



Policies, Procedures and Guidelines

Complete Policy Title:

Statement of Investment Policies and Procedures

Policy Number (if applicable):

The Master Trust for the Contributory Pension Plan for Salaried Employees of McMaster University Including McMaster Divinity College and the Contributory Pension Plan for Salaried Employees of McMaster University Including McMaster Divinity College 2000

Approved by:

Board of Governors

Date of Most Recent Approval:

June 8, 2017

Date of Original Approval(s):

June 13, 2002

Supersedes/Amends Policy dated:

December 10, 2015

Responsible Executive:

Assistant Vice-President (Administration) and CFO

Enquiries:

[University Secretariat](#)

***DISCLAIMER:** If there is a Discrepancy between this electronic policy and the written copy held by the policy owner, the written copy prevails*

Contents

Section 1—Overview	1
1.01 Purpose of Statement	1
1.02 Background of the Plans	1
1.03 Plan Profiles	1
1.04 Objective of the Plans	2
1.05 Investment Beliefs and Risk Philosophy	2
1.06 Delegation of Responsibility and Administration	2
Section 2—Asset Mix and Diversification Policy	5
2.01 Portfolio Return Expectations	5
2.02 Expected Volatility	5
2.03 Management Structure	5
2.04 Asset Mix	5
Section 3—Permitted and Prohibited Investments	8
3.01 General Guidelines	8
3.02 Permitted Investments	8
3.03 Minimum Quality Requirements for Bonds	10
3.04 Maximum Quantity Restrictions	10
3.05 Prior Permission Required	11
3.06 Prohibited Investments	11
3.07 Securities Lending	12
3.08 Borrowing	12
3.09 Liquidity	13
3.10 Environmental, Social and Governance	13
3.11 Conflicts Between the Policy and Pooled Fund Investment Policies	13
Section 4—Monitoring and Control	14
4.01 Performance Measurement	14
4.02 Compliance Reporting by the Fund Manager	15
4.03 Standard of Professional Conduct	15
Section 5—Administration	16
5.01 Conflicts of Interest	16
5.02 Related Party Transactions	17
5.03 Selecting Fund Managers	18
5.04 Monitoring of Fund Managers	18
5.05 Dismissal of a Fund Manager	18
5.06 Voting Rights	19
5.07 Valuation of Investments Not Regularly Traded	19
5.08 Policy Review	20
5.09 Asset-Liability Review	20
Appendix A	21
Appendix B	22

Section 1—Overview

1.01 Purpose of Statement

This Statement of Investment Policies and Procedures (the ‘Policy’) is intended to set out the investment framework which shall apply at all times for the Contributory Pension Plan for Salaried Employees of McMaster University, including McMaster Divinity College and the Contributory Pension Plan for Salaried Employees of McMaster University, including McMaster Divinity College 2000 (collectively the ‘Plans’).

This Policy is based on the ‘prudent person portfolio approach’ to ensure the prudent investment and administration of the assets of the Plans (the ‘Fund’) within the parameters set out in the Pension Benefits Act (Ontario) and the regulations thereunder.

1.02 Background of the Plans

McMaster University was established in 1887 by the bequest of William McMaster and is a university incorporated under the laws of the Province of Ontario, which provides operating grants annually to the University.

The University sponsors defined benefit pension plans into which its contributions and the employees' contributions are deposited. These contributions are made monthly and are remitted before the end of the following month to the Plans' trustee.

The University contracts with third parties to provide trustee, custodial, investment management, actuarial, and consulting services. The Plans' current trustee, custodian of its assets, fund manager(s), actuary, and consultant are identified in Appendix A to this Statement. This appendix also provides information on the number of the Plans' members and the value of the Plans' assets.

Retiree benefits are paid from the Plans. Also paid from the Plans are termination and death benefits, trustees' fees, audit fees, actuaries' fees, investment counsel fees, consultants' fees, filing fees and administrative and other related costs.

1.03 Plan Profiles

(a) Contributions

The Plans are contributory. Each member is required to contribute in accordance with the Plan Text and limited by specified maximums, as applicable.

(b) Benefits

The amount of annual pension payable to most members will be:

- (i) 1.4% of Best Average Salary up to the Average Year's Maximum Pensionable Earnings times years of pensionable service, plus
- (ii) 2.0% of Best Average Salary in excess of the Average Year's Maximum Pensionable Earnings times years of pensionable service up to the maximum pension limits for an RPP as specified in the Income Tax Act.

(c) **Liabilities**

As of the most recent actuarial valuation dated July 1, 2011, the Going Concern Liabilities of the Plans were \$ 1,320 million and the Smoothed Value of Assets was \$1,138 million. Approximately 55% of the liability was attributable to active members and 45% of the liability was attributable to pensioners and deferred vested members.

1.04 Objective of the Plans

The objective of the Plans is to provide participants with defined pension benefits based on a best average salary and with indexation of retirement benefits, as defined in the Plan text for the Contributory Pension Plan for Salaried Employees of McMaster University Including McMaster Divinity College, Registration Number 0215400 (“Plan Text”) and in the Contributory Pension Plan for Salaried Employees of McMaster University Including McMaster Divinity College, Registration Number 1079920 (“Plan 2000 Text”). It is important to set up an appropriately diversified asset mix in order to ensure continued prudent and effective management of pension fund assets.

1.05 Investment Beliefs and Risk Philosophy

Based on the characteristics of the Plans and analysis performed during the most recent asset-liability study that was carried out for the Plans, the Pension Trust Committee (the ‘Committee’) of McMaster University has determined that the Plans have a moderately high tolerance of investment risk. Therefore, a long-term asset mix strategy with a relatively high equity content has been adopted provided that the equity component is well diversified.

The University recognizes that, based on historical data and on forecast returns, the asset classes most likely to produce the greatest return in excess of inflation over time are also likely to exhibit the most volatility. Conversely, the asset classes likely to be the least volatile are likely to produce the lowest returns over time. Therefore, the investment philosophies and strategies must take into account both return and risk objectives.

1.06 Delegation of Responsibility and Administration

The University is the legal administrator of the Plans and is therefore responsible for all matters relating to the administration, interpretation and application of the Plans, including developing, monitoring and amending this Policy. The Committee, a standing Committee of the University’s Board of Governors, has been formed for the purpose of assisting the University with the administration of the Plans.

Overall responsibility for the Plans ultimately rests with the Board of Governors of the University. The Committee assists the Board in fulfilling its fiduciary responsibilities. As well, other suppliers assist the University as described below.

(a) **The Committee will:**

- (i) Recommend to the Board of Governors general pension investment policy and annually review the Statement of Investment Policies and Procedures;
- (ii) Monitor the performance of the Fund;
- (iii) Monitor and review performance of Investment Consultants and Fund Managers:

1. Make recommendations to the Board of Governors with respect to situations of deviation or proposed deviation by Fund Managers from the Policy;
 2. Make recommendations to the Board of Governors on the appointment of, mandates for and replacement of such Consultants and Fund Managers.
- (iv) Monitor the annual calculation of the “Net Interest on the Fund” and the “Annual Pension Increase”;
 - (v) Discuss and promote awareness and understanding of the Plans by members of the Plans and persons receiving benefits under the Plans;
 - (vi) Comment and make recommendations to the Planning and Resources Committee on:
 1. The performance and appointment of the Actuary; and
 2. The actuarial methods and assumptions used in determining the financial condition of the Plans and the contributions to the Plans.
 - (vii) Comment and make recommendations to the Planning and Resources Committee on proposed changes to the Plans’ Text, and propose changes to the Plans’ Text; and
 - (viii) Monitor at least annually all fees and the administrative expenses paid from the Plans, and determine whether they are appropriate. Changes in the nature and structure of administrative expenses paid may be approved by the Board of Governors only if recommended by the Pension Trust Committee as a result of a ballot of all Committee members.
- (b) The Fund Manager(s) will:**
- (i) Invest the assets of the Fund in accordance with this Policy;
 - (ii) Notify the Committee, in writing, of any significant changes in the Fund manager’s philosophies and policies, personnel or organization and procedures; and
 - (iii) Meet with the Committee as required and provide written reports regarding their past performance, their future strategies and other issues requested by the Committee.
- (c) The Custodian/Trustee will:**
- (i) Maintain safe custody over the assets of the Plans (i.e. both segregated and pooled mandates);
 - (ii) Execute the instructions of the University and the Fund Manager(s); and,
 - (iii) Record income and provide monthly financial statements to the University as required.

(d) The Actuary will:

- (i) Perform actuarial valuations of the Plans as required;
- (ii) Advise the Committee on any matters relating to the Plans' design, membership and contributions; and,
- (iii) Assist the Committee in any other way required.

(e) The Investment Consultant will:

- (i) Assist in the development and implementation of this Policy;
- (ii) Monitor the performance of the Fund and the Fund Managers on a quarterly basis, and advise the Committee on such performance;
- (iii) Monitor the Fund Managers' quarterly compliance reports;
- (iv) Support the Committee on matters relating to investment management and administration of the Fund; and,
- (v) Meet with the Committee as required.

(f) The Accountant will:

- (i) Provide annual audited financial statements of the Plans.

(g) University Management will:

- (i) Ensure compliance with legal and University requirements;
- (ii) Execute decisions made by relevant governing bodies;
- (iii) Work closely with consultants, custodian, actuary and the investment managers, as appropriate including documenting the investment managers' mandates;
- (iv) Review the expenses of the Plans; and
- (v) Maintain all documents and make them available upon request.

The Board of Governors has the authority to retain other consultants/suppliers, as it deems necessary from time to time.

Section 2—Asset Mix and Diversification Policy

2.01 Portfolio Return Expectations

The Fund will be managed on a going-concern basis. The primary objective is to ensure that the benefits defined in the Plans can be paid.

The secondary performance objective is to outperform a benchmark portfolio constructed from rates of return (including income) of the Standard & Poor's Toronto Stock Exchange Composite Index (S&P/TSX Composite Index), the Standard & Poor's 500 Index (S&P 500 Index), the Russell 1000 Hedged to C\$ Index, the Morgan Stanley Capital International Europe, Australasia and Far East Index (MSCI EAFE Index), the FTSE TMX Universe Bond Index, the FTSE TMX Long Term Bond Index the FTSE TMX Real Return Bond Index and the Investment Property Databank (IPD) Canada Property Index, in proportion to the weights indicated in Section 4.01 (a) and calculated over rolling four-year time periods.

2.02 Expected Volatility

The expected volatility of investment returns for the Fund is directly related to the asset mix strategy; specifically, the balance between Canadian equities, foreign equities and Canadian bonds. In that regard, the volatility of Fund returns should be similar to the volatility of the Total Combined Fund Benchmark Portfolio set out in Section 4.01.

2.03 Management Structure

To reduce the overall volatility of returns and to reduce the risk that active managers will underperform market index returns, a hybrid management structure has been adopted for the Fund consisting of a combination of active and passive specialist equity, bond and currency overlay managers, subject to Section 2.04 (a).

2.04 Asset Mix

(a) Overall Asset Mix

The benchmark portfolio is representative of the long-term asset mix policy for the Fund as set out by the Board of Governors. The Total Fund benchmark portfolio and asset mix guidelines (by market value) are set out below:

Assets	Minimum (%)	Benchmark (%)	Maximum (%)
Canadian Equities	16	21	26
U.S. Equities	17	22	27
Non-North American Equities	17	22	27
Total Equities	50	65	80
Real Assets	0	0	10
Universe Bonds	10	15	20
Long Term Bonds	12	15	18
Real Return Bonds	3	5	7
Cash and Short-term	0	0	10
Total Fixed Income	25	35	55
Total		100	

Further to the recently conducted Asset-Liability Study, some changes were approved by the Board that have not yet been reflected in the Overall Asset Mix shown in the table above.

While it is McMaster's desire to transition the bond portfolio from the composition shown above to 100% long bonds, the timing is uncertain at this point. Therefore, the policy will be changed accordingly at that time, and as necessary.

Also, a 5% allocation to real assets was approved. McMaster will first review real estate and at a later date, infrastructure will be reviewed. Therefore, the policy will be changed accordingly at that time, and as necessary.

(b) Manager Compliance

The Fund Managers shall comply with restrictions imposed by Federal or Provincial legislation and regulations, as well as with their respective Investment Mandates. Should a Fund Manager wish to deviate from the mandate established with the University, he/she must contact, in advance, the Treasurer, who will solicit approval from the Board of Governors. Should there be a sudden change in market conditions that causes the asset mix to be offside, the Fund Manager will immediately either seek the necessary approval to remain offside, or take corrective action and contact the Treasurer, who will inform the Board of Governors. The Treasurer will report all such occurrences and their resolution to the Committee.

(c) Manager Rebalancing Guidelines

The following table presents the allocation of assets between active Canadian Equities, U.S. Equities, Non-North American Equities, Canadian Bonds, Enhanced Index U.S. Equities, Passive Canadian Bonds and Real Assets, as well as the maximum and minimum exposures (all amounts are based on market values). Please refer to Appendix B for a summary of Fund Managers and allocations.

Assets	Minimum (%)	Benchmark (%)	Maximum (%)
Active Canadian Equities	16	21	26
Active U.S. Equities ¹	5	8	11
Active Canadian Bonds	6	9	12
Non-North American Equities ¹	17	22	27
Enhanced Index U.S. Equity ¹	11	14	17
Passive Universe Bond	4	6	8
Passive Long Term Bond	12	15	18
Passive Real Return Bond	3	5	7
Active Real Assets	0	0	10
Total Fund		100	

¹ A total of 50% +/-5% of the Total Fund's foreign currency exposure shall be hedged to the Canadian dollar.

(d) Monitoring and Rebalancing the Manager and Index Components

In order to ensure that the Total Combined Fund operates within the guidelines stated in this Policy, the Treasurer shall monitor the asset and manager mix on a quarterly basis to determine if the asset commitments are within established guidelines. In the event of a deviation from policy occurring, the Treasurer, will determine an appropriate rebalancing strategy to be implemented within two quarters of the deviation from policy being identified (excluding the 5% real assets benchmark allocation). Any rebalancing activity in response to a deviation from policy will be reported to the Committee at its next regular meeting. The Treasurer shall use cash flows to move overweighted and underweighted asset classes towards their benchmark weights.

Rebalancing of the managers and index components may be achieved using either or both of the following when appropriate:

- (i) Adjustment using net cash inflows/outflows to/from the Fund; and/or,
- (ii) Transfers of cash or securities between portfolios.

Section 3—Permitted and Prohibited Investments

3.01 General Guidelines

The investments of the Fund must comply with the requirements and restrictions imposed by the applicable legislation, including but not limited to the requirements of the Pension Benefits Act (Ontario), the Income Tax Act (Canada), and any relevant regulations.

3.02 Permitted Investments

In general, and subject to the restrictions noted below, the Fund may invest directly or via pooled funds in any of the asset classes and in any of the instruments listed below.

(a) Canadian and Foreign Equities

- (i) Common and convertible preferred stock listed on a recognized exchange;
- (ii) Debentures convertible into eligible common or convertible preferred stock;
- (iii) Rights, warrants and special warrants for eligible common or convertible preferred stock;
- (iv) Instalment receipts and American and Global Depository Receipts;
- (v) Units of real estate investment trusts (REITs) listed on a recognized exchange;
- (vi) Units of income trusts domiciled in jurisdictions that provide limited liability protection to unitholders;
- (vii) Units of limited partnerships which are listed on a recognized exchange; and,
- (viii) Private placements of equities, where the security will be eligible for trading on a recognized exchange within a reasonable and defined time frame and subject to Section 3.04.

(b) Bonds

- (i) Bonds, debentures, notes, non-convertible preferred stock and other evidence of indebtedness of Canadian, foreign or supranational issuers whether denominated and payable in Canadian dollars or a foreign currency;
- (ii) Mortgage-backed securities, guaranteed under the National Housing Act;
- (iii) Term deposits and guaranteed investment certificates; and,
- (iv) Private placements of bonds and asset backed securities subject to Section 3.04.

(c) Cash and Short Term Investments

- (i) Cash on hand and demand deposits;
- (ii) Treasury bills issued by the federal and provincial governments and their agencies;
- (iii) Obligations of trust companies and Canadian and foreign banks chartered to operate in Canada, including bankers' acceptances;
- (iv) Commercial paper and term deposits;
- (v) Deposit accounts of the custodian can be used to invest surplus cash holdings; and,
- (vi) Repurchase Agreement transactions for cash management purposes.

(d) Derivative Instruments

Derivatives are to be used primarily for defensive purposes, including currency hedging. The use of derivative instruments which would be contracted on a leveraged basis is prohibited. Investment Funds that invest in derivatives must comply with all applicable statutory provisions and regulations, including the Prudent Person Rule, and must be invested and managed in accordance with regulatory derivatives best practices.

The following uses of derivative instruments for defensive purposes are permitted:

- (i) Covered put and/or call options with respect to publicly traded securities that are held in the portfolio;
- (ii) The Manager of an index portfolio may utilize fully backed (i.e. non-leveraged), derivative strategies designed to replicate the performance of specific market indices; and,
- (iii) Currency futures contracts and forward contracts whose use is restricted to reducing risk as part of a currency hedging strategy. Within pooled funds, the Fund Managers' policy on derivatives will take precedence.

(e) Real Assets

- (i) Indirect real asset investment via independently managed pooled funds, limited partnerships or specialist corporate structures (i.e. LLCs). The mandate of each fund, partnership or corporate structure will vary with the long-term goal of assembling a diversified real estate portfolio.
- (ii) Permitted and prohibited investments in real assets will be governed by the terms and conditions set out in the respective pooled fund contract, Offering Memorandum, Trust Agreement or similar document that is applicable to each Investment Manager.

3.03 Minimum Quality Requirements for Bonds

(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 Recognised Bond Rating Agency, at the time of purchase.
- (ii) The minimum weighted average rating of the overall bond portfolio must be ‘A’, or better.
- (iii) The minimum quality standard for individual short term investments is ‘R-1’ or equivalent as rated by a Recognised Bond Rating Agency, at the time of purchase.

(b) Rating Agencies

For purposes of this Policy, the following shall be considered ‘Recognized Bond Rating Agencies’:

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

Should the rating on a short-term or bond investment fall below the minimum standards outlined above, the Fund Manager must immediately notify the Treasurer and communicate the action that is to be taken. The Treasurer must report all such occurrences and action undertaken to remedy the situation to the Committee.

3.04 Maximum Quantity Restrictions

While specific restrictions are reflected in the individual manager mandates, the following restrictions are to be respected:

(a) Equities

- (i) No one equity holding shall represent more than 10% of the market value of any one manager's equity portfolio;
- (ii) No one equity holding shall represent more than 10% of the voting shares of a corporation;
- (iii) No one equity holding shall represent more than 10% of the available public float of such equity security;
- (iv) Private placements can be held to a maximum of 10% of the equity portfolio; and,
- (v) No more than 15% of the market value of the equity manager's portfolio shall be invested in Royalty or Income Trusts.

(b) Bonds and Short-Term Securities

- (i) Except for federal bonds and provincial bonds having at least an A credit rating, no more than 10% of a manager's bond portfolio may be invested in the bonds of a single issuer and its related companies;
- (ii) 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;
- (iii) No more than 10% of the market value of a manager's bond portfolio shall be invested in bonds rated 'BBB' or equivalent and no bond rated 'BBB' or equivalent shall exceed 3% of the market value of the portfolio;
- (iv) No more than 20% of the market value of a manager's bond portfolio shall be invested in bonds denominated in a currency other than Canadian dollars;
- (v) No more than 20% of the market value of a manager's bond portfolio shall be invested in bonds of foreign issuers; and,
- (vi) Private placements and asset-backed securities can be held to a maximum of 15% of the bond portfolio.

3.05 Prior Permission Required

Subject to applicable legislation and regulations, any other investments are permitted provided that the Fund Manager has obtained prior written permission from the Board of Governors upon recommendation of the Committee.

3.06 Prohibited Investments

The Fund Managers shall not:

- (a) Invest in companies for the purpose of managing them;
- (b) Purchase securities on margin or engage in short sales, except in the case of a unleveraged synthetic index strategy where the manager will utilize futures contracts and short-term securities to attempt to create returns that match those of a specified index;
- (c) Invest in securities that would result in the imposition of a tax on the Fund under the Income Tax Act (Canada) unless they provide a prior written acknowledgement to the Committee that such investments will result in a tax and receive prior written permission for such investments from the Board of Governors;
- (d) Invest in any securities issued by McMaster University or its affiliated entities; or
- (e) Make any investment not specifically permitted by this Policy or the Fund Manager's investment mandate.

3.07 Securities Lending

Defined securities held by the Plans may be loaned by the Trustee under a properly approved contract with the University.

The investments of the Fund may be loaned for the purpose of generating revenue for the Fund, subject to the provisions of the Pension Benefits Act (Ontario), the Income Tax Act (Canada), and applicable regulations.

Such loans must be secured by cash and/or readily marketable government bonds, treasury bills and/or letters of credit, discount notes and banker's acceptances of Canadian chartered banks. The amount of collateral taken for securities lending should reflect best practices in local markets, but should be at least 105% under an enhanced indemnity arrangement. The market value relationship between collateral and securities on loan must be calculated at least daily. For equity loans, high quality, liquid equities may also be accepted as collateral.

If the Fund is invested in a pooled fund, security lending will be governed by the terms and conditions of the pooled fund contract.

3.08 Borrowing

The Plans shall borrow money only for the purpose of covering a short-term contingency and the borrowing is for a period that does not exceed ninety days, subject to the Pension Benefits Act (Ontario), the Income Tax Act (Canada) and the written permission of the Board of Governors.

3.09 Liquidity

The Plans shall maintain assets that are sufficiently liquid in order to make necessary payments to members when required and to enable other changes, as required.

3.10 Environmental, Social and Governance

“ESG” refers to the environmental, social and governance factors, including government/public policy and disclosure concerns, relevant to an investment that may have a financial impact on that investment. The university has a fiduciary duty to act in the long-term interests of the beneficiaries of the Plans. The Plans’ investment portfolio managers determine the stock holding of each fund. Where relevant and material to the assessment of investment value and mitigation of investment risk, ESG factors should be evaluated alongside other considerations by the Plan’s investment managers in the exercise of their delegated duties. The university does not impose specific constraints on portfolio investments on the sole basis of ESG factors.

3.11 Conflicts Between the Policy and Pooled Fund Investment Policies

While the guidelines in this Policy 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 Policy, the Fund Manager must report this conflict explicitly in its quarterly compliance report.

Section 4—Monitoring and Control

4.01 Performance Measurement

Evaluation of investment performance will be made by the Committee and will take place semi-annually based on the results at June 30 and December 31.

(a) **Total Fund Benchmark**

The primary performance objective of the Fund is to earn a rate of return that exceeds the rate of return on a benchmark portfolio over a four (4) year period. The benchmark consists of the following market index total returns weighted as indicated:

Benchmark	Weight (%)
S&P/TSX Composite Index	21.0
S&P 500 Index (Cdn. \$)	8.0
Russell 1000 Index (Hedged)	14.0
MSCI EAFE Index (Cdn. \$)	15.0
MSCI EAFE Index (Hedged)	7.0
FTSE TMX Universe Bond Index	15.0
FTSE TMX Long Term Bond Index	15.0
FTSE TMX Real Return Bond Index	5.0
IPD Canada Property Index	0.0
Total	100.0

Bentall Kennedy was selected as the investment manager for real estate. In the interim period, the Benchmark used by McMaster for performance monitoring as described in the table above will exclude the IPD Canada Property Index. Once the capital is substantially drawn, the weighting will be increased.

For the interim period, the 5% allocation to real assets will remain in equities.

A secondary objective is to achieve, over a four (4) year period at least second quartile performance compared to a performance measurement service pension data base.

(b) Fund Managers

The primary objective of the active managers is to earn a rate of return that exceeds the total rate of return ¹ on a benchmark portfolio over a four (4) year period or, in the case of passive managers, to earn a rate of return that approximates the returns earned on the relevant market indices, within agreed tracking variance ranges. The managers' benchmarks and performance objectives are set out in more detail in their Investment Mandates. These may be amended, recognising that at all times the Fund must be managed in accordance with the asset mix guidelines and permitted and prohibited investments set out in Sections 2 and 3.

In addition to assessing performance relative to the Benchmark Portfolio, the Committee will examine risk factors and performance by asset class.

4.02 Compliance Reporting by the Fund Manager

Each Fund Manager must submit a compliance report each quarter to the Treasurer. The compliance report should indicate whether or not the manager's portfolio was in compliance with this policy during the quarter.

In the event that the Fund Manager's portfolio is not in compliance with this policy, the Fund Manager is required to detail the nature of the non-compliance and to recommend an appropriate course of action to remedy the situation, to the Treasurer, who will inform the Committee. Minor deviations from the policy that require immediate action can be approved by the Treasurer, who will inform the Committee.

4.03 Standard of Professional Conduct

The Fund Managers 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 or to a standard that is the equivalent of, or higher than that of the CFA.

The Fund Managers will manage the assets with the care, diligence and skill that a fund manager of ordinary prudence would use in dealing with pension plan assets. The Fund Managers will also use all relevant knowledge and skill that they possess, or ought to possess, as prudent fund managers.

¹ Total rate of return is the time-weighted rate of return based on the change of market value including realised and unrealised gains and losses and including income from all sources.

Section 5—Administration

5.01 Conflicts of Interest

(i) Definition

For the purpose of this statement a conflict of interest is defined as any event in which any employee or member of or consultant to:

- (a) Board of Governors,
- (b) Planning and Resources Committee,
- (c) Audit Committee,
- (d) Pension Trust Committee,
- (e) Actuary,
- (f) Fund Manager(s),
- (g) Custodian/Trustee, and/or
- (h) Consultant

or any directly related party may gain a financial or other advantage from knowledge of, or participation in, an investment decision of the fund, or a circumstance that could reasonably be interpreted as impairing his/her ability to render unbiased and objective advice or to fulfil his/her fiduciary responsibilities to act in the best interest of the beneficiaries of the Plans.

It is not possible to anticipate in advance, in this statement, the multitude of situations which can arise. All persons listed above must, therefore, be cognizant of the possibility that conflicts, or perceived conflicts, may arise and must make timely and full disclosure in accordance with generally accepted concepts of fiduciary responsibilities and in accordance with the procedures set forth below:

(ii) Responsibilities

This standard applies to the persons named in Section 5.01(i) above in the execution of their responsibilities under the Pension Benefits Act (Ontario) (the “Affected Persons”).

(iii) Disclosure

In the execution of their duties, the Affected Persons shall disclose any material conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased advice, or to make unbiased decisions, affecting the administration of the Plans' assets.

Further, it is required that no Affected Person shall make any personal financial gain (direct or indirect) because of his or her fiduciary position. However, normal and reasonable fees and expenses incurred in the discharge of his/her responsibilities are permitted if documented and approved by the University.

No Affected Person shall accept a gift or gratuity or other personal favour that is material, from a person with whom the Affected Person deals in the course of performance of his or her duties and responsibilities for the Plans.

It is incumbent on any Affected Person who believes that he or she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation in writing to the Chair of the Committee within three business days after the individual becomes aware of the conflict of interest. The disclosure should also be made orally if awareness of the conflict occurs during the discussion of Plans' business.

The Committee, in turn, will decide what action is appropriate under the circumstances but, at a minimum, will table the matter at the next regular meeting of the Committee.

Normally, the individual disclosing the conflict of interest shall withdraw from the meeting during discussion of and vote on the issue causing the conflict of interest. The individual may be permitted, at the Committee's request, to participate in the discussion but he/she shall not be present for the vote.

The disclosure of a conflict of interest, the name of the individual declaring the conflict and the manner in which the conflict was resolved will be recorded in the minutes of the Committee.

5.02 Related Party Transactions

Related party transactions are permitted for the Plan, subject to the following conditions:

- (a) Any transaction that is required for the operation or administration of the Plan under terms and conditions that are not less favourable to the Plan than market terms and conditions and such transaction does not involve the making of loans to, or investments in, the related party; or
- (b) Any transaction, where the combined value of all transactions with the same related party is nominal or the transaction(s) is immaterial to the Plan.

For the purposes of this section, only the market value of the combined assets of the Plans shall be used as the criteria to determine whether a transaction is nominal or immaterial to the Plan. Transactions less than 3% of the combined market value of the assets of the plan are considered nominal. Two or more transactions with the same related party shall be considered a single transaction.

5.03 Selecting Fund Managers

In the event that a new Fund Manager must be selected or additional Fund Manager(s) added to the set of existing fund managers, the Committee will undertake a Fund Manager search with the assistance of a third-party investment consultant. The criteria used for recommending the selection of a Fund Manager to the Board of Governors will be consistent with the investment and risk philosophy set out in Section 1.05 (Investment and Risk Philosophy).

5.04 Monitoring of Fund Managers

At least semi-annually, the Committee will monitor and review the:

- (a) Assets and net cash flow of the Plans;
- (b) Fund Manager's staff turnover, consistency of style and record of service;
- (c) Fund Manager's current economic outlook and investment strategies;
- (d) Fund Manager's compliance with this Policy and their Investment Mandate, where a Manager is required to complete and sign a compliance report; and
- (e) Investment performance of the assets of the Plans in relation to the rate of return expectations outlined in this Policy.

5.05 Dismissal of a Fund Manager

The Committee shall consider from time to time whether a Manager's investment performance or any other circumstances may warrant recommendation to the Board of Governors of the introduction of a probationary period or a change in Fund Manager(s). Such circumstances would include but not be limited to:

- (a) Significant turnover in staff of Fund Manager(s);
- (b) Change in ownership of Fund Manager(s);
- (c) Failure of the Fund Manager(s) to satisfy all of the responsibilities set out in Section 3 of this Statement or set out in the Manager's Investment Mandate;
- (d) Desire to diversify the management of the Pension Fund or to add another Fund Manager(s).
- (e) Unsatisfactory performance and/or compliance in relation to the performance standards specified in Sections 3 and 4 of this Policy.

5.06 Voting Rights

The Board of Governors has delegated voting rights acquired through the investments held by the Plans to the custodian of the securities to be exercised in accordance with the Fund Managers' instructions. Fund Managers are expected to exercise all voting rights related to investments held by the Fund in the interests of the Plans' members. The Fund Managers shall provide their proxy voting policies to the Treasurer.

Further, the Fund Managers must maintain records documenting how they voted and whether ESG was factored into the proxy voting decision making process and must advise the Treasurer regarding their voting on any unusual items or items where they vote against management, at least on an annual basis.

At least annually, each fund manager shall provide Treasury with a report of proxy voting actions and how ESG factored into the voting.

At least annually, a summary report of investment manager proxy voting action and how ESG factored into the voting shall be provided to the Planning and Resources Committee of the Board of Governors.

The Board of Governors reserves the right to take back voting rights of assets held in segregated portfolios for specific situations.

5.07 Valuation of Investments Not Regularly Traded

The following principles will apply for the valuation of investments that are not traded regularly:

- (a) **Equities**
Average of bid-and-ask prices from two major investment dealers, at least once every calendar quarter.
- (b) **Bonds**
Same as for equities.
- (c) **Mortgages**
Unless in arrears, the outstanding principal plus/minus the premium/discount resulting from the differential between the face rate and the currently available rate for a mortgage of similar quality and term, determined at least once every calendar quarter.
- (d) **Real Estate**
A certified written appraisal from a qualified independent appraiser at least every two years.
- (e) **Resource Properties and Venture Capital**
A written market value assessment prepared by party qualified to make such assessments, at least every two years.

5.08 Policy Review

The Policy may be reviewed and revised at any time, but it must be formally reviewed by the Committee, the Planning and Resources Committee and by the Board of Governors at least annually.

5.09 Asset-Liability Review

An Asset-Liability Study will be considered by the Committee every three to five years. A new Asset-Liability Study may be undertaken if any of the following events occur:

- (a) The sponsor's risk posture changes significantly;
- (b) There are significant changes to pension legislation or regulations that affect the key metrics used in making decisions in the Asset-Liability Study or should affect the asset allocation in the future;
- (c) Capital market conditions change significantly such that the assumptions embedded in the Asset-Liability Study are no longer reasonable;
- (d) There are changes in the Plan's benefits or liability structure; or
- (e) New methodologies emerge that appear to improve the usefulness of Asset-Liability studies.

Appendix A

McMaster University has contracted with the following to provide services:

Fund Managers

- (a) BlackRock Investment Management
- (b) Bentall Kennedy
- (c) Jarislowsky Fraser & Company Limited
- (d) Grantham, Mayo, van Otterloo & Company
- (e) Franklin Templeton Investments Corp.
- (f) State Street Global Advisors Limited
- (g) Walter Scott & Partners Limited
- (h) Beutel Goodman & Company Ltd.

Actuary

Mercer Human Resource Consulting Ltd.

Custodian/Trustee

CIBC Mellon Trust Company

External Auditor

KPMG

Pension Investment Consulting and Monitoring

Aon Hewitt Associates

Plans' Status

As of July 1, 2014, the Plans had 3,622 Active Members, 1,935 Retired Members and Survivors, and 944 Former Members with Deferred Benefits and Assets at Market Value, of \$1,546 million.

The going concern liabilities of the Plans were \$1,627 million compared to the Actuarial Value of the Assets which was \$1,375 million, resulting in a deficit of \$252 million. Approximately 51% of the liability was attributable to Active Members and 49% of the liability was attributable to Pensioners and Deferred Vested Members.

On January 14, 2003, the Superintendent of the Financial Services Commission of Ontario approved the distribution of \$150 million plus interest and expenses of excess surplus from the Contributory Pension Plan for Salaried Employees of McMaster University, including McMaster Divinity College 2000 to be shared evenly between the members and the University.

Appendix B

Asset Class Management by Type of Fund Manager

Asset Class	Tolerated Ranges (at Manager Level)	Manager Mandates	Index Objective
Canadian Equities	+/- 3%	11.0% Jarislowsky 11.0% SSgA (formerly GEAM)	S&P/TSX
U.S. Equities	+/- 3%	8.0% Jarislowsky & T. Rowe Price 14.0% Blackrock	S&P 500 (C\$) Russell 1000 (Hedged)
Non-North American Equities	+/- 3%	8.0 % GMO 7.0% Walter Scott 7.0% Templeton (with SSgA currency overlay)	MSCI EAFE (C\$) MSCI EAFE (C\$) MSCI EAFE (C\$) MSCI EAFE (Hedged)
Real Assets	To Be Determined	Bentall Kennedy	IPD Canada Property Index
Bonds	+/- 3% +/- 2% +/- 3% +/- 2%	9.0% Beutel Goodman-Universe 6.0% BlackRock-Universe 15.0% BlackRock-Long Term 5.0% BlackRock-RRB	FTSE TMX UBI FTSE TMX UBI FTSE TMX LT FTSE TMX RRB

Note: For proportion of Total Fund, please refer to 2.04 (a).

Active Canadian Equity Managers:

- Jarislowsky Fraser
- SSgA (formerly GE Asset Management)

Active U.S. Equity Manager:

- Jarislowsky Fraser
- T. Rowe Price

Active Canadian Bond Manager:

- Beutel Goodman

Enhanced Active U.S. Equity Index and Bond Index Manager:

- BlackRock Investment Management

Active Non-North American Managers:

- Grantham, Mayo, van Otterloo & Company (GMO)
- Franklin Templeton Investments Corp.
- Walter Scott & Partners

Currency Overlay Managers:

- State Street Global Advisors (SSgA)

Real Asset Managers:

- Bentall Kennedy