

**Halifax Regional Municipality**

**STATEMENT OF INVESTMENT POLICIES AND PROCEDURES**

**FOR THE**

**DEFINED BENEFIT PENSION PLAN**

**December 6, 2018**

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## **SECTION 1 - PURPOSE**

- 1.1 This Statement of Investment Policies and Procedures (the "Statement") has been adopted to provide broad investment guidelines for the management of the Halifax Regional Municipality Master Trust (the "Fund"). The Fund holds investments for the benefits provided under:
- the Halifax Regional Municipality Pension Plan (the "Plan") and,
  - the Halifax Regional Water Commission Pension Plan.
- 1.2 The Plan is the result of the amalgamation of the predecessor municipalities of the Halifax Regional Municipality (the "HRM"), effective April 1, 1996. The effective date of the amalgamation of the various pension plans is April 1, 1998.
- 1.3 The Municipality includes all participating employers to the Plan.
- 1.4 The Plan is administered by the HRM Pension Committee (the "Committee").
- 1.5 This Statement has been adopted by the Committee based on an evaluation of the financial needs of the Plan and the risks of various investment policies.
- 1.6 The Committee has delegated to the CEO the selection of investment managers and implementation of investment strategies that in aggregate adhere to the investment policies set out in this Statement.
- 1.7 The investments of the Fund will be made in accordance with guidelines set out in this Statement and with all relevant legislation, including the Income Tax Act (Canada) and the Pension Benefits Act, Nova Scotia.
- 1.8 This Statement will be reviewed on at least an annual basis by the Committee.
- 1.9 This statement does not apply to the Defined Contribution Pension Plan for Certain Employees of the Halifax Regional Municipality or the Group Retirement Savings Plan for Certain Employees of the Halifax Regional Municipality.

## **SECTION 2 - TYPE OF PENSION PLANS**

- 2.1 The Plan is a defined benefit plan. The Plan provides pension benefits based on Highest Average Earnings, which is the annual average earnings in the 36 consecutive calendar months of Continuous Service, as defined in the Plan Text. Some members continue to earn benefits under the terms of the Plan relating to the predecessor municipalities. The provisions of the predecessor plans are outlined in appendices to the Plan Text.
- 2.2 Upon approval of the Committee, the Plan provides post-retirement indexation. Increases are limited the lesser of 6% per year and the aggregate percentage increase in the Consumer Price Index after retirement.
- 2.3 The amount and timing of Member and Employer contributions are in accordance with pension legislation and the advice of an actuary. Member and Employer contributions are dependent on many aspects of the Plan's actual experience, including the Fund's investment return.
- 2.4 The cost of the Plan is shared on a 50/50 basis by active members and employers participating in the Plan, with a few exceptions. Some members contribute at a higher rate to pay for the 'Rule of 75' and member contributions are waived during certain periods of disability. For members participating under the prior City of Dartmouth division, the employer contributes 10% more than the member.
- 2.5 Failure to meet actuarial assumptions under which the Plan is funded may result in additional contributions or a reduction to future benefits by active Plan members and Participating Employers.

### **SECTION 3 - INVESTMENT POLICY, RETURN EXPECTATIONS AND LIQUIDITY**

3.1 In creating its investment policy the Committee recognizes that the purpose of the Fund is to systematically accrue the assets needed to provide for the benefits to which Plan members and their beneficiaries are, or may become, entitled to under the provisions of the Plan. It is also recognized that, while the Plan structure is defined benefit in nature, the cost of the Plan is shared by active members and the Participating Employers. Therefore, the Fund must be managed to achieve the highest investment return that can be obtained within the level of risk acceptable to the Committee, since investment returns will have a significant impact on future contributions required to fund the benefit level provided by the Plan over the longer term.

3.2 Effective October 2014, the Committee approved the following asset mix policy and corresponding allowable ranges expressed as a percentage of the Fund's market value:

<b><u>Asset Class</u></b>	<b><u>Policy Mix</u></b>	<b><u>Allowable Range</u></b>
Equities Total	35%	30 - 60%
Fixed Income	25%	20 - 50%
Minimum Targeted Return	40%	20 - 50%

The Target Policy Benchmark varies as component mandates are implemented.

3.3 The Fund's asset mix policy was adopted after evaluating the potential impact of alternative policies on benefit security and contributions. Factors evaluated before adopting the asset mix policy included the Plans' going-concern and solvency funded ratios, demographics, cash-flow requirements, actuarial assumptions, prospective benefit improvements, patterns of ad hoc benefit increases and liquidity requirements. Effective December 2012, the Nova Scotia Government exempted the Plan from funding solvency deficits. However, the filing of an annual valuation is required if the Plan's solvency funded status is below 85%.

3.4 Rate of return expectations are reviewed annually and are based on a normal equilibrium capital market environment by reference to long-term historical returns, tempered by current market conditions. In September 2018, the Committee approved the going concern discount rate of 6.20% for the December 31, 2017 actuarial valuation. The going concern discount rate is the long term expected rate of return for the pension plan assets net of all fees and expenses of running the Plan.

3.5 The Committee will re-examine this investment policy periodically, in light of significant changes in any of the following:

- the ratio of Fund assets to benefit liabilities;
- the design of the Plan's benefits;
- the respective proportions of active and inactive members of the Plan;
- long-term capital market prospects;
- the Committee's risk tolerance; or
- any other factors considered relevant.

3.6 In establishing and monitoring investment policy, liquidity requirements of the Fund are evaluated within the context of the net cash flow and the marketable securities held by the Fund. The Fund is very liquid. Net cash flow is monitored throughout the year to ensure that sufficient funds are on hand to pay pension benefits and expenses.

3.7 In October 2010, the Committee approved the inclusion of the MSCI China A Index for the Global Equity allocation.

3.8 In January 2011, the Committee approved the following ranges (as a percentage of the total fixed income allocation):

<b><u>Bond Category:</u></b>	<b><u>Allowable Range</u></b>
Dex Long Government Index	0 - 100%
Dex Universe Index	0 - 100%
3-month Canadian Banker Acceptances	0 - 100%
US Bank Loan Index (TBD)	0 - 25%

3.9 Effective August 27, 2013, the Committee approved the inclusion of a US Bank Loan Index for a US Bank Loan component of the Fixed Income allocation if applicable.

3.10 During Q1 2014, the names of the Fund's underlying indices were changed from DEX Universe Bond Index and DEX Long Government Bond Index to FTSE TMX Canada Universe Bond Index and FTSE TMX Canada Long Government Bond Index as a result of a business reorganization of the index providers.. The Target Policy Benchmark was changed accordingly to: 30% Minimum Targeted Return (Current Going Concern Discount Rate) + 35% Global Equity (any combination/ subset of, hedged or unhedged: S&P/TSX Capped

Composite index, S&P 500, MSCI All Country World Index, MSCI EAFE Index, FTSE indices, and Dow Jones indices) + 35% Bonds (any combination referred to in Section 3.8).

- 3.11 In October 2014, the Target Policy Benchmark was changed to: 40% Minimum Targeted Return (Current Going Concern Discount Rate) + 35% Global Equity (any combination/ subset of, hedged or unhedged: S&P/TSX Capped Composite index, S&P 500, MSCI All Country World Index, MSCI EAFE Index, FTSE indices, and Dow Jones indices) + 25% Bonds (refer to Section 3.8).

## **SECTION 4 - INVESTMENT CATEGORIES AND LENDING**

- 4.1 Investments of the Fund shall be made in accordance with all applicable legislation including the *Pension Benefits Act, Nova Scotia* and the *Income Tax Act* (Canada) and the regulations made thereunder. Specific investment guidelines and constraints for each investment manager are included in their Manager Mandates.
- 4.2 The following investments may be made directly through insurance contracts or indirectly through pension or investment corporations, pooled or mutual funds, limited partnerships where the liability of the Fund as a member of the partnership is limited by the operation of the laws governing the partnership or any other limited liability vehicle approved by the Committee or the CEO. The list of permitted investments and constraints outlined below apply to all mandates. Additional constraints may be imposed by the Committee.
- 4.3 Investments may be made in any of the following asset classes:
- (a) Publicly traded Canadian common and preferred stocks, income trust units, rights, warrants, instalment receipts and debt securities convertible into common stock.
  - (b) Publicly traded U.S. and international common stocks, American depository receipts, global depository receipts, rights, warrants, instalment receipts and debt securities convertible into common stock.
  - (c) Debt securities of Canadian and foreign issuers. Currency risk associated with foreign issued bonds will be fully hedged from currency risk as much as practically possible taking into account the cost of hedging, unless an active currency mandate is an explicit part of a fixed income mandate.
  - (d) Cash on hand, demand deposits, treasury bills, short-term notes, bankers' acceptances, commercial paper, term deposits, and guaranteed investment certificates.
  - (e) Infrastructure investments must be predominantly in mature stage projects (i.e. higher income and less growth potential) with minimal exposure to development of early stage infrastructure projects.
  - (f) Real assets including real estate.
  - (g) Private equity up to 15% of the Fund's market value at time of the investment.
  - (h) Hedge funds up to 3% of the Fund's market value, restricted to those Hedge Funds with illiquidity characteristics and/or long/short equity strategies.



- (i) Other assets or asset classes upon prior approval of the Committee.

4.4 The fixed income portion of the Fund, in aggregate, should have an average credit rating at or above an “investment grade” rating. The sources for establishing the credit rating of a particular issue are Standard & Poors, Moody’s, Dominion Bond Rating Services and/or Fitch. If the majority of the sources agree on the credit rating, that credit rating will be used. If the sources differ on the credit rating, the mid-point will be used. If only one agency rates the security, then that rating will determine the credit quality. In the event that a security is unrated, the Manager will consult with the CEO.

4.5 Derivatives such as options, futures, forward contracts, index participation units and swaps, are permitted, subject to the constraints in this section.

- (a) Derivatives may be used to hedge (i.e., reduce), fully or partly, any investment risk, including market, interest rate, credit, liquidity, and currency risk.
- (b) Derivatives may be used to replicate direct investments in the underlying assets or groups of assets (e.g., indexes) so as to achieve some advantage of lower cost, transactional ease, or market exposure.

Derivatives shall not be used to create a net leveraged position or for speculative purposes. For greater clarity, speculation is defined as the engagement in risky business transactions on the chance of quick or considerable profit, based on a conclusions, opinion, or theory reached by conjecture based on inconclusive evidence, conjecture or supposition. (Source: The American Heritage Dictionary of the English Language, 4th edition, published by Houghton Mifflin Company)

- (c) Notwithstanding 4.5 (b), derivatives may be used to create a net leveraged position within a mandate when the mandate’s objective is to reduce the overall volatility of the Fund and/or Plan, or in pursuit of an absolute return objective. Absolute return strategies aim to produce a consistent positive return while hedging various market risks, for example, equity, interest rate, and currencies.
- (d) The Fund shall hold sufficient cash or liquid fixed income securities in an amount that shall not be less than the net underlying market exposure of the derivatives.
- (e) The Managers shall be responsible for assessing all counter party risk associated with derivative instruments, with regards to credit rating, and total exposure limits for each derivatives securities dealer and bank. Counterparties need to have an A credit rating or higher.

- (f) Derivatives may be used to short certain securities or markets as long as the short exposure is within the risk budget assigned to each investment mandate. In all cases, the risk budget of a mandate including derivatives will be no higher than that of a similar portfolio that does not use derivatives. For clarity, a similar portfolio will have substantially similar mandates, similar performance objectives, and similar risk budgets.
- (g) Derivative instruments may not be used to circumvent policy guidelines and restrictions as stated in this Statement.

4.6 The Fund may sell securities borrowed for this purpose to the extent that the securities are permitted investments as defined by sections 4.3 or 4.5. Proceeds of these sales may be invested in permitted investments. The ability of the Fund to sell securities short and purchase long positions in excess of invested capital shall not be used to create a net leveraged position unless used to reduce overall volatility or in pursuit of an absolute return investment objective as specified in 4.5 (c) .

4.7 The Fund may enter into a securities lending program, on a fully indemnified basis.

4.8 The Fund shall not borrow funds to acquire securities or otherwise deal in margin trading, except for the matching of long and short positions as provided for in 4.6, for trading in certain derivatives listed in 4.5 , instalment receipts, and repurchase agreements.

4.9 To the extent the Fund invests in a Manager's pooled funds, the foregoing investment constraints, and any other provisions of the Statement that may be affected, shall not apply, but the Manager shall be governed by the Manager's own investment policy for the pooled funds. The Manager shall inform the Committee when and how the guidelines of the pooled funds differ from the guidelines of the Statement.

4.10 The CEO will report any deviations from the policies and guidelines included in the Statement on a quarterly basis, including the use of pooled funds whose investment guidelines may differ from those outlined in the Statement.

## **SECTION 5 - VOTING RIGHTS**

- 5.1 The Committee has delegated voting rights acquired through any investment to its external investment management firms.
- 5.2 Investment management firms are required to vote in favour of any proposal which, in the firm's opinion, will enhance the investment value of the relevant security, and against any proposals that will increase the risk level or reduce the investment value of the relevant security.
- 5.3 If the investment management firm or any of its officers, has any direct or indirect material pecuniary interest in any matter on which the Fund has a right to vote, the firm has been instructed to advise the Committee, and the Committee will then:
- 1) instruct the firm to vote in accordance with the principle stated in Section 5.2, on the grounds that the pecuniary interest is not material; or
  - 2) instruct the firm how to vote after the Committee evaluates the issue in accordance with the principle stated in Section 5.2; or
  - 3) authorize the Fund's trustee to vote in accordance with the principle stated in Section 5.2.5.4

If the investment management firm delegates proxy voting to a third party, the investment management firm does not have to adhere to 5.3 but must ensure that the investment management firm's proxy voting policy and the third party's proxy voting policy is consistent with 5.2.

## **SECTION 6 - CONFLICTS OF INTEREST**

- 6.1 A Fund Agent (“Agent”) is defined as any municipal employee, actuary, adviser, auditor, expert, lawyer, portfolio manager or other person appointed or accepted by the Committee or CEO to carry out duties and responsibilities on behalf of the Committee.
- 6.2 No Agent shall knowingly permit his or her interest to conflict with his or her duties and powers in respect of the Fund.
- 6.3 A conflict of interest is deemed to include any direct, indirect, actual or perceived material pecuniary interest of an Agent in any arrangement, contract, investment, transaction or other matter in which the Fund participates or plans to participate.
- 6.4 Agents shall not:
- (a) make, influence or participate in the making of any decision, if the effect of such a decision has the potential of furthering the Agent's interest; or,
  - (b) use material information derived from his or her status as Agent that has not been generally disclosed, to further the Agent's interests.
- 6.5 At the earliest opportunity, each Agent shall disclose in writing, if practical, any conflict of interest or potential conflict of interest to the appropriate person. Committee members or agents hired by the Committee shall report their conflicts of interest to both Co-Chairs of the Committee at the earliest opportunity. Agents hired by the CEO shall report their conflict of interest to the CEO at the earliest opportunity.
- 6.6 In the case of Agents in attendance at a Committee meeting at which Fund matters are being discussed or considered, they shall declare their conflict or potential conflict with respect to any matter to the Chair of the meeting, and shall refrain from participating in the discussion or voting on such matter.
- 6.7 If any Agent has doubt as to whether a particular situation represents a conflict of interest, he or she may provide the necessary information to any Co-Chair and request that the Committee determine whether or not a conflict exists.

- 6.8 Declarations of conflict of interest will be recorded in the minutes of Committee meetings which address Fund matters.
- 6.9 The failure of Agents to comply with the procedures described in this Section 6 shall not of itself invalidate any decision, contract or other matter.

## **SECTION 7 - VALUATION OF INFREQUENTLY TRADED ASSETS**

7.1 Any asset managed by an external investment manager, which is not capable of being traded frequently, shall have its market value appraised by the investment manager at least annually, providing that:

- (i) the principles underlying such appraisals are consistent with the principles used by a qualified independent agent; and
- (ii) any such appraisal resulting in a value different by at least 10% from the last appraised value shall be confirmed by a qualified independent agent.

Notwithstanding the above, any such asset shall have its market value appraised by a qualified independent agent at intervals not exceeding three years.

7.2 Any infrequently traded asset that is not managed by an external investment manager shall have its market value appraised under the direction of the Committee. Any such asset for which the most recently appraised value is at least 1% of the market value of the Fund shall have its market value appraised by a qualified independent agent at intervals not exceeding three years.

## **SECTION 8 - RELATED PARTY TRANSACTIONS**

- 8.1 With the exceptions specified below, the Committee shall not enter into any transaction on behalf of the Plan with a related party. For this Section, related party shall be as defined by the Regulations under the Pension Benefits Standards Act.
- 8.2 The Committee may enter into a transaction with a related party on behalf of the Plan if:
- (i) the transaction is required for the operation or administration of the Plan; and,
  - (ii) the terms and conditions of the transaction are not less favourable to the Plan than market terms and conditions.
- 8.3 The Committee may enter into a transaction with a related party on behalf of the Plan if the value of the transaction is nominal or the transaction is immaterial to the Plan. The market value of the Fund's assets shall be used as the criteria to determine whether a transaction is nominal or immaterial. Transactions amounting to less than 0.5% of the aggregate market value of the Fund's assets are considered to be nominal and immaterial. Two or more transactions with the same related party shall be considered as a single transaction.
- 8.4 Investment management firms retained by the Committee to manage a component of the Fund are permitted to invest in the publicly traded securities of a related party if, and only if, the securities satisfy the same criteria used by the investment management firm to invest in the publicly traded securities of non-related party companies.