%	20%

5. Cash and Funding**			
Net Cash Positions	-45%	-17%	15%

* Insurance linked securities (ILS) do not have a specific target and are included in the target set for the multi-strategy investments.

** This is comprised of liquidity reserves and funding for investments in other asset classes.

Management will seek to implement a dynamic asset mix in a prudent manner by drawing on the full range of investments listed herein, subject to market conditions and investment opportunities.

The Board approves the overall risk budget in the form of funding ratio drawdown metrics. The target weights in the table above are used for long-term investment planning purposes, and the actual asset class weights could deviate from those targets as long as the total portfolio risk stays within the approved risk budget.

Derivatives, Repurchase Transactions and Exchange-Traded Funds

OPTrust uses derivatives, repurchase and reverse repurchase transactions (“repurchase transactions”) and exchange traded funds to aid in the management of the Fund’s asset-mix and other investment objectives. Types of derivatives used include but are not limited to swaps, forwards, futures and options. Derivatives, repurchase transactions and exchange-traded funds may be used to synthetically replace any investment activity that would traditionally be accomplished with any asset class as well as in currencies, credit, volatility and variance products.

Short Selling

OPTrust may short sell securities, by way of borrowing securities or otherwise, to enhance the return or reduce the risk of the Fund. When engaging in short sale transactions, OPTrust shall give consideration to the related risks.

Collateral

Subject to any restrictions in the PBA or ITA, OPTrust may pledge, charge or otherwise grant a security interest in assets or post margin as required to complete derivatives transactions, complete a short sale or in connection with repurchase transactions. Assets that may be posted as collateral are set out in the legal agreements or are defined by exchanges.

Currency Hedging

The CIO will report to the Board on the approach to currency hedging on an annual basis.

Liquidity of Investments

Investment of the Fund shall be undertaken with a view to providing for sufficient liquidity to enable the Plan to meet all its obligations as they become payable.

Securities Lending

The investments of the Fund may be loaned, for the purpose of generating revenue for the Fund, enhancing expected returns or reducing “Total Fund” risk.

All loans will be made in accordance with the terms of securities lending agreements entered between the Fund and the agents appointed to administer the securities lending program, and any other lending agreements entered between such agent and a borrower of securities.

All loans must be secured by securities collateral. Securities collateral obtained must be high quality, readily marketable securities. The amount of collateral taken for securities lending should reflect best practices in local markets but shall have a market value of at least 100% of the outstanding market value of the loaned investments (marked-to-market daily).

The lending agreements require the agent to recall shares on loan on a best effort basis so that proxy votes can be executed by OPTrust.

Consideration of Environmental, Social and Governance (ESG) Factors

OPTrust believes that environmental, social and governance (“ESG”) factors can affect investment risk and return as well as our reputation. OPTrust has established a responsible investing (“RI”) program under its Statement of Responsible Investment Principles (“SRIP”) and implemented a range of measures to identify, assess and manage ESG factors in a manner that supports both our mission to deliver sustainable pension security and our fiduciary duty to our members.

The key principles of OPTrust’s RI approach are outlined in the SRIP. Accountability for the RI program lies with the CIO. The investment management teams are responsible for adhering to the associated policies and are accountable for ESG-related risks that are taken.

Where assets are managed externally, we expect our partners to incorporate all material ESG considerations in the investment decision-making process and to be aware of our RI approach. For both internally and externally managed assets, our due diligence processes and procedures incorporate consideration of material ESG factors.

OPTrust’s RI strategy includes a commitment to active ownership by monitoring companies within its portfolios, actively voting at company meetings, and engaging with investee companies, regulators and industry organizations to improve long-term performance. Active ownership is practiced by investment teams across asset classes, to the extent possible and guided by the SRIP.

OPTrust may engage with investee companies either directly or in collaboration with other investors if monitoring has identified an ESG concern. Regulators and policy makers are also engaged, primarily

through organizations of which OPTrust is a member, to ensure that the perspectives of shareholders with a long-term view are maintained when policies and laws are revised or introduced.

OPTrust is a signatory to the United Nations' supported Principles for Responsible Investment, an international network of investors committed to incorporating these factors into their investment and ownership decisions.

Delegation/Retention of Voting Rights

Proxy voting is a key component of OPTrust's active ownership approach with publicly listed companies. OPTrust retains overall responsibility for voting proxies related to securities directly owned by the Fund and engages a proxy voting service provider to assist with share voting responsibilities. OPTrust exercises voting rights in a manner that is consistent with OPTrust's Proxy Voting Guidelines, approved annually by the Board. OPTrust may exercise judgment in connection with the voting of any proxy on a case-by-case basis.

Valuation of Investment Assets

Investments are recorded at fair value determined in accordance with IFRS 13 Fair Value Measurement.

The fair value of investments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as at the measurement date.

Public market investments will typically be recorded at quoted public market prices. Where there is no price available, the investments will be valued based on accepted models and assumptions that approximate fair value.

Private investments such as infrastructure, real estate and private equity are valued at least annually. As market prices are not readily available for these types of investments, valuation methods and techniques such as earnings multiples, discounted cash flows and other pricing models are typically used. External appraisers and valuers will provide independent valuations at least every three years for direct investments exceeding predefined thresholds.

For hedge and pooled funds, the final net asset value (NAV) is determined through reference to the NAV as reported by the external fund manager.

The fair value of investments is reflected in the annual year-end financial statements which are audited by an external auditor and their independent assessment of investment values is incorporated in their report to the Audit Finance & Risk Committee and in their audit opinion.

Permitted Borrowing

Borrowing money or providing guarantees on behalf of the Plan is permitted if it is in accordance with the PBA, the ITA and the Plan's constituting documents.

Conflict of Interest

All investment decision-making shall be subject to the management and Board policies and procedures in place for dealing with conflicts of interest.

Related Party Transactions

OPTrust may enter a transaction with a related party of the Plan only as permitted under the applicable legislation, including the PBA and ITA.

For the purposes of the PBA, a transaction will be considered by OPTrust to be nominal or immaterial if its value is no more than 1% of the market value of the Fund at the time the transaction is entered into or completed.

Roles and Responsibilities

Policy Approver

Board of Trustees

Review Cycle

Annual



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