caat
PENSION PLAN

Statement of Investment Policies and Procedures
for the
Colleges of Applied Arts and Technology (CAAT) Pension Plan

November 24, 2020

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Introduction

Purpose of the Investment Policy

The primary goal of the Colleges of Applied Arts and Technology Pension Plan (the "Plan") is to provide Plan members and their beneficiaries (“Members”) with the stipulated level of retirement income at an appropriate cost. The prudent and effective management of the Plan’s assets (the “Fund”) has a direct impact on the achievement of this goal. The Fund is managed so as to achieve the long-term objective of providing retirement benefits in accordance with plan provisions while avoiding, to the extent possible, significant fluctuations in contributions.

The Board of Trustees (the “Board”) is the legal administrator of the Plan for the purposes of the Pension Benefits Act, with the ultimate responsibility for the management of the Fund. The Board has established this Statement of Investment Policies and Procedures ("SIPP") to govern the management of the Fund, taking into account the expected contributions to be made by Members and Employers.

The Fund shall be invested in a prudent and effective manner and in accordance with the *Pension Benefits Act* and the *Federal Investment Regulations* in Schedule III of the *Pension Benefits Standards Regulations.* The SIPP emphasizes a diversified mix of investments that is expected to maximize the long-term real rate of return of the Fund at an acceptable level of risk.

The Plan is a defined benefit pension plan. The Board recognizes that the liabilities of the Plan are independent of the performance of the Fund, but that the Fund provides security that benefit entitlements will be paid, and that investment returns in line with the liability growth, or discount rate, are needed to finance benefit payments under the Plan. The Fund is being managed on the assumption that the Plan will continue as a going concern indefinitely and that the Plan rules and benefits are those existing as of the date of the SIPP.

Allocation of Responsibilities

The Board is the legal administrator of the Plan and has the ultimate responsibility for the management of its assets. Key policy decisions are made by the Governing Fiduciaries, which include the Board and the Investment Committee.

The Managing Fiduciaries, comprising the Chief Executive Officer and Plan Manager, and the Chief Investment Officer:

- provide recommendations for consideration and decision by the Governing Fiduciaries,
- are responsible for implementing those decisions; and
- have been delegated some decision-making powers by the Governing Fiduciaries.

External investment and fund managers make day-to-day investment decisions within the policies established in this SIPP and the specific guidelines in their mandates.

The Governing Fiduciaries have established a monitoring system for the Fund's assets to ensure that investment holdings and activities are consistent with this SIPP, with investment manager mandates and with applicable legislation.

Investment Principles

The following are the principles that guide the investment of the CAAT Fund.

Liability Hedging / Matching

To meet the goals of stable contribution rates and securing retirement income, the investment policies that govern the Fund should take into account the behaviour and sensitivities of the Plan's liabilities.

Perfectly matching or immunizing the Plan's liabilities is rarely achievable in practice because:

(i) Estimating the value and risk profile of the liabilities relies on many assumptions about member demographics that are altered frequently, as well as economic factors such as interest rates and inflation;

(ii) The value of the liabilities also varies with the discount rate which is in part driven by expected returns of the asset classes in the Fund and by the risk tolerance of the Plan's governors; and

(iii) Fixed income instruments, such as long duration bonds and real return bonds, help to hedge the economic risks, but not longevity or salary escalation risks, and may not be available in the Canadian market in the form and quantities required (although use of derivative instruments may be of help).

Closer matching of assets to the liabilities may be achievable, but it may cause contribution rates to go above an affordable level.

Asset Categories

Assets in the Fund are divided into three broad categories: interest rate sensitive, inflation sensitive and return enhancing.

Interest Rate Sensitive and Inflation Sensitive asset classes help to hedge the economic exposures to interest rates and inflation in the Plan's liabilities. Return Enhancing asset classes provide the opportunity for long-term enhanced returns and diversification in managing contribution rate volatility. Several asset classes in which the Fund invests have characteristics and risk factors that fit into more than one of these categories.

Asset Mix / Risk Tolerance

The level of equity exposure will drive much of the risk level of the Fund assets relative to the liabilities and will vary depending upon the risk tolerance of the Board.

The risk tolerance of the Board will be influenced by the funded status of the Plan, as well as the priorities defined in the Funding Policy.

Diversification

Strategies that access different sources of return and / or increase portfolio diversification will be pursued in the expectation of enhanced long-term risk-adjusted returns. This includes the diversification of asset classes and risks as well as the diversification of sources of added value or alpha.

Equity Risk Premium

While there will be periods of equity underperformance, it is expected that equity investments will outperform bond investments over the long term.

Currency Hedging

While returns associated with non-Canadian currency movements relative to the Canadian dollar are not expected to have a significant effect on the return of the CAAT Plan over the very long term, over shorter periods, currency movements may cause returns to be volatile. Hedging will be employed for certain non-Canadian currency exposures.

Active / Passive Management

Active management is employed for those strategies where there is an expectation of adding value relative to a benchmark over the long term net of expenses.

All active management activities are carried out within defined parameters. Active management performance is measured against appropriate absolute or relative benchmarks and relevant asset class peer groups.

Passive investment management may be used in certain asset classes where the prospects of adding value are diminished based on market efficiency or limited opportunity or in managing the level of active risk exposures within asset classes.

Time Horizon / Liquidity

While the Plan's liabilities are long-term in nature, the requirement to file valuation results with the regulator every three years (which in turn can drive contribution levels) means the investment horizon of the Fund has to be balanced between the relatively short term and the long term. The ability to smooth asset values and to work within a range of acceptable valuation assumptions helps to extend the investment horizon of the Fund.

The long-term nature of the Plan's liabilities allows for a material portion of the assets in the Fund to be invested in illiquid assets. Investment in illiquid assets such as infrastructure, real estate or private equity shall be implemented for those investments where there is expected to be additional return available due in part to an illiquidity premium.

Leverage

Leverage, defined as the use of non-cash backed derivative instruments or borrowed capital to increase the expected rate of return received from investment activities, to manage liquidity or to manage risk, may be used in defined and controlled circumstances as permitted by applicable law and approved by the Board.

Non-Canadian Investments

Financial assets in Canada represent a very small segment of global market capitalization and are concentrated by industry sector and geographically. While there may be reasons for the Plan to hold Canadian investments in excess of their global market weight within a particular asset class, global diversification of investments is beneficial to the Plan and will be employed.

Responsible Investment

The CAAT Plan Board believes that, as part of its fiduciary duty to Plan beneficiaries, consideration of risks related to the investment of the Plan's assets includes non-financial risks such as environmental, social and governance (ESG) factors.

In particular, the Board believes that over the long term, companies that have sound corporate governance structures and practices will outperform those that do not.

The Board believes that managing the risk to the sustainability of a corporation includes the awareness and management of the environmental and social impacts of the corporation's business activities. Inattention to these factors can result in, among other things, reputational harm that in turn can lead to financial underperformance.

The key components of the Plan's responsible investment activities are:

- CAAT is a signatory to the United Nations-supported Principles for Responsible Investment Initiative;
- The Plan's proxy votes are cast in such a way as to encourage corporations to be environmentally and socially responsible, to adopt sound governance practices and to disclose information on ESG factors and risks;
- CAAT joins with other institutional investors in engaging with the management of corporations in which it invests to encourage better ESG practices; and
- The Fund's investment managers are encouraged to incorporate ESG factors in their investment management processes, where appropriate to the mandate.

Asset Mix

The Fund will be invested in a broad range of asset classes that fall into three main categories – Interest Rate Sensitive, Inflation Sensitive and Return Enhancing. Interest Rate and Inflation Sensitive assets are those that help to offset the sensitivities to inflation and to changing interest rates that are inherent in the Plan's liabilities. Return Enhancing assets help to meet the expected rate of return. It should be noted that some asset classes have characteristics and risk factors that fit more than one of these categories.

The policy portfolio and allocation ranges are indicated in the table below. Also shown are the performance benchmarks that are used to measure the performance of the total Fund relative to the policy portfolio.

Asset Class	Minimum	Policy	Maximum	Benchmark
Interest rate sensitive				
Nominal Long Bonds	10%	13%	25%	FTSE TMX Long Bond Index
Nominal Universe Bonds	3%	5%	7%	FTSE TMX Universe Index
Inflation sensitive				
Real Return Bonds	3%	5%	7%	Actual RRB Portfolio Return
Real Assets *	10%	20%	25%	CPI + 4%
Commodities	3%	5%	7%	S&P GSCI
Return enhancing				
Global Developed Equity	20%	27%	35%	MSCI World Index
Emerging Markets Equity	8%	10%	12%	MSCI Emerging Markets Index
Private Equity *	5%	15%	20%	MSCI ACWI + 3%

* *For performance and risk calculation purposes, the policy for private markets asset classes will be the lesser of the actual and policy weights while the allocations to these asset classes are being built.*

For non-domestic Return Enhancing assets, foreign currency exposure will not be hedged. For Interest Rate and Inflation Sensitive assets, with the exception of commodities which will be unhedged, developed market foreign currency exposure will be at least 90% hedged. Emerging markets currency exposures are not hedged for liquidity and cost reasons.

Rate of Return Expectations

The policy portfolio is expected to earn at least a 4.5% net real return (the rate of return after investment management and transaction fees, less inflation), over long term periods of at least 10 years. This exceeds the real return assumed in the actuarial valuation. However, even in periods as long as this, there is a risk that the real return may be below 4.5%.

Within the actively managed portion of each asset class, the Plan will seek reasonable added value, which will vary by asset class and manager. For the total Fund, the target value added above the policy benchmark portfolio is 70 basis points net of investment management fees and transaction costs over moving five-year periods.

Liquidity of Investments

Liquidity is prudently managed to ensure that pension payments are made as specified by Plan provisions and pension law. The Plan recognizes that the timing of pension payments may depend on decisions by Plan Members or other beneficiaries.

Cash inflows and outflows related to the investment program are also considered as part of liquidity management. This ensures that assets are not liquidated unexpectedly and potentially at unfavourable prices.

There is no policy allocation to cash because the investment income generated by the assets, as well as Member and Employer contributions, will be adequate to meet any expected net payment requirements in the medium term. In addition, the majority of the Fund’s investments will comprise publicly traded securities that can be readily liquidated in the event there is an unexpected need for cash.

Permitted Investments

Cash: Cash, demand deposits, treasury bills, commercial paper and bankers' acceptances.

Fixed Income: Bonds, debentures, notes and other evidence of indebtedness and asset-backed securities.

Private Debt: Non-publicly traded debt securities including senior and subordinated loans, mortgages and structured credit instruments.

Public Equity: Common shares, instalment receipts, GDRs, ADRs, rights, preferred shares, special warrants, warrants, securities convertible into common shares and private investments in public equities. Investments in income trusts including publicly traded limited partnerships are permitted only if the jurisdiction of domicile has implemented legislation limiting unit holders' liability. Instruments listed above that are not listed on a recognized stock exchange must become so within three months of purchase.

Private Equity: Investments in non-public securities held through co-investments and limited partnerships pursuing strategies including buyouts, venture capital, distressed opportunities and special situations.

Infrastructure: Direct or indirect investments in the debt or equity securities of infrastructure entities in sectors including transportation, energy, utilities, telecommunications and social infrastructure.

Real Estate: Direct or indirect investments in the debt or equity securities of real property assets including industrial, office, retail, multi-residential, agriculture and timberland properties.

Commodities: Investment in derivative instruments whose underlying value is based on commodities or commodity indexes.

Derivatives: Futures, forwards, options, swaps, delayed settlement bonds and repos. Derivatives may be used to hedge an exposure in the Fund, to create a synthetic exposure in a permitted investment and as part of active management strategies. Market exposure to an underlying security or securities in a derivative transaction should be aggregated with direct investments in the Fund when reporting compliance with the investment limits that apply in this Policy.

Units of pooled funds, including exchange traded funds, all of whose holdings comprise the above permitted investments, are permitted.

Valuation of Investments not Regularly Traded

The valuation of securities held by the Fund that have an active market will be based on their quoted market values.

Investments in the public market asset classes that are not regularly traded will be valued at least annually as at December 31st in co-operation with each Investment Manager. In making such valuations, considerations will be given to bid and ask prices, previous transaction prices, discounted cash flow, the valuations of other comparable publicly traded investments and other valuation techniques that are judged relevant to the specific situation.

In certain cases, and with prior approval, the Custodian will be provided with a valuation for untraded investments by the Investment Manager.

For untraded investments for which the Custodian has not been provided with a valuation, the Investment Manager shall report to the Plan within 30 days after such time as the investment became untraded.

Private Equity, Infrastructure and Real Estate

The fair value of private equity, infrastructure and real estate investments held through limited partnerships or other pooled fund structures is determined by the General Partner or pooled fund manager using accepted industry valuation techniques. Depending on the investment, these may include consideration of previous transaction prices, discounted cash flow, the valuations of other comparable publicly traded investments and other valuation techniques that are judged relevant to the specific situation. The limited partnerships or pooled funds will be audited annually by an independent third party. At December 31st, Plan Staff may make adjustments to the last value officially provided by the General Partner or pooled fund manager based on consultation with the General Partner or pooled fund manager, or based on other relevant information gathered and analyzed by Plan Staff.

The fair value of private equity, infrastructure and real estate assets held as co-investments will be determined based on the value determined by the lead investor using accepted industry valuation techniques based on the same considerations and audit requirements that apply to investments held through limited partnerships or pooled fund structures. At December 31st, Plan Staff may make adjustments to the last value officially provided by lead investor based on consultation with the lead investor, or based on other relevant information gathered and analyzed by Plan Staff.

Derivatives

Holdings of over-the-counter derivatives are maintained at fair value using pricing models generally used by market participants. Valuation is provided by established pricing vendors; valuation is determined using models requiring the use of inputs and assumptions based on observable market data.

Securities Lending

In order to generate additional revenue for the Plan, the Board may enter into securities loan agreements providing the loaned investments are secured by cash or readily marketable investments. The amount of collateral taken for securities should reflect best practices in local markets. All collateral securities will be updated daily (marked to market daily). Collateral provided with respect to any such securities loan agreements must have free and clear title and may not be subject to any right or set-off.

Any securities lending program will be administered by the Custodian, with whom revenues from the program will be shared.

Delegation of Voting Rights

The Board has delegated the responsibility of exercising all voting rights acquired through the Fund's investments to a third-party professional proxy voting entity. This entity will exercise acquired voting rights based upon the policy guidelines provided by the Plan. Staff will prepare a report to the Board on an annual basis outlining how the Plan’s voting rights were exercised.

The Board will review the use of this voting service on an annual basis and retains the right to modify the guidelines or methods used by this service or to exercise acquired voting rights directly at any time by notifying the proxy voting service.

Related Party Transactions

The Plan may enter into a related party transaction for the operation or administration of the Plan if:

a) The terms and conditions of the transaction are not less favourable to the Plan than market terms and conditions and it does not involve the making of loans to, or investments in, the related party; or

b) The value of the transaction is nominal, or the transaction is immaterial to the Plan. Two or more transactions with the same related party shall be considered as a single transaction. The materiality threshold for related party investment transactions is 0.5% of the total Fund assets.

Transactions between wholly owned subsidiaries of the Plan are excluded from these requirements.

Any related party transactions must be fully disclosed to the Investment Committee.

Conflicts of Interest

The Board of Trustees, including the Investment Committee will adhere to the terms of the Board of Trustees Code of Conduct Policy.

Investment managers hired to invest the Fund will comply with the CFA Institute Code of Ethics and Standards of Professional Conduct, or equivalent local regulation or firm-specific standards.

CAAT Plan employees and service providers who are working for or on behalf of the Plan and who may be considered to represent or be associated with the Plan will adhere to the terms of the Plan Staff and Service Providers Code of Conduct.

Policy Review

The Board shall review the SIPP on an annual basis.