



STATEMENT OF INVESTMENT POLICIES AND GOALS

Universities Academic Pension Plan

Effective January 1, 2021
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1.0 Introduction and Purpose

- 1.1 The Sponsorship and Trust Agreement authorizes the Board of Trustees (the “Board”) of the Universities Academic Pension Plan (“UAPP”) to set investment policy and manage the assets of the UAPP Trust Fund (the “Fund”).
- 1.2 This Statement of Investment Policies and Goals (“SIP&G”) applies to the assets held in the Fund to meet the liabilities of the UAPP.
- 1.3 The Fund is to be managed in accordance with all applicable legislation, including the *Income Tax Act* (Canada) and the *Employment Pension Plans Act* of Alberta (“EPPA”).
- 1.4 The SIP&G may be changed or modified at any time by the Board. It will be reviewed at least annually.
- 1.5 The SIP&G will be available to Sponsors and members on the UAPP website.

2.0 Description of the UAPP

- 2.1 Effective January 1, 2001, the UAPP became a jointly sponsored registered pension plan subject to the EPPA. The Plan is established through a Sponsorship and Trust Agreement executed by the Plan Sponsors. Until December 31, 2000, the UAPP was established through a provincial statute with the Provincial Treasurer of Alberta as the trustee of the Plan.
- 2.2 The UAPP covers members of the academic and professional staff of four Alberta universities (Athabasca University, the University of Alberta, the University of Calgary and the University of Lethbridge) and The Banff Centre. The employees of the Board and the professional staff at the University of Calgary Faculty Association, Athabasca University Faculty Association and the University of Alberta also participate in the UAPP.

The UAPP is governed by the Board, made up of one person appointed by each of the Athabasca University Governing Council, The Governors of the University of Alberta, The Governors of the University of Calgary, The Governors of the University of Lethbridge and The Governors of the Banff Centre; and one person appointed by each of the Athabasca University Faculty Association, the Association of Academic Staff: University of Alberta, the University of Calgary Faculty Association, and the University of Lethbridge Faculty Association.

- 2.3 The UAPP is a defined-benefit plan and provides benefits based on highest average earnings. Cost-of-living adjustments are guaranteed (pre- and post-retirement) at a minimum of 60% of the annual increase in the Consumer Price Index (Alberta). Plan provisions include death-in-service benefits and disability pensions.
- 2.4 The costs for post-1991 service are met through employee and employer contributions. The actual split between employee and employer contributions for current service can vary by institution. However, surpluses and deficits are equally shared between employers and employees.
- 2.5 Employers, employees and the Province of Alberta each pay additional contributions toward the pre-1992 service unfunded liability. The rate for the Province of Alberta is 1.25% of salary and employers and employees split equally the remainder of the rate of contribution required to retire the pre-1992 unfunded liability of the UAPP by the year 2043.

3.0 Roles and Responsibilities

- 3.1 The Board has the overall responsibility for investments of the Fund. The Board has established this comprehensive SIP&G in order to guide the investments of the UAPP Fund.
- 3.2 The Board has established an Investment Committee composed of Trustees and outside experts. The Committee's key responsibilities are to (a) oversee the implementation of the SIP&G by the Investment Managers referred to in Section 3.3, (b) determine, as per Section 5.4, the Fund's participation in the products offered by the Investment Managers, (c) monitor the performance of the Fund, (d) review any issues related to the investments of the Fund, (e) make recommendations to the Board on changes to the SIP&G and other aspects of the investments of the Fund, (f) recommend to the Board the addition or termination of an Investment Manager and (g) report to the Board.
- 3.3 Prior to August 1, 2013, the Board had entered into an Investment Management Agreement with the Government of Alberta to manage all of the assets of the Fund. Effective August 1, 2013, the Board instituted a multi-manager approach by adding two additional Investment Managers to manage the assets of the Fund. The Investment Managers are responsible for implementing and adhering to the SIP&G, including portfolio construction, management and tactical asset allocation within the allowable limits. The Investment Managers may engage internal and external investment managers to invest the Plan's assets. The Investment Managers are required to comply with all applicable laws and rules in implementing the SIP&G and provide investment performance and compliance reports as per Section 10.0 of this document to the Investment Committee each quarter.
- 3.4 The Board has also hired a consulting firm (hereafter referred to as the "Investment Consultant") to assist the Investment Committee in carrying out its due diligence and other responsibilities. The Investment Consultant is responsible for providing an independent review of the performance of the Fund and advising on any issues arising out of their review on a quarterly basis. The Investment Consultant has the mandate to bring to the attention of the Investment Committee any matters that would assist in improving the investment performance or risk management of the Fund.
- 3.5 The Board is responsible for approving any changes to the SIP&G, the Investment Management Agreement and the Investment Committee's Terms of Reference. The Board makes appointments to the Investment Committee after receiving a recommendation from the Committee.
- 3.6 The Board may delegate authority to the Executive Director to determine transition plans related to changes in the asset mix policy in consultation with the Investment Managers where necessary.

4.0 Statement of Investment Beliefs of the Board

- 4.1 There is a relationship between risk and return. Achieving higher returns generally requires exposure to higher risks. The relationships between risk and return are more predictable over the longer term. Equities will, in the long term, provide greater returns than fixed income investments although with greater short-term volatility. The long term strategic asset allocation decision is the most important factor in determining investment risk and return.
- 4.2 In establishing the asset mix policy of the Fund, the liabilities of the Plan should be taken into consideration. As an example, inflation has a direct impact on the UAPP's liabilities. Investments in inflation-sensitive assets like Real Return Bonds, Real Estate and Infrastructure are a way of managing the inflation risk.
- 4.3 Diversification within and across asset classes can reduce risk over the long term without compromising expected returns and is a prerequisite to prudent fund management.
- The Board believes that exposure to foreign currencies as a result of moderate levels of foreign investments can provide diversification benefits. Currency hedging should only be undertaken on an opportunistic basis.
- 4.4 Over the long term, longer term bonds will outperform cash and shorter term bonds. Longer term bonds will outperform during periods of stable and declining interest rates, but will underperform during periods of significantly rising interest rates. Relative to shorter term bonds, longer term bonds generally provide better matching with the Plan's liabilities thus reducing the volatility of the required contributions and funded status.
- 4.5 Active management will serve the Plan better than passive management in most asset classes. Markets are efficient to varying degrees, and short term deviations from long term fundamentals can occur. Therefore, there is an expectation for skilled managers to add value and/or reduce risk relative to passive exposure to the market. The opportunity for value added and/or reduced risk from active management should be weighed against the incremental cost relative to passive market exposure.
- 4.6 Over the long term, but not necessarily in most years, investment in a value stock portfolio will tend to produce performance similar to or better than investment in a growth stock portfolio, and the performance of the value stock portfolio will be less volatile.

- 4.7 A specialist manager structure offers a number of benefits over a balanced manager structure including the potential to hire the best manager for each asset class, greater flexibility to replace underperforming funds, and the ability to make use of passive investment funds for appropriate asset classes.
- 4.8 With respect to foreign equities, global mandates are preferred over combinations of U.S. and International equity mandates because global mandates allow managers more flexibility and greater opportunities to add value.
- 4.9 Market timing is not seen as an effective strategy for generating consistent returns. Therefore, a rebalancing protocol around the strategic asset mix is seen as the most effective way of ensuring that portfolio risk does not drift materially above or below the intended risk level.
- 4.10 Investment managers should be monitored regularly for changes in ownership, investment process and philosophy, key investment personnel, and for investment returns against relevant peer groups and indices. Managers may be terminated on the basis of qualitative issues even if investment returns are acceptable.

Investment returns should be evaluated over at least a 4-year period. Emphasis should be placed, not only on the level of returns, but also on the amount of risk taken to achieve those returns. Tracking error should be assessed in terms of the impact on volatility of the Plan's required contributions and funded status.

5.0 Portfolio Asset Mix and Benchmarks

5.1 The Board has examined the benefit structure and the associated funding requirements of the UAPP. After considering expected risks and returns of various asset classes and reviewing the results of an asset/liability study of the Plan, the Board has established the following long-term policy portfolio and range of weights for asset classes within the portfolio:

Asset Class	Benchmark	Long-term Policy Weight	Allowed Range (Percent of Market Value)
TOTAL FIXED INCOME		35.0%	26-41
Cash and Short-term	FTSE Canada 91 Day T-Bill Index	0.0%	0-1
Universe Bonds	FTSE Canada Universe Bond Index	11.5%	8-14
Long Duration Bonds	FTSE Canada Overall Long Term Bond Index	11.5%	8-14
Mortgages	FTSE 60% Short Term/40% Mid Term Bond Index + 75 bps	5.0%	3-7
Real Rate of Return Bonds	FTSE Canada Real Return Bond Index	7.0%	5-9
TOTAL PUBLIC EQUITY		45.0%	40-60
Canadian Equities	S&P/TSX Capped Composite Index	12.0%	10-20
Global Equities (includes US, Non-North American, developed & some Canadian)	MSCI World Total Return Net Index	26.0%	22-31
Emerging Markets Equities	MSCI Emerging Markets Net Index	7.0%	5-9
TOTAL ALTERNATIVE CLASSES		20.0%	12-25
Real Estate	MSCI/REALPAC Canadian All Property Index	8.0%	5-11
Private Equity	CPI + 650 bps	5.0%	0-7
Infrastructure ¹	CPI + 600 bps	7.0%	3-9
Timberland ¹	CPI + 400 bps	0.0%	0-1

¹ The previous allocation to Timberlands will be redeemed in the future. Until such time as the redemption occurs, the Infrastructure Policy Weight shall be reduced by any allocation in Timberlands.

5.2 The actual asset mix of the Fund will vary from the Allowed Ranges as a result of the relative performance of capital markets and the Investment Managers. On each calendar quarter, if necessary, the Fund will be rebalanced in accordance with the following framework:

- (a) The actual mix of the major asset classes (fixed income, public equity, alternative classes) shall be compared to the Allowed Ranges contained in the table above to determine deviations;

- (b) Any major asset class that exceeds the upper end of their Allowed Range shall be reduced to the mid-point between their Long-term Policy Weight and the upper end of their Allowed Range, with the funds re-deployed to the other asset classes that are below their Long-term Policy Weight;
 - (c) If after any re-balancing that may have occurred under (b) an asset class remains below their Allowed Range, a re-deployment of funds shall occur to increase this asset class to the mid-point between the lower end of their Allowed Range and their Policy Weight; and
 - (d) As the Alternative Classes are generally less liquid, no transfers to/from the Alternative Classes shall occur without prior discussions between the Investment Committee and the Investment Manager.
- 5.3
- (a) The policy benchmarks described in Section 5.1 for foreign assets are non-hedged unless indicated otherwise.
 - (b) To protect the Fund from a drop in the value of foreign currencies, the Investment Managers may, on an opportunistic basis, hedge at a pool level up to 25% of the Fund's foreign currency exposure back into Canadian dollars. This 25% limit is in addition to any hedge that a manager within Global Equities may place as part of the manager's mandate.
 - (c) The Investment Managers may use active currency strategies, through internal or external managers, to add value to the Fund. The notional amount of such active currency management is to be limited to 2.5% of each Investment Manager's mandate.
- 5.4 Within the asset class and other guidelines provided in other sections of the SIP&G, the Investment Committee shall determine the Fund's participation in the various products offered by the Investment Managers.
- 5.5 During periods of asset mix transition, the minimum and maximum allocation weights will not apply to asset classes that have restricted liquidity (such as private equity, private income and real estate) and to liquid asset classes if those classes are the source or destination of the asset mix transition. As permanent allocations are made, benchmark policy weights will be changed in increments of 0.50%. Where the Board has delegated authority to the Executive Director to determine an asset mix transition plan, the interim policy benchmarks will be consistent with those determinations.
- 5.6 In consultation with the Investment Managers, the Board has set a net value-added objective of 50 basis points (after fees) over the policy benchmark specified in Section 5.1. This value-added target is to be measured over a rolling four-year period.

6.0 Permitted Investments

- 6.1 Permitted investments are investments under the prudent person rule that adhere to investment standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and obtain a reasonable return provided that these are qualified investments for registered pension plans under the *Income Tax Act* (Canada) and the EPPA as amended from time to time.
- 6.2 Investments may be made directly or through units of a pool or segregated fund. These funds usually have established separate and independent investment policies. Should a conflict arise between the provisions of this Policy, and the provisions of a fund's investment policy, the fund's investment policy shall apply. The Investment Manager of the fund will promptly notify the Investment Committee of any conflicts between their investment policy and this Policy. The Investment Committee shall review any such conflicts and determine whether additional action is required.
- 6.3 Public equity investments are to be made in securities traded on recognised stock exchanges or will be traded in a reasonable period of time. Where an acquired public equity investment ceases to be traded on a recognized stock exchange, the Investment Manager will bring a recommendation to the Investment Committee as to whether to continue that investment in the portfolio.
- 6.4 The use of derivative and synthetic securities is permitted for the purpose of enhancing fundamental investment strategies and managing exposures in a manner consistent with the overall investment policies and risk tolerance of the Fund. In this context, the limits with respect to quality of the underlying securities described in other sections of this Policy will continue to apply to derivatives and synthetic securities and the value of derivatives or synthetic securities will be used to calculate the overall exposure of the Fund relative to the policy asset mix weights. In addition, counter-parties must have at least an A rating by a recognized rating agency at the time of purchase.
- 6.5 Market-neutral hedge fund investments as a strategy to earn active return, or alpha, within the allocations to Public Equities are permitted in a manner consistent with the overall investment policies and risk tolerance of the Fund. The Investment Managers will provide a regularly updated listing of any hedge funds utilized.

7.0 Controls and Restrictions on Investments

- 7.1 Leverage may be used for the purposes of enhancing returns and managing risk. The Investment Managers are authorized to utilize leverage to execute investment strategies in a manner consistent with the overall investment policies and risk tolerance of the Fund.

Where derivatives and synthetic securities are used, unfunded positions may occur and are permitted if the Investment Manager has given due consideration to the related risks and has established appropriate risk control measures.

7.2 (a) Debt Securities

Investments in a single corporate issuer rated A or higher shall not exceed 8% of the total value of the fixed income holdings and investments in a single corporate issuer rated BBB at the time of purchase shall not exceed 3% of the total value of the fixed income holdings. In the case of pooled holdings, the Fund's proportionate share shall be used in applying this test. Private debt will not exceed 20% of any pool in which the Fund participates unless the pool is primarily designed to invest in private securities. In situations such as private debt, where third party evaluation of the credit is unavailable, then the Investment Manager will develop a rating using generally accepted industry practices.

(b) Public and Private Common Shares

- (i) The Fund shall not hold more than 10% of the outstanding voting shares of a company. In the case of pooled account holdings, the Fund's proportionate share shall be used in applying this test.
- (ii) The debt and equity holdings in a single company are limited to 10% of the book value of each Investment Manager's portion of the total Fund.
- (iii) The maximum single equity holding is limited to a policy weight of 10% of the market value of each of the Canadian and foreign equity portfolios respectively. The S&P/TSX Capped Index will be used as the benchmark for Canadian equities. To manage rebalancing, single equity holdings that exceed 10% will be allowed to fluctuate within the quarter up to 15% before being rebalanced to 10% at the end of the quarter.
- (iv) The Investment Committee of the Board will receive a report on any single equity holding over 5% of the market value of the Fund as part of the regular quarterly investment report.

7.3 In making an investment in any of the asset classes the following quality limits will apply:

- (a) Cash and Short-term, a rating of at least R1 low at time of purchase.
- (b) Canadian Public Bonds, a rating of BBB or better at time of purchase.

All securities held by the Fund that fall below these quality limits will be disclosed by the Investment Manager to the Investment Committee of the Board as part of the regular quarterly investment report.

7.4 The Investment Manager may not enter into a transaction with a related party unless:

- (a) the transaction is required for the operation or administration of the UAPP and the terms and conditions of the transaction are not less favourable to the UAPP than market returns or conditions; or
- (b) the securities of the related party are acquired at a public exchange.

“Related party” is defined in Section 1 of Schedule III to the *Pensions Benefits Standards Regulation, 1985 (Canada)* as amended from time to time. A related party is a person who is the administrator of the UAPP including any officer, director or employee of the administrator, or any person who is a member of the Board. It also includes the Investment Manager and its employees, a union representing employees of the employer, a member of the UAPP, 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 government agency.

7.5 No part of the Fund shall be loaned to any person, partnership or association except as permitted under Section 7.1, 7.8 or as eligible investments under Section 6.1.

7.6 The Investment Managers may not pledge, hypothecate, or otherwise encumber the assets of the Fund, except as may be required in Sections 7.1, 7.7 or 7.8.

7.7 Secured borrowing within a limited partnership or within a similar structure in Real Estate, Private Income and Timberland, in which the Fund has a minority interest, is permitted to the extent that such borrowing is a part of the pool’s product description and the Investment Manager has given due consideration to the related risks.

- 7.8 (a) The Investment Managers may enter into securities lending agreements for the purpose of generating revenue for the Fund provided that:
- (i) the loans are secured by cash, readily marketable securities or securities that are convertible immediately into the security lent (the “collateral”) having a market value which is appropriate relative to the market value of the loan based on prevailing market conditions (normal lending practices of each local market),
 - (ii) the level of collateral is maintained daily; and
 - (iii) under no circumstance would securities be lent with collateral less than 100% of the value of the securities being lent out.
- (b) Where an Investment Manager engages the custodian to implement the securities lending program, the Investment Manager will satisfy itself that:
- (i) the custodian’s indemnities are appropriate,
 - (ii) reporting is both timely and accurate,
 - (iii) the lending practices are sound and sufficient security is provided for the loans, and
 - (iv) where cash collateral is invested, the investments, either at a pooled or segregated level, are made on a sound basis reflecting the desired level of risk.

8.0 Code of Ethics and Standards of Conduct

- 8.1 The Investment Manager's staff and those external managers engaged to manage the Fund assets, are expected to comply, at all times and in all respects, with the Code of Ethics and Standards of Professional Conduct as promulgated by the CFA Institute. In addition, the Investment Manager's staff will comply with the Conflict of Interest Policy established by their Firm.

In carrying out their responsibilities relative to the investment and management of the Fund, members of the Board and the Investment Committee and the UAPP Trustees' Office staff shall abide by any Conflict of Interest Policy adopted by the Board.

- 8.2 The Investment Managers and their agents shall attempt to the extent practical to scrutinize all proxies received and to vote all proxies in the best interests of the UAPP members. The Investment Managers shall adopt and adhere to a Statement of Guidelines and Procedures on Proxy Voting and report to the Board on any changes to the Statement.
- 8.3 The Investment Managers shall adopt a policy on soft dollar usage and comply with the CFA Institute's Soft Dollar Standards and report annually to the Board on soft dollar usage.

9.0 Investment Reporting and Compliance

- 9.1 The Investment Managers shall provide the Board and its Investment Committee with investment information on the Fund as requested by the Board or the Committee. The Investment Managers will report to the Investment Committee on a quarterly basis on the performance of the Fund in a manner that it requests and meet with the Investment Committee upon request.
- 9.2 The returns of the Fund are calculated using market values derived from independent pricing sources. Return calculations follow the standards established by the CFA Institute.
- 9.3 All securities for which there is an active market shall be valued based on market quotes. The Investment Managers shall be responsible for valuing the non-publicly traded securities. Methods for valuing non-publicly traded securities include the discounted cash flow method for mortgages and private debt and comparisons to publicly traded companies, price/earnings ratios and third party estimates for private equity investments. All non-publicly traded securities and assets shall be valued at least annually.
- 9.4 The Investment Managers are required to complete and sign a compliance report each quarter. The compliance report should indicate whether or not the Investment Manager's portfolio was in compliance with this Policy during the quarter.
- 9.5 In the event that any Investment Manager is not in compliance with this Policy, the Investment Manager is required to advise UAPP via the Executive Director in a timely manner, detailing the nature of the non-compliance and recommending an appropriate course of action to either remedy the situation or revisit the Policy, as appropriate.
- 9.6 The Fund invests in several pooled funds, which have separate investment policies. Should a conflict arise between the provisions of this Policy, and the provisions of the pooled fund's investment policy, the applicable Investment Manager is required to notify the Board in a timely manner in writing, detailing the nature of the conflict and the Investment Manager's recommended course of action.
- 9.7 A summary report on all proxies received and voted by each Investment Manager will be submitted to the Investment Committee on an annual basis.

10.0 Policy Changes and Communications

10.1 The UAPP will communicate all changes to this SIP&G in writing to the Investment Managers using the following protocol:

- (a) As soon as practical, the Executive Director will inform the Investment Managers of the change.
- (b) The Investment Managers will acknowledge receipt of the correspondence to the Executive Director.

10.2 Communications Protocol

- (a) The Investment Managers will direct all communications to the Board through the Executive Director. The Executive Director will then disseminate the information to the appropriate Board or Investment Committee members in a timely manner.
- (b) The Board/Executive Director will direct all communications to the Investment Managers through the Investment Manager's contact assigned to the UAPP.

11.0 Investment Manager Evaluation

- 11.1 Each Investment Manager should aim to exceed the investment performance objectives while not taking undue risk of loss or impairment to the Fund, within the investment constraints outlined in this Policy. On a quarterly basis, the Investment Committee shall evaluate the performance of each Investment Manager against performance objectives. If an Investment Manager continually fails to meet the performance objectives, the Investment Committee may elect to initiate a formal review of the Investment Manager. The intent of the formal review is to examine the overall performance of the Investment Manager and to either confirm their appointment or initiate a competitive process which may result in the selection of a replacement Investment Manager.
- 11.2 The Board, at its sole discretion, may decide to terminate or replace an Investment Manager at any time. Reasons for termination or replacement may include, but are not limited to:
- (a) An Investment Manager's failure to meet the performance objectives.
 - (b) Significant turnover of the Investment Manager's staff.
 - (c) Significant change in the Investment Manager's ownership, structure or investment philosophy or processes.
 - (d) Failure to comply with the terms and constraints of this Policy.
 - (e) Requirement to diversify investment management or change the investment structure of the Fund.