

# Statement of Investment Policies and Procedures – Supplemental Plan

RISK MANAGEMENT



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Effective  
January 1, 2021

## OVERALL PRINCIPLES

This Policy sets out how the assets of the Supplemental Plan for Police, Firefighters and Paramedics (the “Supplemental Plan”) are invested by OMERS Administration Corporation (“AC”).

**The Policy applies to all investments of the Supplemental Plan.**

Next renewal date:	January 2022
Frequency of review:	Every year

## Supplemental Plan Description

The Supplemental Plan is a multi-employer pension plan governed by the *OMERS Act, 2006*, a registered pension plan under the *Pension Benefits Act* (Ontario) (“PBA”) and the *Income Tax Act* (“ITA”) and a jointly sponsored pension plan under the PBA. The benefit provisions and other terms of the Supplemental Plan are set out in a stand-alone plan text, as amended from time to time.

The Supplemental Plan is a contributory defined benefit pension plan. The participating employers and members in the Supplemental Plan equally share the required contributions to the Supplemental Plan and the investment experiences of the Supplemental Plan.

Investments must be selected and managed in accordance with the criteria and limitations established by this Policy and applicable legislation, including the *OMERS Act, 2006*, PBA and the ITA.

The Supplemental Plan provides supplemental benefits for members of the Primary Plan (the “Plan”) who are employed in the police and fire sectors as defined in the *OMERS Act, 2006* (which includes paramedics as defined in the *Ambulance Act*). In combination with the benefits provided under the Plan, a member may, provided the member’s employer has consented to provide coverage for the particular benefit, become entitled to the following benefits:

- an annual benefit accrual rate of 2.33%;
- unreduced pension if a member’s age plus eligible service equals at least 85 years (normal retirement age 65) or 80 years (normal retirement age 60) provided the member is within 10 years of his or her normal retirement date;
- calculation of pension benefits based on the average of the highest contributory earnings over a period of 48 months; and/or

- calculation of pension benefits based on the average of the highest contributory earnings over a period of 36 months.

The benefits under the Supplemental Plan are partially offset by the benefits provided under the Plan. An employer may consent to providing multiple benefit provisions under the Supplemental Plan, but a minimum period of 36 months must elapse before any additional provision is provided.

The Supplemental Plan is subject to substantially the same conditions and provisions as the Plan including, for example, the same survivor benefits. Inflation protection increases the Supplemental Plan's retirement, disability and survivor pensions each year, based on the increase in the Canadian Consumer Price Index ("CPI"), as follows:

- Benefits earned on or before December 31, 2022 receive full inflation protection, up to a maximum increase of 6%. Any excess is carried forward so it can be used in later years when the CPI increase is less than 6%.
- Benefits earned on or after January 1, 2023 are subject to shared risk indexing, meaning that the level of inflation protection will depend on the OMERS Sponsors Corporation ("SC") Board of Directors' annual assessment of the financial health of the Supplemental Plan.

As of the current review date of this Policy, there are no members and hence no assets in the Supplemental Plan.

## Investment Objectives of the Supplemental Plan

**Return Expectations:** AC is committed to providing secure pensions through receipt of contributions and by investing activities designed to deliver 7% annual average net returns. Investments are made by its Business Units: OMERS Capital Markets, OMERS Private Equity, OMERS Infrastructure, and Oxford. Target returns for each Business Unit and total fund are set annually by the AC Board.

**Strategic Asset Allocation:** Since the Supplemental Plan will be subject to unpredictable growth and cash flows in the initial years after the first members join, the assets of the Supplemental Plan will be fully commingled with the assets of the Plan. As such, the long-term asset group mix of the Supplemental Plan will mirror that of the Plan.

AC uses four strategic asset groups (fixed income, equities, real assets and short-term instruments) as part of its long-term strategic asset mix. These asset groups are comprised of the following asset classes:

- Fixed income includes inflation linked bonds ("ILBs"), government bonds and credit investments (public or private);
- Equities includes public equity and private equity;
- Real assets include infrastructure and real estate;
- Short-term instruments include net cash; and equivalents and economic leverage.

The AC Board has approved the following strategic asset mix allocations:

Asset Group	Asset	Min.	Target	Max.
Fixed Income	Bonds	3%	10%	20%
	Credit	10%	20%	30%
Equities	Public	18%	30%	40%
	Private	10%	15%	20%
Real Assets	Infrastructure	15%	22.5%	30%
	Real estate	15%	22.5%	30%
Short-term instruments			-20%	-43%

Implementation of the strategic asset mix is carried out in a prudent manner subject to market conditions and investment opportunities. AC implements the strategic asset mix through its Business Units and through external service providers or other entities (including, without limitation, external professional investment advisors, third-party managed funds, pooled funds, unit trusts and similar vehicles).

**Performance Measurement:** Investment performance will be evaluated against absolute return, and in certain instances relative, benchmarks that are approved annually by the AC Board. The investment performance of the Supplemental Plan will be reported to the Investment Committee of the AC Board both before and after management expenses incurred at each regularly scheduled meeting. Performance reporting will be consistent with industry recognized practices.

## Categories of Investments

The Supplemental Plan invests directly and indirectly in the four asset groups identified above. Within each asset group there are various asset classes. Depending on the nature of the investment, it is possible that an investment could fit within the description of more than one asset class in which case the asset will be classified according to the class to which it most closely aligns based upon an assessment of its underlying characteristics. The asset groups described below may include other asset classes which share similar risk/return characteristics.

### **Fixed Income**

Fixed income investments typically pay a fixed or floating amount of interest at regular intervals over a period of time. Coupon payments and contractual maturities of fixed income investments provide liquidity to the Supplemental Plan. The fixed income asset group includes the following asset classes:

- Inflation linked investments where the underlying principal or return is indexed to inflation, including derivatives that emulate such instruments;
- government bonds - investments in nominal government bonds and debentures, including derivatives that emulate such instruments; and
- credit investments - derivatives or debt issued by an entity that is neither a government nor a government agency. They may have fixed or floating rate payments, be secured by other assets or be convertible into other securities and be issued by either public or private companies.

### **Equities**

Equities include both public equities and private equities.

- Public equities are securities that represent ownership in a reporting issuer and include securities listed on recognized exchanges. Public equities include domestic and global equities, commodities, equity derivatives, equity pooled vehicles such as ETFs, hedge funds, closed end funds and publicly traded REITs.
- Private equity is the ownership of equity or equity-like securities in companies (including funds) that do not generally trade on a recognized exchange. Private equity investments have the potential for higher returns through active management and increased leverage but have potentially higher risk than other asset classes. Venture capital investments are considered to be private equity.

### **Real Assets**

Real assets include private investments in infrastructure and real estate.

- Infrastructure investments are generally direct investments in large-scale services (e.g., toll roads, electricity production and transmission) or businesses with high barriers to entry, often supported by public regulation or substantially contracted revenue streams that operate over extended periods of time. Infrastructure investments are expected to produce predictable and stable cash flows and returns.
- Real estate investments are generally direct and indirect investments in real estate assets (e.g. industrial, office, retail, hotel and residential income producing properties and development properties). A diversified portfolio of real estate investments is expected to produce predictable and stable cash flows and returns.

### **Short-term instruments**

Short-term instruments consist of cash and equivalent short-term investments used to maintain plan liquidity and to achieve economic leverage. The inclusion of derivatives exposure is reflected in each asset class, with an offset to economic leverage. Economic leverage is the difference between the exposure to an asset class and the fair value of the derivatives in the asset class. Short-term instruments also include certain other instruments consolidated on AC's balance sheet and not allocated to private assets.

### **Supplemental Plan Governance**

**Delegation of Authority:** In fulfilling its duties, the AC Board may delegate responsibilities for the investment of the Supplemental Plan to the CEO and provide the CEO with the power to sub-delegate.

**Annual Review and Filing Requirements:** This Policy will be reviewed and approved by the AC Board at least annually. A copy of this Policy will be filed with the Financial Services Regulatory Authority of Ontario and delivered to AC's actuary, in each case within 60 days of any amendment thereto.

**Delegation of Voting Rights:** AC retains overall responsibility for voting proxies related to securities owned by the Supplemental Plan. AC exercises voting rights in a manner that is consistent with its Proxy Voting Guidelines. AC exercises judgment in connection with the voting of any proxy on a case-by-case basis and may also engage a proxy voting service provider.

**Consideration of Environmental, Social, and**

**Governance Factors:** Consistent with its Sustainable Investing Policy, AC believes that well run organizations with sound environmental, social and governance (“ESG”) practices will perform better, particularly over the long term. AC encourages the adoption of policies and practices that maximize financial performance including responsible corporate behavior with respect to ESG.

AC integrates ESG factors into its investment decision-making process and asset management practices, as such factors could have a material impact on investment performance. AC may determine that there are industries, sectors, jurisdictions, markets, or companies where the risks posed by ESG factors outweigh any potential benefits of investing. AC exercises voting rights in respect of its public equity portfolio in a manner consistent with its *Proxy Voting Guidelines*. AC may also encourage responsible corporate behavior through direct engagement with the public and private companies in which it invests.

AC believes that the consideration of ESG factors is both prudent and consistent with its objective to meet its long-term payment obligations to members.

**Valuation of Investment Assets and Liabilities**

Investments are stated at fair value. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. It is best evidenced by a publicly quoted market price, if one exists. AC uses quoted public market prices for the valuation of its assets wherever such quoted prices exist.

Where a public market price is not observable, an estimate of fair value will be prepared in accordance with generally accepted valuation practices applied on a consistent basis. At least once every three years, external accredited valuers perform an independent valuation or conduct a review of AC’s valuations in respect of significant private assets to confirm the reasonableness of the valuations as well as the methodologies employed.

The valuation of private investment assets requires significant judgment. Valuations are tested for reasonableness against appropriate public comparables as available. The resulting values are included in AC’s annual financial statements which are audited by an independent firm of Licensed Public Accountants.

**Other Investment Matters**

**Exposure to Foreign Assets:** Foreign investments are permitted as they provide the benefit of diversification to the Supplemental Plan. Such investments could include components of any asset class described above.

**Use of Derivatives:** AC uses exchange-traded and over-the-counter derivative contracts to gain, reduce or hedge exposure to interest rates, foreign exchange rates, credit, debt instruments, commodities, public equities and other indices. Types of derivatives used include listed futures, options (listed and over-the-counter), swaps and forwards. Exchange-traded derivative and cleared over-the-counter positions are regularly valued using quoted market prices, where available, while bilateral over-the-counter derivatives are marked-to-market. Derivatives are only used after full consideration of the related risks and in accordance with internally approved limits and applicable laws and regulations.

**Short Selling:** AC may short sell securities in public market assets to enhance expected returns or protect capital. Engaging in short selling of securities is done after full consideration of the related risks. These risks are identified, measured, managed and monitored by AC.

**Securities Lending:** The Supplemental Plan may engage in securities lending activities of its own securities (i) to generate incremental income (ii) for liquidity management purposes, and (iii) in order to facilitate collateral transformation and to support its securities borrowing activities.

**Repurchase Transactions:** AC enters into securities repurchase (“repo”) transactions for liquidity management purposes and may enter into reverse repo transactions to generate incremental income. Any decision to use repo transactions will include consideration of the impact on the Supplemental Plan. AC only enters into reverse repo transactions in respect of readily marketable liquid securities.

**Collateral:** AC may pledge, charge or otherwise grant a security interest in assets or post margin as required to complete derivative transactions, secure a permitted borrowing, complete a short sale, or in connection with a repo or reverse repo transaction in accordance with all applicable laws. Assets that can be posted as collateral are set out in legal agreements or are defined by exchanges. The level of collateral pledged is determined and monitored as part of AC’s management of liquidity risk.

**Derivatives, Repo and Securities Lending**

**Counterparties and Documentation:** AC has established procedures that regulate the approval and ongoing assessment of all counterparties with whom it transacts. In addition, AC ensures these relationships are governed by appropriate documentation that contains specific procedures for close-out netting and termination.

**Related Party Transactions:** AC may enter into a transaction with a related party of the Supplemental Plan, as determined under the applicable legislation (i.e., PBA or ITA) and in accordance with the requirements of the *Related Party Transactions Review Policy*.

For the purposes of the applicable legislation, a transaction will be considered by AC to be nominal or immaterial if its value is no more than 3% of the market value of the Supplemental Plan at the time the transaction is entered into or completed.

**Borrowing:** Borrowing or providing guarantees on behalf of the Supplemental Plan is permitted provided it is in accordance with the PBA and the ITA.

**Investment Risk Management**

AC is exposed to a variety of investment risks. These include but are not limited to:

- Market risk (e.g., interest rate risk, foreign currency risk);
- Liquidity risk; and
- Credit risk.

These risks are measured and managed using systematic quantitative and qualitative approaches that assist AC in assessing the total risk associated with the Supplemental Plan's investment activities. The risk management function assesses key investment risks across the enterprise.

Since membership in the Supplemental Plan is available only if the employer has consented to provide coverage under a particular provision, incoming and outgoing

cash flows in the initial years cannot be predicted with any degree of certainty. The short-term liquidity requirements of the Supplemental Plan will be considered through management of the long-term asset group mix of the Supplemental Plan.

To manage funding risk and investment risk, periodic asset liability studies will be conducted.

**Diversification**

Diversification is an important risk management tool because it reduces the variability of returns by distributing the Supplemental Plan's exposure among:

- asset classes;
- countries and industries;
- asset holding periods;
- currencies; and
- securities.

AC regularly reviews the composition of its portfolios and adjusts its exposures based upon its risk appetite.

**Exceptions**

The Policy Sponsor may grant non-substantive exceptions to this Policy. The reasons for granting an exception should be recorded in writing and communicated annually to the AC Board.

**Monitoring and Reporting**

AC has various functions and processes that monitor, and report on investment activity under this Policy. These functions include investment operations, risk management and compliance. These functions collectively monitor investment activities to ensure that Business Units operate within all limits established by the organization and in accordance with this and other applicable policies.

**ROLES & RESPONSIBILITIES**

Policy Approver	AC Board	Responsible for approving the Policy
Policy Sponsor	Chief Risk Officer	Ultimately accountable for the Policy, including its development, implementation and administration
Policy Manager and Monitor	SVP, Plan Investment Risk	Responsible for the design and operational effectiveness of the day-to-day administration of the Policy, and for its monitoring, compliance and reporting functions