Public Employees
Benefits Agency

Public Employees Disability Income Plan

Statement of
investment policies
and goals

December 2022

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SECTION 1 – OVERVIEW

1.01 Purpose of Statement

The purpose of the Statement of Investment Policy and Goals (the Policy) statement is to provide a framework for management of the Public Employees Disability Income Plan (the Plan) assets within levels of risk acceptable to the Public Employees Benefits Agency (PEBA). The Policy provides the investment manager with a written statement of specific quality, quantity, and rate of return standards for the Public Employees Disability Income Fund (the Fund).

A major goal of this Policy statement is to establish on-going communication between PEBA and the investment manager. Effective communication will contribute to management of the portfolio in a manner that is consistent with market conditions and with PEBA's objectives. Consultation between the two parties will take the form of regular meetings supplemented, from time to time, by informal contact requested by either party.

This Policy is based on the "prudent person portfolio approach" to ensure the prudent investment and administration of the assets of the Fund, within the parameters set out in applicable legislation.

1.02 Background of the Plan

The Plan provides eligible employees with insurance against the risk of loss of earning power due to long-term disability. It is continued under section 64(2) of *The Financial Administration Act, 1993* (*the Act*).

1.03 Plan Profile

To establish an appropriate Policy for the investment and administration of Plan assets, it is important to understand the nature of the obligations being funded. Accordingly, this section of the Policy summarizes various aspects of the Plan that impact investment return requirements and risk tolerance.

The Plan provides a monthly taxable payment of 75 per cent of the employee's pre-disability basic salary. The payment continues until the employee dies, returns to work, reaches age 65, or no longer qualifies for benefits.

Benefits are payable up to 20 months after serving a qualifying period of 119 calendar days, if the employee is unable to perform the duties of his or her own job. The employee will continue to qualify for benefits after 20 months if he or she is unable to work at any reasonable position for which the employee is qualified.

Benefits commence 119 calendar days after the employee has become disabled.

Employees and employers pay premiums monthly. Employees contribute 0.97 per cent of their basic monthly salary and employers contribute between 1.11 and 1.26 per cent. For some Plan participants, the employer pays 100 per cent.

1.04 Plan Objective

The Fund's purpose is to receive and accumulate Plan members' premiums and investment earnings. Claims for long-term disability and other expenditures authorized by the Act are paid from the Fund.

1.05 Investment and Risk Philosophy

(a) Investment Philosophy

The Plan has a long-term investment horizon and can accept a low to moderate degree of investment risk. Accordingly, the Fund has a bias to fixed income investments.

(b) Risk Philosophy

The Plan is in sound financial condition and has the ability to adjust premiums as experience dictates. However, by their nature, the occurrence of disability claims are unpredictable and benefit payments may exceed premiums in a given year. Accordingly, the Plan can accept a low to moderate level of risk, suggesting an asset mix that includes equities, but is biased towards fixed income investments. Also, investments must be of sufficient quality to allow liquidation in the event premiums and investment income are exceeded by benefit payments.

A long-term investment horizon with a reasonable equity exposure is appropriate. Diversification of the portfolio among several asset classes serves to control investment risk while enhancing the long-term rate of return. By combining different asset classes, that tend to react differently to changes in the market, the fluctuation in the value of the total portfolio can be reduced.

The investment manager invests relative to a benchmark portfolio. The return from the benchmark portfolio represents an achievable return for the Plan given the capital market conditions in which it is invested. The specific weights for each asset class are set based on the risk tolerance of the Plan. Risk tolerance is assessed through a detailed review of the Plan and the investment markets that considers:

- Investment time horizon;
- Liquidity needs;
- Regulatory environment including tax issues;
- Other unique plan-specific factors; and
- Historical and prospective risk (volatility) and return of various asset classes and benchmark portfolios.

1.06 Administration

Day-to-day administration is provided by PEBA. Investment management and custody of the Plan's assets have been delegated as set out in Section 4.01 of this Policy.

1.07 Distinction of Responsibilities

The Disability Income Plan Advisory Council (the Council) is responsible for administering the Plan. Investment management and the performance of certain administrative duties are performed by an insurance company on a cost plus basis. The insurance company may utilize sub-advisors in the management of the Plan’s investments.

With respect to claims, the insurance company's role is primarily administrative. The Plan bears the risk related to the insurance operation.

Other tasks for which the Council is responsible and that may be delegated to PEBA include:

(a) Establishing the investment policy and objectives;

(b) Establishing an investment management structure;

(c) Selecting the investment manager(s) from those available through the insurance company;

(d) Monitoring investment performance; and

(e) Communicating with the insurance company.

The Council has responsibility to ensure prudent management of the Plan.

SECTION 2 – ASSET MIX AND DIVERSIFICATION POLICY

2.01 Portfolio Return Expectations

The investment managers selected by the Plan are expected to achieve a satisfactory long-term rate of return through a diversified portfolio within their mandates, consistent with acceptable risks and prudent management. The long-term investment goal of the Fund is to achieve a minimum annualized rate of return of five per cent, this is consistent with the discount rate required to meet the projected policy payouts. This return objective is consistent with the overall investment risk level that the Fund could assume and normally will be assessed over longer time periods (i.e., over 10 years or more).

To achieve this long-term investment goal, the Fund has adopted an asset mix that has a bias to fixed income investments. The Fund employs active management, which provides the opportunity to outperform specific investment benchmarks.

2.02 Expected Volatility

The volatility of the Fund is directly related to its asset mix; specifically, the balance between Canadian fixed income and Canadian and foreign equities. Since the investment managers do not have the authority to make any type of leveraged investment on behalf of the Fund, the volatility of the Fund should be similar to the volatility of the Benchmark Portfolio set out in Section 4.02 of this statement.

2.03 Asset Mix

(a) Total Fund Asset Mix

Taking into consideration the Plan's investment and Risk Philosophy (Section 1.05), the following asset mix has been established:

	Minimum (%)	Benchmark (%)	Maximum (%)
Equities			
Canadian Equities	6	12	20
U.S. Equities	6	12	18
Non-North American Equities	6	12	18
Total Foreign Equities	**12**	**24**	**30**
Total Equities	**25**	**36**	**45**
Fixed Income			
Bonds	40	60	70
Mortgages	0	0	20
Short-Term Investments	3	4	20
Total Fixed Income		**64**	
Total Fund		**100**	

2.04 Management Structure

(a) Philosophy

A balanced management structure has been adopted for management of Plan assets. The insurance company is expected to manage asset mix within the guidelines in Section 2.03.

This structure employs a mix of active and passive management styles. Active management has been adopted for a portion of the assets as it provides the opportunity to outperform common market indices over the long term, with minimum degree of excess risk. Passive management has been adopted for a portion of the assets as it minimizes the risk of underperformance relative to a benchmark index and is generally less expensive than active management.

SECTION 3 – PERMITTED AND PROHIBITED INVESTMENTS

3.01 General Guidelines

Fund investments must comply with the requirements and restrictions imposed by the applicable legislation, including but not limited to the requirements of *The Financial Administration Act*, *1993, The Pension Benefits Act, 1992*, which refers to the *Pension Benefits Standards Act* (Canada) on investment related issues, the *Income Tax Act* (Canada) and Regulations, and all subsequent amendments.

3.02 Investment funds

Plan assets are invested in a group of investment funds. PEBA, using external assistance as considered necessary, has reviewed the investment fund guidelines and determined that the following investment funds are appropriate vehicles for investment of Plan assets:

(a) The Canada Life Assurance Company Canadian Equity Fund No. 3 (Mackenzie);

(b) The Canada Life Assurance Company U.S. Equity Index Fund (Mackenzie);

(c) The Canada Life Assurance Company International Equity Fund (Sprucegrove);

(d) The Canada Life Assurance Company International Opportunity Fund (JPMorgan);

(e) The Canada Life Assurance Company Money Market Fund No. 1 (Mackenzie);

(f) The Canada Life Assurance Company Commercial Mortgage Fund No. 1 (Canada Life); and

(g) Public Employees Benefits Agency Bond Fund (Mackenzie).

The PEBA Bond Fund was created exclusively for the assets of the Public Employees Disability Income Plan and the Public Employees Group Life Insurance Plan.

3.03 Prior Permission Required

Investments in any investment fund or securities other than as listed in Section 3.02 requires prior permission.

3.04 Prohibited Investments

The investment managers shall not:

(a) Invest in companies for the purpose of managing them;

(b) Purchase securities on margin or engage in short sales; or

(c) Make any investment not specifically permitted by this Policy.

3.05 Securities Lending

Securities lending is permitted within investment funds that permit securities lending. The insurance company shall disclose whether funds employ securities lending.

SECTION 4 – MONITORING AND CONTROL

4.01 Delegation of Responsibilities

Overall responsibility for the Plan’s assets rests with the Council. PEBA makes recommendations on investment policy, appointment of trustees, custodians, investment managers, actuarial and consulting services, and Plan changes. PEBA is also charged with ensuring the Plan conforms to legislation and monitoring investment performance.

In completion of the above duties, a number of responsibilities have been delegated:

(a) The investment manager and/or insurance company will:

(i) Invest the assets of the Fund in accordance with this Policy;

(ii) Notify PEBA, in writing of any significant changes in the investment managers’ ownership, investment philosophies and procedures, key personnel, and organizational structure;

(iii) Notify PEBA, in writing, of any legal or regulatory proceedings or charges of which the investment manager may be aware, against the investment managers’ firm, investment personnel, and/or sub-advisors or those firms’ investment personnel;

(iv) Notify PEBA of any concerns they may have with investment managers and/or investment funds held by the Fund;

(v) Meet with the Council and/or PEBA as required and provide quarterly written reports regarding its past performance, its future strategies, and other issues as requested;

(vi) File quarterly compliance reports (see Section 4.03);

(vii) Maintain safe custody over the assets of the Fund;

(viii) Execute the instructions of PEBA; and

(ix) Record income and provide monthly financial statements as required.

(b) PEBA will:

(i) Advise and support the Council on matters relating to investment management and administration of the Fund, including but not limited to investment policy, appointing and terminating investment managers, and Plan changes

(ii) Monitor the compliance and investment performance of the Fund and the investment manager on a semi-annual basis; and

(iii) Meet with the Council as required.

4.02 Performance Measurement

The Fund's performance shall be measured quarterly and, in accordance with industry convention, return calculations shall be as follows:

- Time weighted rates of return; and
- Total returns, including realized and unrealized gains and losses and income from all sources.

Measurement against performance objectives for the investment manager(s) will normally be assessed over rolling four-year periods.

Total Fund Benchmark

The primary objective for the Fund is to earn a rate of return that exceeds the rate of return earned on a benchmark portfolio. The benchmark consists of the following market index total returns weighted as indicated:

Combined Fund Benchmark	%
S&P/TSX Capped Composite Index	12
S&P 500 net 15% Index (CAD)	12
MSCI EAFE Index (CAD)	12
FTSE Canada Universe Bond Index	60
FTSE Canada 91-Day T-Bill Index	4
Total	**100**

(1) *Effective December 1, 2000*

The Fund's secondary objective is to exceed the benchmark index in each of the actively managed asset classes in which the investment manager invests. For passively managed asset classes, the investment manager returns are expected to fall within an acceptable tracking error range (+/- 10 basis points for U.S. equities).

The market indices referred to in this section may be changed to match the specific investment mandates for the investment managers selected to manage the portfolio, recognizing that at all times the Fund must be managed in accordance with the asset mix guidelines set out in Section 2 and permitted and prohibited investments set out in Section 3.

4.03 Compliance Reporting by Investment Manager

The insurance company is required to complete and sign a compliance report each quarter. The compliance report should indicate whether or not the investment managers' investment funds were in compliance with their investment policies during the quarter. Copies of the compliance reports must be sent to PEBA. The format for the compliance reports is included under the appendix.

In the event that an investment manager is not in compliance with its investment fund investment policy, the insurance company is required to advise the Executive Director, Investment Services promptly, detailing the nature of the non-compliance and recommending an appropriate course of action.

The Plan invests in several investment funds, which have separate investment policies. Should a conflict arise between the provisions of this Policy and the provisions of an investment fund's investment policy, the investment manager is required to notify the Executive Director, Investment Services on behalf of the Council immediately in writing, detailing the nature of the conflict and the investment manager's recommended course of action. Any changes to investment fund policies must be communicated to the Executive Director, Investment Services, in writing.

4.04 Standard of Professional Conduct

The insurance company is expected to comply, at all times and in all respects, with the Code of Ethics and Standards of Professional Conduct as promulgated by the Chartered Financial Analysts (CFA) Institute or a code internal to the investment manager that has been reviewed by PEBA and deemed appropriate.

The insurance company shall ensure the investment managers manage the assets with the care, diligence, and skill that a prudent person skilled as a professional investment manager would use in dealing with insurance plan assets, using all relevant knowledge and skill that it possesses or ought to possess as a prudent investment manager.

4.05 Soft Dollars

A variety of brokers should be used to gain maximum utilization of the services available. It is the responsibility of the investment manager to ensure that the distribution of commissions paid is representative of the services rendered.

The Fund does not use soft dollars to pay for any goods or services. The investment managers may use soft dollars to pay for research and other investment-related services with disclosure to the Council, provided they comply with the Soft Dollar Standards as set forth by the CFA Institute.

4.06 Suppression of Terrorism

The insurance company must ensure the investment managers comply at all times and in all respects with all applicable Federal Suppression of Terrorism Regulations.

SECTION 5 – ADMINISTRATION

5.01 Conflicts of Interest

(a) Responsibilities

This standard applies to members of the Council, as well as to all agents employed by them, in the execution of their responsibilities to the Fund (the "Affected Persons").

An "agent" is defined to mean a company, organization, association, or individual, as well as its employees, who are retained by Council and PEBA to provide specific services with respect to the investment, administration, and management of the Fund.

(b) Disclosure

In the execution of their duties, the Affected Persons shall disclose any material conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased advice, or to make unbiased decisions, affecting the administration of the Fund.

Further, it is expected that no Affected Person shall make any personal financial gain (direct or indirect) because of his or her position. However, normal and reasonable fees and expenses incurred in the discharge of their responsibilities are permitted if documented and approved by the Council.

No Affected Person shall accept a gift, gratuity, or other personal favour, other than one of nominal value, from a person with whom the individual deals in the course of performance of his or her duties and responsibilities for the Council.

It is incumbent on any Affected Person who believes that he or she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation to the attention of PEBA immediately. The Council, in consultation with PEBA, will decide what action is appropriate under the circumstances.

No Affected Person who has or is required to make a disclosure that is determined to be in conflict as contemplated in this Policy shall participate in any discussion, decision, or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure.

5.02 Related Party Transactions

The Council or PEBA employees may not enter into a transaction with a related party unless the investment is exempted under section 17 of Schedule III of the Pension Benefits Standards Regulations.

For this section of the Policy, market value of the combined assets of the Plan will be used as criterion to establish whether a transaction is nominal or immaterial to the Plan. Transactions less than 0.5 per cent of the combined market value of the assets of the Plan are considered immaterial.

"Related party" is defined in section 1 of Schedule III to the Pension Benefits Standards Regulations, 1985 (Canada). A related party is a person who administrates the Plan including any officer, director, or employee of the administrator. It also includes the investment managers and their employees, a union representing employees of the employer, a member of the Plan, a spouse or child of the persons named previously, or a corporation that is directly or indirectly controlled by the persons named previously, among others. Related party does not include government or a government agency.

Under the preceding conflict of interest guidelines, it is incumbent on any person to notify PEBA if a conflict arises. Such conflict includes related party transactions.

5.03 Selecting Investment Managers

In the event that a new investment manager(s) must be selected or an additional investment manager(s) added to the existing investment managers, PEBA 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 1.05 and the Management Structure Philosophy set out in Section 2.04.

5.04 Monitoring of Investment Manager

To enable PEBA to assist the Council in fulfilling its responsibility of monitoring and reviewing the investment managers, PEBA will review as required, on an ongoing basis:

(a) Investment managers' staff turnover, consistency of style and record of service;

(b) Investment managers' current economic outlook and investment strategies;

(c) Investment managers' compliance with this Policy, where the insurance company is required to complete and sign a compliance report; and

(d) Investment performance of the assets of the Plan in relation to the rate of return expectations outlined in this Policy.

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5.05 Performance Reporting by Investment Manager and/or Insurance Company

On a calendar quarterly basis, the insurance company and/or investment managers will provide a performance report and strategy review for the portfolio(s) under management.

Regular meetings between the insurance company and/or investment manager(s) and PEBA will be scheduled. Prior to each meeting, it is expected a report, including a general economic and capital markets overview, will be distributed. The report should address the following issues:

(a) Review the previous period's strategy and investment results;

(b) Discuss how the condition of the capital markets affects the investment strategy of their respective portfolios;

(c) Economic and market expectations;

(d) Anticipated changes in the asset mix within the limits provided in this Policy; and

(e) Discuss compliance and proxy deviations or exceptions.

An important element of the success of this Policy is the link between the insurance company and/or investment manager(s) and PEBA. It is expected that the insurance company and/or investment managers will communicate with PEBA whenever necessary between regularly scheduled meetings.

5.06 Dismissal of an Investment Manager and/or Insurance Company

Reasons for considering the termination of the services of an investment manager and/or insurance company include, but are not limited to, the following factors:

(a) Performance results, which over a reasonable period of time, are below the stated performance benchmarks;

(b) Changes in the overall structure of the Fund such that the investment managers' and/or insurance company's services are no longer required;

(c) Change in personnel, firm structure, and/or investment philosophy, style or approach that might adversely affect the potential return and/or risk level of the portfolio;

(d) Legal or regulatory proceedings against the investment manager and/or insurance company or its investment personnel, or any sub-advisor firm or that firm's investment personnel; or

(e) Failure to adhere to this Policy.

5.07 Immediate Termination of an Investment Manager

If, in the opinion of PEBA, an event with an investment manager is anticipated to have a material negative effect on future investment performance, PEBA may take the following steps to immediately terminate the services of such investment manager:

(a) Notify the Assistant Deputy Minister of PEBA of the circumstances;

(b) Provide the Assistant Deputy Minister with a written recommendation for termination and the recommended course of action;

(c) Receive approval for the above recommendations from the Assistant Deputy Minister in writing;

(d) Implement the approved actions; and

(e) Inform the Council, in writing, at the next scheduled meeting of the circumstances surrounding the dismissal and the course of action taken to transition assets from the terminated manager.

5.08 Voting Rights

The administrator has delegated voting rights acquired through Fund investments to the custodian of the securities, to be exercised in accordance with the investment managers' instructions. The investment managers are expected to vote all proxies in the best interests of the beneficiaries of the Plan.

The Plan may take back voting rights of assets held in segregated portfolios for specific situations.

For private placements, voting rights will be delegated to the investment managers, or voted directly by a representative of the Plan.

The investment managers should disclose their proxy voting policies and any changes thereto and report annually on:

(a) Whether all eligible proxies were voted on the Plan's behalf; and

(b) If the proxy guidelines were followed and report on any deviations.

5.09 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 calendar quarter.

(b) Bonds

Average of bid and ask price, as available from pricing sources. Where no market price is available, the last available market price is used.

(c) Mortgages

Unless in arrears or impaired, the fair market value of mortgages is determined by discounting contractual cash flows at current interest rates (Government of Canada Bond plus market credit spread) applicable for the type of mortgage and risk characteristic over the remaining term to maturity, determined at least once over a rolling four week basis.

(d) Investment Funds

Investment fund units shall be valued by the insurance company according to the valuation policies and procedures as found in the fund's investment policy, offering memorandum or trust agreement.

(e) Others

Securities that are not publicly traded and for which no external transaction or other evidence of market value exists, will be valued at cost.

5.10 Policy Review

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

APPENDIX A

Compliance Report

Public Employees Disability Income Plan
The Canada Life Assurance Company

Compliance Report for the Period from ______________________________ to ______________________________

		Guidelines (%)	Policy Complied with Yes/No*	Range Low	Range High
Asset Mix (at Market Value)					
Money Market Fund		3 – 20			
Fixed Income Investment fund		40 – 70			
Mortgage Investment fund		0 –20			
Equity Investment fund	Canadian Equities	6 – 20			
	U.S Equities	6 – 18			
	Non-North American Equities	6 – 18			
	Total Foreign Equities	12 – 30			
	Total Equities	25 – 45			
Constraints					
Permissible Investments	Compliance	Money Market Fund No. 1 (Mackenzie)			
		PEBA Bond Fund (Mackenzie)			
		Canadian Equity Investment Fund No. 3 (Mackenzie)			
		U.S. Equity Index Fund (Mackenzie)			
		International Equity Fund (Sprucegrove)			
		International Opportunity Fund (JPMorgan)			
		Commercial Mortgage Investment Fund No. 1 (Canada Life)			
Investment fund Policies	Disclosure	Changes to Investment fund policies have been disclosed to the Executive Director of Investment Services			
Conflicts of Interest	Disclosure	Conflicts of interest have been disclosed to the Executive Director of Investment Services			
Firm Proceedings	Disclosure	Changes in senior personnel, firm structure and investment philosophy, style or approach have been communicated to the Executive Director of Investment Services.			
		Legal or regulatory proceedings against The Canada Life Assurance Company or the investment managers or its investment personnel, or any sub-advisor firm or that firm's investment personnel have been communicated to the Executive Director of Investment Services.			
Statutory Requirements	Compliance	Meets requirements for eligible investments outlined in *The Pension Benefits Act, 1992*			
		Meets requirements for eligible investments outlined in the *Income Tax Act* (Canada)			

CFA Institute Code of Ethics and Standards of Professional Conduct	Compliance	The Canada Life Assurance Company and investment managers' Standard of Professional Conduct has been complied with by all employees and it is comparable to CFA Institute's Code of Ethics and Standards of Professional Conduct.	
Suppression of Terrorism	Compliance	In compliance with Federal Suppression of Terrorism Regulations	

* Provide actual weight or range where appropriate. If policy not complied with, comment on specifics.

I believe this to be a factual representation of compliance with the Statement of Investment Policies and Goals throughout the reporting period.

Signature and Title

The Canada Life Assurance Company

Company Name