

**June 3, 2014**

***STATEMENT OF  
INVESTMENT POLICIES AND PROCEDURES  
FOR THE  
NURSES BARGAINING ASSOCIATION  
RETIREE BENEFIT PROGRAM***

**Adopted August 16, 2011  
*Amended October 10, 2013  
Amended November 5th, 2013***

## **GENERAL INFORMATION**

### **PURPOSE**

The Nurses Bargaining Association (NBA) has established this Statement of Investment Policies and Procedures (SIPP) *as a* tool for the effective management of the NBA Retiree Benefit Program fund (Plan).

The main purpose of this Statement is to:

- (a) Establish and communicate the investment constraints and objectives to the Investment Manager; as defined in the RBP text.
- (b) Articulate the guidelines for monitoring the investment performance of the Fund;
- (c) Provide a framework for the review and assessment of the Investment Manager;
- (d) Identify the role of the Nurses Bargaining Association and its agents involved in the investment process.

The assets may be invested in approved pooled funds and/or mutual funds (collectively the "Fund(s)"), which are subject to their own respective investment policy guidelines if those guidelines are primarily consistent with the objectives of the Plan's SIPP. The Manager(s) must provide the RBP Committee with the investment policy statement for all Fund(s) utilized and any amendments made thereto. The investment policy statement of the Fund(s) will supersede the Plan's SIPP. If the Fund(s) investment policy statement changes and is no longer primarily consistent with the objectives of the Plan's SIPP, the Manager(s) will notify the client and request direction.

This statement is effective February 12, 2013.

### **EXECUTIVE SUMMARY**

This SIPP is to be adopted by the RBP Committee on behalf of the Nurses Bargaining Association for the long term investment of all funds held for the NBA Retiree Benefit Program (RBP).

This SIPP may be changed from time to time by the RBP Committee on behalf of the Nurses Bargaining Association. However, it is intended to remain in place over the long term with changes being made only infrequently as a result of changes in the long term economic environment.

Highlights of the investment policy are:

- 1. Primary objective— inflation plus 3% (net of fees)
- 2. Range of asset mix permitted around 50/50 long term target, at discretion of investment manger

### **1. BACKGROUND**

The NBA Retiree Benefit Program (RBP) *has* been established *as* a result of the 1% of payroll employer contribution set out in Appendix CC of the 2006 to 2010 Collective Agreement which is

" \_\_\_\_\_ *... to provide funding for inflation protection and benefits for retirees who were members of the Nurses Bargaining Association (NBA) constituent unions.* "

The amount in the RBP fund *as* at December 31, 2010 is approximately \$34 million.

The 1% of payroll to be paid by the employers amounts to approximately \$20 million per year in 2011. The NBA anticipates that the 1% of payroll employer contribution will continue indefinitely *as* part of future collective agreements. We anticipate that beginning in 2011 approximately 3 million dollars will be paid out to members, rising by 10% each year.

## **2. ROLES AND RESPONSIBILITIES**

The assets of the RBP must be invested in a manner that a reasonable and prudent person would apply to the portfolio of investments having regard to the purpose of the RB P.

### **Nurses Bargaining Association**

The Nurses Bargaining Association is responsible for the overall administration of the RBP.

## **2.1 INVESTMENT CATEGORIES**

### **2.1.1 Diversification**

Investment risk may be reduced through diversification by asset types, investment style, industries, and geographic regions. Risk is often measured *as* the volatility of return and is also defined as the volatility of the funding and solvency ratios.

A principal of portfolio theory is that there is a trade-off between risk and expected return. The degree of diversification depends on the RBP Committee's long-term return objectives and its willingness to assume risk. In general, prudence requires a greater degree of diversification than what is prescribed in pension regulations.

**2.1.2** The Investment Manager shall have full discretion with regard to security selection and the timing of investment purchases and sales, subject to the requirements of this Statement.

### ***Investment Categories and Requirements***

### **2.1.3 Short Term Securities**

(a) Authorized investment categories:

- cash;
- demand deposits and term deposits;
- short-term notes;
- banker's acceptance;
- guaranteed investment certificates;
- bonds maturing in less than one year;
- asset-backed securities;
- mortgage-backed securities;
- pooled funds containing the above-mentioned authorized investment categories;
- all other fixed income securities that are rated by a recognized bond rating organization;

## (b) Qualitative limitations

securities must carry a maximum term of one year;  
 securities issued by the Government of Canada, provincial governments, organizations backed by a government or municipality: no qualitative limitation;  
 securities issued by Canadian corporations: minimum rating of R-1 (low) by Dominion Bond Rating Service or equivalent.

## 2.1.4 Fixed Income Securities

## (a) Authorized investment categories:

marketable bonds, strip bonds and coupons;  
 asset-backed securities;  
 mortgage-backed securities;  
 marketable debentures;  
 bonds and debentures of foreign issuers, including those denominated in foreign currency;  
 BCNU Building First Mortgage;  
 pooled funds containing the above-mentioned authorized investment categories;  
 all other fixed income securities that are rated by a recognized bond rating organization;  
 guaranteed investment certificates;

## (b) Qualitative limitations:

bonds and debentures must have a minimum rating of BBB by the Dominion Bond Rating Service or equivalent;  
 no qualitative limitation on bonds (including coupons and strips) and debentures issued by the federal government, a provincial government, or organizations backed by one of these governments or a municipality.

## (c) Quantitative limits:

bonds rated BBB must under no circumstances represent more than 10% of the total market value of the fixed income securities portfolio;  
 no single lender, with the exception of a government, may represent more than 5% of the market value of fixed income securities portfolio;  
 the BCNU Building First Mortgage shall not exceed 20% of the market value of the total fund at the time the mortgage is advanced;  
 securities quoted in foreign currency will be actively managed.

## 2.1.5 Canadian Equities

## (a) Authorized investment categories:

- common shares;
- income trusts, royalty trusts and real estate investment trusts (i.e. REIT's);
- exchange traded funds (ETF's)
- preferred shares;
- stock purchase warrants;

- installment receipts;
- securities convertible into common shares;
- pooled funds containing the above-mentioned authorized investment categories.

(b) Quantitative Limitations: The weighting of any stock in the Canadian equity portfolio shall not represent more than 5% of the market value of the total portfolio.

(c) Other Elements:

- all securities must be traded on a recognized Canadian Stock Exchange;
- new issues are allowed provided they are listed within six months of being issued

### 2.1.6 Foreign Equities

(a) Authorized investment categories:

- common shares;
- stock purchase warrants;
- securities convertible into common shares;
- pooled funds containing the above-mentioned authorized investment categories mentioned (above) in 2.1.5 (a).

(b) Quantitative limitations:

No single security may represent more than 5% of the market value of the total equity portfolio.

No more than 10% of the total market value of the foreign equity portfolio may be invested in emerging markets, as defined by Morgan Stanley Capital International (MSCI).

(c) Other Elements:

Foreign equities may only be traded on a recognized stock exchange.

### 2.1.7 Exclusions

Investments that are transacted on a secondary market or investments in unquoted securities are not permitted.

Margin buying and short selling of investment securities is not permitted.

Unless specifically permitted or given prior agreement by the RBP Committee, investment in securities that are not readily marketable or that cannot be consistently valued according to publicly organized markets are prohibited. This includes but is not limited to investment in Real Estate or Private Placements (except those which will become available for trading on a recognized exchange within six (6) months of issue).

Any investment, which is not specifically authorized, is prohibited unless the RBP Committee in an amendment to this Statement explicitly authorizes it.

### **3. INVESTMENT OBJECTIVES/PERFORMANCE MEASURES**

#### **3.1 Primary Performance Objective**

3.1.1 The primary investment objectives of the Investment Manager are to:

- (a) optimize the rate of return of the Plan assets through well diversified investment portfolios, without taking undue risk of loss or impairment; and
- (b) where active investment management is employed, add value to the Plan assets through active investment management.

3.1.2 The primary investment objective is to earn a long term rate of return, after investment management fees, at least equal to the percentage increase, if any, in the Consumer Price Index for Canada published by Statistics Canada for the immediately preceding year plus 3%. The NBA expects this primary long term objective to be met or exceeded over each five year period. Although it is not expected that the objective will change significantly over time, it should be revised periodically if warranted.

#### **3.2 Secondary Performance Objective**

3.2.1 Although the main element used for evaluating the Investment Manager's performance is the ability to generate added value for the portfolio as a whole, the RBP Committee may also compare the performance to comparable Investment Managers. The average rate of return for the Manager should rank in the top half of similarly managed funds as measured by a comparative measurement service over a moving 5 year time horizon, preferably with average or less than average volatility in annual returns

3.2.2 The Investment Manager is expected to maintain adherence to their professed investment style. If a change is to occur, notice must be given to the RBP Committee prior to the change. The Investment Manager will be subject to review and potential replacement given non-adherence to the professed investment style.

3.2.3 Each year, the Investment Manager must provide detailed and satisfactory explanations for performance that is below the established objectives.

3.2.4 Where appropriate, the RBP Committee may add, delete or replace any Investment Manager.

3.2.5 To obtain a higher return, the following methods could be used:

- (a) Asset allocation difference from the benchmark:

Using forecasts and expertise, the Investment Manager can vary the portfolio's asset mix from the benchmark portfolio provided it remains within the limits specified in the Statement of Investment Policy.

The Manager is therefore in a position to select the asset classes that he believes will generate a return greater than that of the benchmark index.

(b) Selection of top-performing securities:

In each asset class, the Investment Manager will choose securities that have a greater potential return than the benchmark index.

### **3.3 Risk-Adjusted Performance Objective**

3.3.1 The Sharpe Ratio measures the additional return per unit of risk generated by a portfolio over and above a no-risk investment (such as government T-Bills). It is an effective measure of the Investment Manager's ability to generate a higher return without taking excessive or undue risk. The Sharpe Ratio can be used as a comparative measurement of similarly managed funds and the passive benchmark portfolio.

3.3.2 The Investment Manager should achieve a Sharpe Ratio on the Pooled Fund performance which is not less than the Sharpe Ratio of the benchmark portfolio over 5 year moving intervals

3.3.3 The volatility (i.e. annualized standard deviation) of the rates of return should not significantly exceed the volatility of the hypothetical return on the benchmark portfolio over 5 year moving intervals.

<b>Asset Class</b>		<b>Index</b>	
<b>Fixed Income Ind</b>	<b>Universe<sup>1</sup></b>	<b>Dex Universe</b>	<b>40%</b>
	<b>Short-term</b>	<b>Dex RRB</b>	<b>10%</b>
	<b>Subtotal</b>		<b>50%</b>
<b>Equities</b>	<b>Canadian</b>	<b>S&amp; P/TSX Composite</b>	<b>30%</b>
	<b>U.S.</b>	<b>S&amp; P 500 (C\$)</b>	<b>10%</b>
	<b>Non North</b>	<b>MSC! EAFE (C\$)</b>	<b>10%</b>
	<b>Subtotal</b>		<b>50%</b>
	<b>Total</b>		<b>100%</b>

### **3.4 INVESTMENT COMMUNICATION**

3.4.1 Where applicable, general descriptions of the investment returns and asset mix shall be communicated to the NBA constituent unions at least annually.

3.4.2 The Investment Manager shall provide a description of his investment policy to the RBP Committee for review. If the Investment Manager intends to make any changes to this policy, he must notify the RBP Committee in writing prior to the proposed changes in effect.

3.4.3 The Investment Manager must promptly serve written notice to the RBP Committee to advise of any change in key

<sup>1</sup> Including the BCNU Building First Mortgage.

investment personnel or the firm's ownership structure.

3.4.4 The Investment Manager is expected to be available to attend a minimum of one meeting per year with the RPB Committee, but is to be available via conference call when deemed necessary.

3.4.5 The RPB Committee will expect timely communication from the Investment Manager in the case of significant asset mix changes or extreme occurrences (i.e. events that will affect the outlook of the investments).

#### **4. INVESTMENT POLICY**

The long term investment policy contains a long term target asset mix and a range of asset mixes around the long term target.

The range of asset mixes around the long term targets are there to allow the Investment Manager to exercise judgment about the relative attractiveness of the different asset classes from time to time as these change due to economic developments. The policy allows the Investment Manager to change the actual asset mix from time to time, within the stated ranges, without having to obtain any advance approval from the NBA.

The range of asset mixes for the RBP fund is:

<b>Asset Class</b>		<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>
<b>Fixed Income</b>	Universe <sup>2</sup>	<b>30%</b>	<b>50%</b>	<b>70%</b>
	Short-term	<b>0%</b>	<b>0%</b>	<b>20%</b>
	Subtotal	<b>30%</b>	<b>50%</b>	<b>70%</b>
<b>Equities</b>	Canadian	<b>10%</b>	<b>30%</b>	<b>50%</b>
	U.S.	<b>0%</b>	<b>10%</b>	<b>30%</b>
	Non North	<b>0%</b>	<b>10%</b>	<b>30%</b>
	Subtotal	<b>30%</b>	<b>50%</b>	<b>70%</b>
	Total		<b>100%</b>	

The rationale for investing in equities is that, over the long term, equities are expected to earn a higher rate of return than bonds. Although equities are more volatile than bonds, the RBP does not anticipate any requirement to realize the fund assets in the foreseeable future.

The investment policy will be implemented through the use all of the approved investment categories.

#### **Investment Restrictions**

1. No investment in the securities of any single company or associated companies shall exceed 5% of the total portfolio at any time.

<sup>2</sup> Including the BCNU Building First Mortgage.



2. All bonds shall be government guaranteed with a minimum credit rating of BBB.
3. All exchange traded funds (ETFs) shall be publicly traded on a major North American stock exchange, shall not be leveraged and shall not themselves hold any form of derivative security.
4. All investments shall conform to the United Nations Principles for responsible investment.
5. Some part of the fund may be invested in a first mortgage on a building owned by the BCNU. That part of the fund shall not exceed 20% of the market value of the total fund at the time the mortgage is advanced. The first mortgage shall be advanced on the usual, arms length, commercial terms for such a mortgage at the time the mortgage is advanced and shall be renewed on the usual, arms length, commercial terms for such a mortgage at the time the mortgage is renewed. The mortgage shall be considered part of the fixed income assets of the investment portfolio.

APPENDIX A  
CI Signature Canadian Balanced Statement of Investment Policies and  
Procedures

**APPENDIX B**  
**Mackenzie Statement of Investment Policies and Procedures**

