Halifax Regional Municipality Pension Plan

Statement of Investment Policies and Procedures

September 23, 2021

Contents

Section 1 – Purpose

1.1 This Statement of Investment Policies and Procedures (the "Statement") has been adopted to provide 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 Employees' Pension Plan.

1.2 The Plan is administered by the Halifax Regional Municipality Pension Committee (the "Committee").

1.3 This Statement has been adopted by the Committee based on an evaluation of the objectives, risk tolerances, and investment beliefs of the Plan. The Committee is responsible for overseeing all aspects of the investment program, including development and approval of this Statement.

1.4 The Committee has delegated to the Chief Executive Officer ("CEO"), as outlined in the Governance Policies, the implementation of the investment portfolio that in aggregate adheres to the investment policies set out in this Statement, and other applicable policies of the Plan.

1.5 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 & Regulations, Nova Scotia. All delegated investment mandates to investment management firms ("Investment Managers") must further conform to their individual contractual agreements.

1.6 This Statement will be reviewed on at least an annual basis by the Committee.

Section 2 – Plan Overview

2.1 The Plan is an open, contributory defined benefit plan. The Plan benefit is based on a member's highest average three years of earnings and a 2% accrual rate[1]. Further details on the Plan formula are outlined in appendices to the Plan Text.

2.2 Upon approval of the Committee, the Plan may provide post-retirement indexation. Increases are limited to the lesser of 6% per year and the aggregate percentage increase in the Consumer Price Index from the member's retirement date.

2.3 The cost of the Plan is shared on a 50/50 basis by active members and employers participating in the Plan[2].

2.4 The Plan is exempt from solvency funding, and therefore the primary focus on the management of the Plan is on a going-concern basis.

2.5 Details of the current financial position and current Plan membership statistics are available in the most recent actuarial valuation report on the Plan.

[1] Some members continue to earn benefits under the terms of the Plan relating to the predecessor municipalities.

[2] 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.

Section 3 – Investment Beliefs

3.1 The Plan has adopted a set of investment beliefs that provide a clear view on how the it perceives the way capital markets work, and how the Plan can construct and maintain its Fund to add value and strive for excellence. The beliefs are as follows:

- **Asset allocation is the main driver of success**. Both investment theory and practice support strategic asset allocation being an important driver of investment risk and returns, and the Plan's investment portfolio is designed to reflect this. At the heart of asset allocation is diversification, which allows us to improve our overall risk-adjusted returns by investing in different asset classes that behave in different ways in different economic regimes. Diversification is considered by looking at asset classes, sectors, issuers, and risk premiums.

- **The Plan invests with the liabilities in mind**. The goal of the Fund is to service the ultimate benefit payments made to Plan members. As such, the Plan makes investment decisions that incorporate important elements of balance sheet risk and plan funding. Further, given that the current horizon of these liabilities is very long and predictable, this orients our investment decisions and processes to focus on long time horizons. The Plan is also biased towards monitoring investments over a longer time horizon.

- **Getting the organizational design right**. The Plan believes, given its size, the best way to capture excess returns in a globally diversified investment portfolio is to rely on an internal staff that is "fit for purpose", where the primary function is to seek partnerships with best in class Investment Managers. The Plan believes innovation will always be key in finding, evaluating, and sourcing these Investment Managers, and seeks continual improvement in the investment process, of which good governance and operational risk management are key aspects.

- **Active management can add value**. Some markets are challenging for active management though, and the Plan seeks to find attractive markets, and strong Investment Managers in those markets to improve our potential for success in active management. Importantly, success is measured as active returns in excess of fees paid to Investment Managers.

- **Costs matter**. All else equal, lower costs mean a higher net return for the Plan. However, fees paid to external partners are one of many considerations as it relates to constructing our portfolio. We look to achieve a balance between the fees the Plan pays, and the opportunities and risks involved. The end result of this is a focus on *cost optimization* instead of *cost minimization*.

- **Environmental, Social and Governance (ESG) issues are complementary to traditional investment analysis**. The Plan believes that firms that effectively apply responsible ESG practices are likely to be more financially successful over the long-term. This long-term perspective is consistent with the Plan's investment horizon. The Plan considers the underwriting of how Investment Managers incorporate (ESG) factors into their investment analysis and decision-making processes important, and looks for those practices to be consistent with the UNPRI – United Nations Principles for Responsible Investing.

Section 4 – Investment Policy and Risk Management

4.1 In creating this Statement, the Committee recognizes that the purpose of the Fund is to 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. The Statement emphasizes a diversified mix of investments that is expected to deliver the Committee's required long-term rate of return with a level of risk acceptable to the Committee. Factors which will influence the acceptable risk level include, but are not limited to, the conditions of capital markets, liquidity needs, Plan demographics, long-term expected contribution rates, and long-term expected contribution volatility.

4.2 The Plan's overall expected rate of return is based on a weighted average of the expected returns in each asset class held by the Fund. Adjustments for diversification and rebalancing, active management, margin and expenses paid from the Fund are applied to arrive at the Plan's expected rate of return. More details on the Plan's long-term rate of return expectation can be found in the most recent actuarial valuation report.

4.3 Based on the above considerations, the below asset mix has been selected:

Asset Class	Policy Mix	Minimum Weight	Maximum Weight
Public Equities	**40.00%**	30%	60%
Canadian Equities	4.00%		
Global Equities	30.00%		
Emerging Market Equities	6.00%		
Public Fixed Income	**20.00%**	15%	50%
Cash & Cash Equivalents	2.50%		
Canadian Government Bonds	7.50%		
North American Credit	7.00%		
Global Bonds	3.00%		
Private Investments	**40.00%**	20%	50%
Private Equity	7.00%		
Infrastructure	15.25%		
Real Estate	15.25%		
Private Debt	2.50%		
Public Market Alternatives[3]	**0.00%**	**0%**	**7.5%**

[3] The Pension Plan does not consider Public Market Alternatives as a true asset class, but as a portfolio construction tool to which a dedicated proportion of assets may be allocated. Assets invested in Public Market Alternatives will not be counted in the weighting assigned to the other asset classes.

4.4 The benchmark utilized for the Policy Mix is determined based on the implemented component mandates as follows: **Private Investments** (geometric average of going-concern discount rate) + **Public Market Alternatives** (3-month bankers' acceptance rate + 3%) + **Public Equities** (any combination of hedged or unhedged of the underlying indices – S&P/TSX Composite, S&P/TSX 60, S&P 500, MSCI EAFE ND Index, MSCI World ND Index, MSCI ACWI ND Index, MSCI Emerging Market ND Index, MSCI World Small Cap ND Index) + **Public Fixed Income** (any combination of FTSE TMX Canada Universe Bond Index and 3-month Canadian Banker Acceptances).

4.5 The Plan recognizes that due to the nature of Private Investments, the target allocation to this category, along with the sub-components (Private Equity, Infrastructure, Real Estate and Private Debt) may take time to achieve. As a result, an interim asset allocation policy will be utilized to reflect the underweight to this category, along with how the committed, but not yet funded capital is allocated amongst the remaining asset classes. This benchmark will be updated monthly. A quarterly snapshot of the benchmark of the prior year is provided in **Section 10 – Benchmark Weights**.

4.6 The Plan believes that asset allocation is an important driver of long-term investment returns and risk, as mentioned in Section 3. On an annual basis, the CEO shall undertake a review of the policy asset mix and determine if it remains acceptable. Further, as conditions or circumstances warrant, and typically every 3 years, but no more than every 5 years, an asset-liability study shall be conducted to more rigorously review the relationship between the Plan's obligations and assets. This is done to ensure the investment portfolio continues to be aligned with the long-term objectives of the Plan.

4.7 Management of the Fund's liquidity is important to ensure timely payment of benefits, without needing to sell any of the Plan's investments below a reasonable assessment of intrinsic value. Liquidity requirements of the Fund are evaluated within the context of net cash flow and the portion of the total portfolio held in liquid, marketable securities (i.e., Public Fixed Income, Public Equities and Public Market Alternatives). This is monitored throughout the year to ensure that sufficient funds are on hand to manage the requirements of the Plan. Further, longer-term projections of liquidity requirements are done via the asset-liability study to conservatively measure the Plan's ability to bear illiquidity risk, and ensure the Fund is invested to reflect this.

Section 5 – Permitted Investments

5.1 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. Although all of these securities are permitted, any investment must be aligned with the asset allocation in Section 4.3 and investment beliefs in Section 3.1.

5.2 Investments may be made in any of the following asset classes and portfolio construction tools:

a) **Public Fixed Income:** Debt securities including bonds, debentures, mortgages, real estate debentures, asset backed securities, private placements, inflation indexed securities, and other fixed income securities of Canadian and foreign issuers.
b) **Public Equities**: Publicly traded common and preferred stocks, income trust units, rights, warrants, installment receipts, American depository receipts, global depository receipts and debt securities convertible into common stock on either Canadian or international markets.
c) **Cash:** Cash on hand, demand deposits, treasury bills, short-term notes, bankers' acceptances, commercial paper, term deposits, guaranteed investment certificates, promissory notes, repurchase agreements, and other money market securities.
d) **Private Debt:** Non-publicly traded debt securities including senior and subordinated loans, mortgages and other credit instruments of Canadian and foreign issuers.
e) **Private Equity:** Investments in non-public securities held through co-investments and limited partnerships pursuing strategies including buyouts, venture capital, distressed opportunities and special situations. Private equity will be no greater than 15% of total assets at time of investment.
f) **Infrastructure:** Direct or indirect investments in the debt or equity securities of infrastructure entities in sectors including transportation, energy, utilities, telecommunications, and social infrastructure.
g) **Real Estate:** Direct or indirect investments in debt or equity securities of real property assets including industrial, office, retail, and multi-residential.
h) **Public Market Alternatives**: Investment strategies that invest in a wide range of tradable securities using non-traditional investment techniques

including leverage, short sales, and derivatives which generally seek absolute returns which are uncorrelated to Public Equities and Public Fixed Income.

5.3 Public Fixed Income should have an average credit rating at or above "investment grade". The sources for establishing the credit rating of a particular issue are required to be from Nationally Recognized Statistical Rating Organizations. 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 Investment Manager will consult with the CEO to determine an acceptable rating.

5.4 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) to achieve some advantage of lower cost, transactional ease, or market exposure.
c) Derivatives may not be used to create a leveraged position within a mandate except in two circumstances: 1) to seek improvement in the risk-adjusted return within an asset class through a portable alpha strategy[4], or 2) within Public Market Alternatives, absolute return strategies or hedged strategies, which utilize derivatives to specifically target or magnify various security level or other mispricing's, and to manage risk.
d) The Investment Managers and CEO shall be responsible for assessing all counterparty 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.
e) Derivative instruments may not be used to circumvent policy guidelines and restrictions as stated in this Statement.

5.5 Foreign issued bonds will aim to be fully hedged from currency risk within a tolerable range (90% to 110%), unless an active currency mandate is an explicit part of a mandate.

[4] Portable alpha is an investment strategy that separates market exposure and manager skill.

5.6 The Fund is permitted to engage in short selling of physical securities to: a) hedge (i.e., reduce), fully or partly, any investment risk, including market, interest rate, and credit or 2) within Public Market Alternatives or similar strategies, which utilize short selling to specifically target various security level or other mispricing's more effectively.

5.7 Explicit leverage (i.e., borrowing not obtained through derivatives) is not permitted at the Fund level, but may be utilized in certain investment strategies if done on a non-recourse basis.

5.8 The Fund may enter a securities lending program on a fully indemnified basis.

5.9 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 6 – Voting Rights

6.1 The Committee has delegated voting rights acquired through any investment to the Investment Managers. In cases where ownership stakes are held directly, the CEO will be responsible for voting rights.

6.2 The Investment Managers and CEO are required to vote in favour of any proposal which, in their opinion, will enhance the investment value of the relevant security, and against any proposals that will introduce unacceptable risk or reduce the investment value of the relevant security.

6.3 If the Investment Managers or any of its officers, or the CEO has any direct or indirect material pecuniary interest in any matter on which the Fund has a right to vote, the Committee must be advised, and the Committee will then:

a) instruct the firm to vote in accordance with the principle stated in Section 6.2, on the grounds that the pecuniary interest is not material; or
b) instruct the firm how to vote after the Committee evaluates the issue in accordance with the principle stated in Section 6.2; or
c) authorize the Fund's trustee to vote in accordance with the principle stated in Section 6.2.

6.4 If the Investment Manager delegates proxy voting to a third party, the Investment Manager does not have to adhere to 6.3 but must ensure that the Investment Manager’s proxy voting policy and the third party’s proxy voting policy is consistent with Section 6.2.

Section 7 – Conflicts of Interest

7.1 A Fund Agent ("Agent") is defined as any Halifax Regional 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.

7.2 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.

7.3 No Agent shall knowingly permit his or her interest to conflict with his or her duties and powers in respect of the Fund.

7.4 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.

7.5 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. Agents hired by the CEO shall report their conflict of interest to the CEO.

7.6 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 Co-Chairs of the meeting and shall refrain from participating in the discussion or voting on such matter.

7.7 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.

7.8 Declarations of conflict of interest will be recorded in the minutes of Committee meetings which address Fund matters.

7.9 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 8 – Valuation of Investment Assets

8.1 The valuation of securities that have an active market (public market asset classes) will be based on their quoted market values.

8.2 The fair value of private equity, private debt, infrastructure and real estate investments held through limited partnerships or other pooled structures (inclusive of co-investments) is determined by the General Partner managing those partnerships using accepted industry valuation techniques. Depending on the nature of the investment, this may include discounted cash flow models, precedent transaction analysis, and consideration for valuations of other comparable publicly traded investments. These valuations will be conducted by the General Partner at least on an annual basis. The limited partnerships or pooled funds will also be audited annually by an independent third party.

8.3 Any asset held by the Fund directly or indirectly and without the presence of a General Partner shall have its market value appraised on annual basis by a qualified independent agent using accepted industry valuation models.

Section 9 – Related Party Transactions

9.1 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 under the Pension Benefits Standards Act.

9.2 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.

9.3 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.

9.4 Investment Managers retained by the Fund 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 Managers firms to invest in the publicly traded securities of non-related party companies.

Section 10 – Benchmark Weights

Asset Class	Benchmark	Dec 31/19	Mar 31/20	Jun 30/20	Sep 30/20
Canadian Equities	S&P/TSX60	2.00%	1.90%	1.90%	1.90%
Canadian Equities	S&P/TSX Composite	3.30%	3.50%	3.50%	3.50%
Global Equities	MSCI EAFE ND Index	8.30%	8.00%	8.00%	8.00%
Global Equities	S&P 500 (USD)	4.90%	6.10%	6.10%	6.10%
Global Equities	MSCI World ND Index	10.30%	12.50%	11.60%	11.20%
Emerging Market Equities	MSCI Emerging Markets ND Index	4.10%	3.80%	3.80%	3.80%
Canadian Government Bonds/North American Credit	FTSE TMX Universe	17.40%	16.70%	17.10%	17.10%
Global Bonds/Cash & Cash Equivalents	3-month Canadian Bankers Acceptances	21.30%	18.10%	18.70%	19.30%
Private Investments	Going Concern Discount Rate	28.40%	29.40%	29.30%	29.10%