

# Statement of Investment Policies and Procedures

*Legislative Assembly of Nunavut  
Supplementary Retiring Allowances Act*

*Effective January 1, 2016*

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## Section 1 - Purpose

### 1.01 Goals of This Policy

This Statement of Investment Policies and Procedures (the “SIP&P” or the “Policy”) outlines the principles by which the assets held in the Consolidated Revenue Fund (CRF) which have been appropriated for the purpose of paying benefits under the Supplementary Retiring Allowances Act (the “Fund”) are managed. The goals of the Policy are to:

- (a) Ensure that all relevant issues are considered in formulating an investment strategy for the Fund.
- (b) State the investment guidelines for the Fund.
- (c) Define the performance goals and the procedure for measuring the investment manager’s (the “Investment Manager”) performance.

### 1.02 Interested Parties

The parties having an interest in the management of the Fund’s investments are:

- (a) The Members, including the spouses and beneficiaries of Members.
- (b) The Legislative Assembly.
- (c) The Management and Services Board (MSB).
- (d) The Government of Nunavut.
- (e) The Investment Manager.
- (f) The Investment Consultant
- (g) The Custodian.
- (h) The Actuary.

### 1.03 Delegation of Responsibilities

As agreed to by the Financial Management Board and documented in decision FB-01-13-7(b), the MSB is the legal administrator of the Fund (the “Administrator”) and is therefore responsible for all matters relating to the administration, interpretation and application of the Fund, including developing, monitoring and amending this Policy.

The MSB shall review this Policy at least annually and shall either amend it where necessary or confirm that it shall continue to remain in effect for the following year. In so doing, with the assistance of the Plan Actuary and Investment Consultant, the MSB will perform the following activities:

- a) review portfolio holdings and transactions and monitor compliance with this Policy, mandates and applicable legislation;
- b) monitor the performance of the Investment Manager's portfolios;
- c) review the current economic outlook and investment strategy of the Investment Manager;
- d) review the current asset mix and take any action necessary to ensure compliance with this Policy or any action that would be deemed prudent under the prevailing market conditions;
- e) review market statistics as they relate to the asset mix of the Fund;
- f) discuss issues and opportunities in the market relating to the Fund and the Investment Manager for the prudent management of assets, and any changes to the Fund and manager that might affect future performance of the Fund, and take actions as required;
- g) monitor activities in the portfolios in which the Fund participates, including, among other things, the percentage participation by the Fund, redemptions and contributions and fees and expenses charged to the Fund;
- h) meet at least annually with the Plan Actuary, Investment Consultant and Investment Manager to:
  - (i) discuss investment performance, investment strategies and expected future performance;
  - (ii) review investment returns and objectives relative to this Policy;
  - (iii) review the risk level of the assets and individual portfolios relative to this Policy;
  - (iv) ensure that funding targets are not short-term, but based upon a going concern and long-term strategy;
  - (v) review the Investment Manager's comments on the acceptability of the investment performance , and on key issues and concerns affecting future performance;
  - (vi) review fees and expenses; and
  - (vii) discuss recommendations for changes.

## Section 2 – Background

The Supplementary Retiring Allowances Act (“SRAA”) is a non-registered pension arrangement which provides certain retirement benefits which are in excess of those allowed under the Income Tax Act.

The SRAA is a defined benefit arrangement; membership in the plan is voluntary. The benefits are dependent on the Member’s final average salary and years of credited service with the Legislative Assembly. Members may elect to receive a lifetime pension or monthly payments for 5, 10 or 15 years upon ceasing to be a member.

Assets appropriated by the Legislative Assembly for the purpose of providing benefits under the SRAA constitute part of the Government of Nunavut Consolidated Revenue Fund. As part of the Consolidated Revenue Fund, SRAA assets must be invested in accordance with the requirements of the Government of Nunavut Financial Administration Act. While in this Statement the assets of the Fund are treated as being SRAA assets, the Assembly does not in fact have a beneficial ownership in the assets and the assets could, in theory, be used at any time for any other purpose.

The benefits under the SRAA are determined without reference to the value of the Fund. The purpose of the Fund is to accumulate assets sufficient to support the benefits to which Members become entitled. The levels of and variations in investment returns will have an impact on contributions.

## Section 3 – General Policy Considerations

### 3.01 Liability Structure

#### Maturity of the SRAA

- (a) Since the SRAA was newly created on April 1, 1999, the SRAA is considered to be a relatively immature plan with 21 active Members, 2 deferred vested Members and 18 pensions in pay at the last actuarial valuation date of April 1, 2014.
- (b) The active membership is expected to fluctuate with each general election and be stable in the interim. When an election takes place, Members who are not re-elected and who have completed a full term receive an immediate or deferred lifetime pension or monthly payments for 5, 10 or 15 years. New Members elected to replace the former Members commence earning a retirement pension. Plan liabilities in respect of active Members generally increase between elections, and then reduce after the election as active Members become Retired Members.
- (c) The average age of the Members is 54.0 years at April 1, 2014.

#### Nature of Liabilities

The SRAA provides benefits as lifetime pensions or monthly payments for 5, 10 or 15 years on ceasing membership.

#### Benefit Adjustments

Pension benefits are adjusted annually up to the increase in the Consumer Price Index.

### 3.02 Funding Issues

#### Sources of Contributions

The SRAA is funded by Assembly contributions. At April 1, 2014 the Assembly was contributing at a rate of 60.9% of the Members' pensionable earnings. Members who participate in the SRAA contribute an additional 2.5% of pensionable earnings to the SRAA.

#### Funded Status

At the date of the last actuarial valuation of the SRAA, dated April 1, 2014, there were going-concern liabilities of \$6,584,600 and the actuarial value of assets was \$7,056,700, resulting in a surplus of \$472,100.



## Funding Conservatism

The assumptions used to value the SRAA's going concern liabilities include a margin for conservatism. The assumed long-term rate of return on the Fund assets is 3.8% per annum, net of investment management and operating expenses.

## Asset Valuation Method

The asset value used for the going concern measurement of the SRAA's funded position is a smoothed market value, which spreads the difference between actual and expected investment earnings over a four year period.

## Funding Policy

The MSB has adopted a funding policy, which will tend to dampen fluctuations in the contribution rates from one actuarial valuation to the next. These policies include the use of smoothing techniques in determining the actuarial value of assets and the amortization of actuarial gains and losses.

## 3.03 Conclusions

The fund is expected to be in place indefinitely. For the foreseeable future, contributions and investment income are expected to exceed pension payments so the fund will continue to grow. These factors indicate that the investment policy can be directed toward long-term growth of the Fund. Finally, the investment policy must be sufficiently defensive to minimize the Assembly's exposure to large increases in contributions to the Fund.

## Section 4 – Investment Guidelines

### 4.01 General Guidelines

The investments held in the Fund must at all times be in compliance with the Income Tax Act.

### 4.02 Permitted Categories of Investments

Fund assets are invested in a pooled fund. The MSB has reviewed the pooled fund guidelines and determined that the following pooled fund is an appropriate investment vehicle:

- Beutel Goodman Balanced Fund

In general, and subject to the restrictions in this Section 4, the Investment Manager may invest in any of the following asset classes and in any of the investment instruments listed below:

#### Fixed Income

Bonds, debentures, first mortgage backed securities, first mortgages on Canadian property, short-term investments and other cash equivalents.

#### Equities

Any equity security listed on a stock exchange or organized trading facility, warrants, rights, and any securities convertible into common equity.

#### Real Estate

Income producing only; the holdings should be diversified by region and property type.

#### Pooled Funds

Any pooled or mutual fund or similar such arrangement made up of a class of securities which are otherwise allowable under these investment guidelines.

### 4.03 Minimum Quality Requirements

#### (a) Quality Standards

Within the investment restrictions for individual portfolios, all portfolios should hold a prudently diversified exposure to the intended market.

- (i) The minimum quality standard for individual bonds and debentures is 'BBB' or equivalent as rated by a Recognized Bond Rating Agency (as defined below), at the time of purchase.
- (ii) The minimum quality standard for individual short term investments is 'R-1' or equivalent as rated by a Recognized Bond Rating Agency, at the time of purchase.

(iii) The minimum quality standard for individual preferred shares is 'P-1' or equivalent as rated by a Recognized Bond Rating Agency, at the time of purchase.

(iv) All investments shall be reasonably liquid (i.e., in normal circumstances they should be capable of liquidation within 1 month).

**(b) Rating Agencies**

For the purposes of this Policy, the following rating agencies shall be considered to be "Recognized Bond Rating Agencies":

- (i) Dominion Bond Rating Agency;
- (ii) Standard and Poor's;
- (iii) Moody's Investors Services; and
- (iv) Fitch Ratings (foreign issuers only).

**(c) Split Ratings**

In cases where the Recognized Bond Rating Agencies do not agree on the credit rating, the bond will be classified according to the methodology used by FTSE TMX Global Debt Capital Markets, which states:

- (i) If two agencies rate a security, use the lower of the two ratings;
- (ii) If three Agencies rate a security, use the most common; and
- (iii) If all three Agencies disagree, use the middle rating.

**(d) Private Placement Bonds**

Private placement bonds are permitted subject to all of the following conditions:

- (i) The issues acquired must have minimum quality standards subject to Section 4.03(a)(i) referenced above;
- (ii) The total investment in such issues must not exceed 25% of the market value of the Investment Manager's bond portfolio;
- (iii) The Investment Manager's portfolio may not hold more than 5% of the market value of any one private placement; and
- (iv) The Investment Manager must be satisfied that there is sufficient liquidity to ensure sale at a reasonable price.

## 4.04 Maximum Quantity Restrictions

### (a) Total Fund Level

With the exception of government bonds, no one fixed income holding shall represent more than 10% of the total market value of the Fund's assets.

### (b) Individual Investment Manager Level

The Investment Manager shall adhere to the following restrictions:

#### (i) Fixed Income and Short Term

- (a) Except for federal and provincial bonds having at least an 'AA' credit rating, no more than 10% of the Investment Manager's bond portfolio may be invested in the bonds of a single issuer and its related companies;
- (b) Except for federal and provincial bonds, no one bond holding shall represent more than 10% of the market value of the total outstanding for that bond issue;
- (c) No more than 20% of the market value of the Investment Manager's bond portfolio shall be invested in bonds rated 'BBB' or equivalent; and
- (d) No more than 20% of the market value of the Investment Manager's bond portfolio shall be invested in bonds denominated in a currency other than Canadian dollars.

#### (ii) Other

The use of derivative securities shall be supported at all times by the explicit allocation of sufficient assets to back the intended derivative strategy. For greater certainty, the Investment Manager is not permitted to leverage the assets of the Fund. The use of derivative securities is only permitted for the uses described in this Policy. Purchase or sale of any of these instruments for speculative purposes is prohibited.

## 4.05 Diversification

### General

The Investment Manager will spread investment risk by diversifying the Fund's investment among major asset categories and also within each asset category to the extent practical.

### Fixed Income

The fixed income portfolio must be diversified by maturity dates.

### Equities

Equity investment must be diversified by industry and by companies within each industry where practical. The Canadian equity portfolio must have at least 20 holdings.

No one Canadian equity holding shall represent more than 10% of the Canadian equity portion of the portfolio.

No one U.S. equity holding shall represent more than 10% of the U.S. equity portion of the portfolio.

No one Foreign equity holding shall represent more than 10% of the Foreign equity portion of the portfolio.

## Real Estate

Real estate holdings must be in an investment pool that is diversified by property type and location.

## Limit on Investment in One Corporation

The securities of a single issuer (except the federal or provincial governments) will not exceed 10% of the market value of the total Fund assets.

### 4.06 Asset Mix

The Investment Manager has discretion to structure the Fund in accordance with its recommended asset mix, determined on the basis of its forecast of returns and in a manner consistent with this Policy. In doing so, the Investment Manager shall not incur undue investment risk or subject the fund to excessive market volatility. The acceptable range of investment in each asset class is summarized in the following table:

|                               | Minimum | Target | Maximum |
|-------------------------------|---------|--------|---------|
| Equities                      |         |        |         |
| ▪ Canadian Equities           | 25%     | 30%    | 55%     |
| ▪ Foreign Equities            |         |        |         |
| — U.S. Equities               | 7%      | 12%    | 20%     |
| — Non-North American Equities | 8%      | 13%    | 20%     |
| Total Foreign Equities        | 15%     | 25%    | 40%     |
| Total Equities                | 45%     | 55%    | 70%     |
| Fixed Income                  | 30%     | 40%    | 55%     |
| Short Term                    | 0%      | 5%     | 15%     |
| Total Fund                    |         | 100%   |         |

*Effective January 1, 2014*

For purposes of the total asset mix described above, the Investment Manager's pooled funds are deemed to be 100% invested, even though they may contain a portion held in cash and cash equivalent instruments.

#### 4.07 Liquidity

It is expected that contributions to the plan will be adequate to meet short-term liquidity requirements of the Fund.

#### 4.08 Cash/Securities Lending

Lending of units of the pooled funds held by the Fund is not permitted. However, cash or securities lending is permitted under the terms and conditions specified in the Managers' own statement of investment policy for their respective pooled funds.

#### 4.09 Borrowing

Borrowing is permitted under the terms and conditions specified in the Investment Manager's own statement of investment policy.

#### 4.10 Conflicts Between the SIP&P and Pooled Fund Investment Policies

While the guidelines in this SIP&P are intended to guide the management of the Fund, it is recognized that, due to the use of pooled funds, there may be instances where there is a conflict between this Policy and the investment policy of a pooled fund. In that case, the pooled fund policy shall dominate. However, wherever such a conflict results in non-compliance with the SIP&P, the Investment Manager is expected to report this conflict immediately.

## Section 5 – Performance Objectives and Review

### 5.01 Primary Objective

Over the long-term, the primary objective is to provide members of the SRAA with retirement benefits. Over shorter time periods, the objective is to achieve competitive rates of return on the total fund and on each major asset class, while avoiding undue investment risk and excessive market volatility.

### 5.02 Secondary Objective

The real rate of return objective is 4.0% per annum over successive four-year periods commencing on January 1 of each year. Thus, the average annual rate of return earned by the Fund over a four year period is expected to be at least 4.0% greater than the average annual rate of increase in the all items Consumer Price Index for Canada over the same period.

### 5.03 Tertiary Objective

The objective for the Fund is to exceed the return earned on the benchmark portfolio over rolling four year periods.

The benchmark portfolio is composed of equities, fixed income, and short-term securities. The weighting of each investment class, and the applicable indices used to measure the benchmark portfolio's rate of return, are shown below.

| <b>Investment</b> | <b>Market Value Weighting</b> | <b>Index</b>  |
|-------------------|-------------------------------|---|
| Canadian Equity   | 30%                           | S&P/TSX Composite Index                               |
| U.S. Equity       | 12%                           | S&P 500 Index (C\$)                                   |
| Foreign Equity    | 13%                           | Morgan Stanley Capital International EAFE Index (C\$) |
| Fixed Income      | 40%                           | FTSE TMX Canada Universe Bond Index                   |
| Short-term        | 5%                            | FTSE TMX Canada 91 Day T-Bill Index                   |

*Effective January 1, 2014*

### 5.04 Performance Relative to Peers

An objective of the Investment Manager is to rank in the top 50% of similar fund managers over rolling four year periods based on a nationally recognized survey of pooled balanced fund managers.

## 5.05 Investment Manager Performance Reporting

On a quarterly basis, the Investment Manager will prepare a written report on the performance of the invested funds for the quarter. This report will provide a summary of investment holdings and transactions and the intended strategy for the following quarter.

The performance of the Investment Manager will be reviewed annually.

The Investment Manager's reports will include:

- (a) A review of the performance of the Fund relative to the objectives stated above.
- (b) A brief review of the transactions (both asset mix changes and significant security transactions) since the last meeting.
- (c) A comparison of such transactions with the forecast and strategy outlined at the previous review meeting.
- (d) The Investment Manager's outlook for the economy both in the short-term (six months to one year) and the long-term (five years or more) and its resulting forecasts of rates of return for each of the relevant assets classes.
- (e) The investment strategy the Investment Manager intends to pursue up to the time of the next review meeting.
- (f) Comments from the Investment Manager on the investment objectives and their continuing suitability.
- (g) A review of any changes to Investment Manager's organization, investment personnel or investment process/philosophy since the previous report.
- (h) Confirmation of compliance with the Investment Manager's balanced pooled fund policy since the previous review meeting.

If the Investment Manager has failed to meet its objectives as described in this Policy, the MSB shall consider what corrective action, if any, is appropriate in the circumstances.

## 5.06 Investment Manager Compliance Reporting

The Investment Manager is required to complete and deliver a compliance report to the MSB each quarter. The compliance report will indicate whether or not the Investment Manager was in compliance with their balanced pooled fund policy during the quarter, as well as where pooled funds are utilized. In case of any material changes to the pooled fund policy, the MSB will be notified and unitholder's prior approval will be required. Any changes that are non-material will be sent to the MSB as soon as practicable.



In the event that the Investment Manager is not in compliance with this Policy, the Investment Manager is required to advise the MSB immediately, detail the nature of the non-compliance and recommend an appropriate course of action to remedy the situation.

The Fund may invest in pooled funds with separate investment policies. Should a conflict arise between any of those investment policies and this Policy, the Investment Manager is required to advise the MSB immediately, detail the nature of the conflict and recommend an appropriate course of action to remedy the situation.

## 5.07 Standards of Professional Conduct

The Investment Manager 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 CFA Institute.

The Investment Manager will manage the assets with the care, diligence and skill that an investment manager of ordinary prudence would use in dealing with pension plan assets. The Investment Manager will also use all relevant knowledge and skill that it possesses or ought to possess as a prudent investment manager.

## Section 6 – Administration

### 6.01 Conflict of Interest

The Fund assets may not be loaned to or used for the direct benefit of any parties related to the SRAA, including but not limited to officers, directors, or employees of the Manager or the employees of the Government, employees or Members of the Legislative Assembly or their family members.

Any officer, director, employee or agent appointed by the Government engaged in business related to the SRAA or the Fund shall not knowingly permit their interest to conflict with their duties or powers relating to the SRAA or the Fund.

Should an actual or perceived conflict of interest arise, the party to the conflict shall immediately disclose the conflict to the MSB. The party to the conflict will abstain from decision making with respect to the area of conflict, unless otherwise determined permissible by unanimous decision of the MSB.

The MSB is the sole arbiter in determining whether a conflict of interest exists and shall take the necessary measures to remedy the situation.

Where an actual or perceived conflict of interest arises, the nature and substance of the conflict will be disclosed to all affected parties, in writing, within 30 days after the conflict has arisen.

### 6.02 Related Party Transactions

The MSB, on behalf of the Fund may not enter into a transaction with a Related Party unless:

- (a) the transaction is both required for operation and or administration of the Fund and the terms and conditions of the transaction are not less favourable than market terms and conditions; or
- (b) the combined value of all transactions with the same related party is nominal or the transaction(s) is immaterial to the Fund; Or
- (c) the investment is exempted under Section 17 of Schedule III of the Pension Benefits Standards Regulations.

The MSB, on behalf of the Fund, may not invest the moneys of the Fund in the securities of a Related Party unless those securities are acquired at a public exchange, as defined in the Regulations to the Pension Benefits Standards Act (Canada).

For the purposes of this Section 6.02, only the market value of the combined assets of the Fund shall be used as the criteria to determine whether a transaction is nominal or immaterial to the Fund. Transactions less than 0.5% of the combined market value of the assets of the Fund are considered nominal.

### 6.03 Voting Rights

The Investment Manager has the authority to exercise voting rights in respect of securities held by the Fund and should exercise these rights in what it considers to be the best interests of the Fund.

### 6.04 Valuation of Investments Not Regularly Traded

Investments not regularly traded will be valued as specified in the Investment Manager's own statement of investment policy.

### 6.05 Manager's Authority

The Investment Manager has full authority, acting within the above constraints, to manage all aspects of the investment of the Fund. This applies both to the distribution of existing Fund assets and to the allocation of new contributions.

Even with the structure and the constraints listed above, the rates of return on the Fund will vary significantly, upwards and downwards, from year to year, reflecting market and economic cycles, levels of inflation, government policies and many other factors. These fluctuations should not deter the Investment Manager from making its best effort to achieve the long-term objectives of the fund, subject to observance of the specified constraints.

### 6.06 Monitoring of Compliance

The MSB is responsible for monitoring the Investment Manager's compliance with the investment guidelines.

## Section 7 – Communication

### 7.01 Copies of This Policy

The Clerk shall provide a copy of this Policy, and any changes to it, to:

- (a) The Investment Manager (currently Beutel Goodman Investment Counsel).
- (b) The Investment Consultant (currently Aon Hewitt).
- (c) The Custodian (currently RBC Investor Services).
- (d) The Actuary (currently Aon Hewitt).
- (e) The MSB.
- (f) The Government of Nunavut – Department of Finance.

### 7.02 Notification of Changes

The MSB will provide the Investment Manager, periodically when requested, information concerning the Fund and the expected cash flow.

The MSB shall notify the Investment Manager in writing of any significant anticipated liquidity requirements.

The Investment Manager shall notify the MSB in writing of any significant changes in the investment philosophies, policies, personnel, organization or procedures.

# Appendix A

## Historical Benchmarks

The benchmark portfolio described in the Performance Objectives and Review section was updated to reflect the name and methodology changes of the indices used in the construction of the benchmark portfolio. The benchmark portfolio below shows the benchmark, with historic naming conventions, in effect from January 1, 2001 until December 31, 2013:

| <b>Investment</b> | <b>Market Value</b> | <b>Weighting Index</b>                     |
|-------------------|---------------------|--|
| Canadian Equity   | 28%                 | CPMS 300 Capped 10 Index*                  |
| U.S. Equity       | 15%                 | S&P 500 Index (C\$)                        |
| Foreign Equity    | 15%                 | Morgan Stanley EAFE Index (C\$)            |
| Fixed Income      | 40%                 | Scotia Capital Markets Universe Bond Index |
| Short-term        | 2%                  | Scotia Capital Markets 91 Day T-Bill Index |

\*TSE 300 index with a maximum cap of 10% on the securities within the index.