Teachers' Pension Plan Corporation
NEWFOUNDLAND & LABRADOR
TRUST. CONFIDENCE. SECURITY.

TEACHERS' PENSION PLAN FUND

STATEMENT OF INVESTMENT POLICIES AND PROCEDURES

Effective March 22, 2023

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SECTION 1 - PURPOSE

1.1 This Statement of Investment Policies and Procedures (the "SIPP") has been established by the Board of Directors (the "Board") of the Teachers' Pension Plan Corporation (the "TPPC") to provide broad investment guidelines for management of the Teachers' Pension Plan Fund (the "Fund"). The Teachers' Pension Plan (the "Plan") is a jointly sponsored defined benefit plan.

1.2 The goal of this statement is to establish guidelines so that the Fund is managed to meet the funding requirements as outlined in the Funding Policy contained in the Joint Sponsorship Agreement ("JSA") between the Government of Newfoundland and Labrador (the "Government") and the Newfoundland and Labrador Teachers' Association (the "NLTA"), and the overall investment objectives as outlined in Section 5.2 of this document.

SECTION 2 - BACKGROUND

2.1 The Fund was established for the Teachers' Pension Plan (the "Plan") as a result of the Teachers' Pension Plan Reform Agreement (the "Reform Agreement") signed by the Government and the NLTA on June 15, 2015. Representatives of the Government and the NLTA make up the Sponsor Body of the Plan and are responsible for the joint and equal participation in the sponsorship of the Plan including equal sharing of future actuarial surpluses and deficits, and future design changes of the Plan. The TPPC was created by an act of the House of Assembly of Newfoundland and Labrador and is trustee of the Fund and administrator of the Plan. The Board of the TPPC exercises and discharges the powers and duties of the TPPC. Accordingly, the Board is empowered, among other things, to review, monitor, administer and supervise all investment activities of the Fund.

2.2 As part of the Reform Agreement, the Government delivered a promissory note to the TPPC on August 31, 2016 (the "Promissory Note"). The Promissory Note, with an effective date of September 1, 2015, amortizes $1.862 billion over 30 years in equal annual instalments of $135 million. The payments are fixed and will be made regardless of the funded status of the Plan. The Promissory Note is the Government's contribution to address the unfunded liability of the Plan, and simultaneously the NLTA, on behalf of the Plan members, agreed to Plan changes and contribution rate increases. The combined impact of these two commitments will improve the funded position of the Plan over the next 30 years.

SECTION 3 – PENSION PLAN OVERVIEW

3.1 The Plan is fully described in the *Plan Text of the Newfoundland and Labrador Teachers' Pension Plan*. The Plan is a highest-average-earnings, contributory, defined benefit plan.

3.2 The Plan is governed by the Teachers' Pensions Act, 2018 (the "Act"). The Act clarifies the role and purpose of the TPPC and the obligations of Government, the NLTA, and the employers as it relates to the Plan. It also exempts the Plan from the Pension Benefits Act (Newfoundland and Labrador).

3.3 **Time Horizon**

The Plan is a defined benefit pension plan open to new members and hence has a very long-term investment horizon that extends indefinitely into the future. The Plan is very mature, and the active population only represents approximately 30% of the total Plan liabilities as reported by the Plan's actuary.

SECTION 4 – FUND GOVERNANCE

4.1 **Responsibilities of the Board**

The Board has overall responsibility for all investment activities of the Fund. Where appropriate and subject to the oversight of the Board, the Board may delegate certain duties to the Investment Committee (the "IC") and/or the TPPC Chief Executive Officer ("CEO"). The CEO has the power to sub-delegate to assist in meeting this responsibility pursuant to TPPC policies.

The Board shall oversee all investment activities of the Fund and establish, or require to be established, written investment policies and procedures.

The roles and responsibilities of the various groups involved in the investment and administering of the Fund have been established to ensure efficient and effective management of the Fund with appropriate oversight and controls in place.

The Board and its delegates, and sub-delegates shall exercise the degree of care, diligence, and skill in the investment of the Fund that a person of ordinary prudence would exercise in dealing with the property of others. In doing so, they shall use all relevant knowledge and skill that they possess or, by reason of profession, business or calling ought to possess.

4.2 **Responsibilities of the IC**

The IC will perform the duties and tasks required to assist the Board in discharging its responsibilities, as directed by the Board. The duties and tasks of the IC include, but are not limited to, monitoring SIPP compliance, overseeing asset liability studies, approving and monitoring implementation plans associated with the approved Strategic Asset Allocation ("SAA"), and reviewing and monitoring Fund performance.

4.3 **Responsibilities of Management**

The Board has delegated the day-to-day administration, operations and investment of the Fund to the CEO. The CEO has sub-delegated the day-to-day administration and operations of the investment activities of the Fund to the Chief Investment Officer ("CIO"), under the supervision and oversight of the CEO (collectively, "Management").

4.4 **Responsibilities of External Investment Managers**

External investment managers shall make day-to-day investment decisions in accordance with the policies established within this SIPP and / or with any specific obligations outlined in their mandates.

4.5 **Responsibilities of the Custodian**

The Plan Custodian appointed by the Board holds the assets of the Fund and shall perform the duties required pursuant to the written agreements entered into from time to time between the Custodian and TPPC and any applicable regulation.

SECTION 5 – RISK MANAGEMENT, INVESTMENT OBJECTIVES & BELIEFS

5.1 **Risk Philosophy**

The Fund should be prudently managed with the objective of achieving the funding targets outlined in the Funding Policy and avoiding excessive volatility in annual rates of return.

5.2 **Investment Objectives**

The primary investment objective is to ensure the Fund has the ability to meet the pension obligations as they come due. To achieve this objective, TPPC has established an investment strategy that is designed to achieve the going concern discount rate which represents the return required to meet the Plan's obligations. Additionally, the approved SAA is selected to increase the likelihood of meeting the funding targets as outlined in the Funding Policy.

5.3 **Investment Beliefs**

Understanding the Funding Policy and the nature and variability of the Plan's liabilities are critical to devising an appropriate investment strategy. Of particular significance to the investment strategy is the key role of the Promissory Note, the maturity of the Plan, and the liquidity issues caused by pension payments exceeding contributions and investment income.

In view of the foregoing, the key investment beliefs that shape this SIPP include:

a) **Strategic Asset Allocation** is the dominant determinant of portfolio risk and return.

   i. The SAA has been formulated in order to balance risk, return and affordability. The acceptance of investment risk provides the opportunity to earn higher long-term investment returns which contribute to maintaining a reasonable level of contributions.

ii. In developing a strategic allocation, minimum and maximum allocations by asset class have been specified representing the range of risk tolerance. Rebalancing ensures that the Fund's risk tolerance is maintained.

b) **Diversification** - Prudent diversification among asset classes and implementation approaches is maintained with the objectives of:

i. reducing the Fund's annual total return variability;

ii. reducing market and credit exposure to any single issuer and to any single component of the capital markets;

iii. reducing exposure to inflation;

iv. enhancing the long-term risk-adjusted return potential for the Fund; and

v. reducing funding risk.

c) **Active / Passive Management -** Capital markets are not consistently informationally efficient.

i. Certain public markets are more informationally efficient than others, either consistently or for periods of time. Where markets are informationally efficient, passive management will be considered. This contrasts with private markets which are considered skill strategies and are inherently actively managed.

ii. As there is a cost, both financial and non-financial (governance) to active management, Management will consider the most appropriate implementation approach for each asset category.

iii. Investment managers will be selected that are viewed as having the ability to add sufficient value, after fees, to warrant the additional expense associated with active management depending on the asset class. Adding value is defined as either increasing returns, net of fees, or reducing return volatility.

d) **Foreign Currency Risk** - As a long-term investor, the Fund has the ability to withstand foreign exchange fluctuations.

While returns associated with non-Canadian currency movements relative to the Canadian dollar are not expected to have a significant effect on the return of the Fund over the long term, over shorter periods, currency movements may cause returns to be volatile. To reduce volatility, currency hedging is employed for certain asset classes, as appropriate, after taking into account the risks, benefits and cost associated with the hedge. Notwithstanding the above, individual Investment managers may implement currency hedging for underlying portfolio positions as part of their approved mandates.

e) **Rebalancing** is essential to effective risk control.

Risk tolerance bands will be set around the Fund's SAA in order to control overall Fund risk. Rebalancing the Fund when those bands are breached both maintains the desired risk level and can add value.

f) **Costs** have a direct impact on long term performance.

Investments' fees (including direct and indirect taxes of foreign investments), custodial fees, administrative costs, and professional fees while necessary, represent a "cost" to the Plan. All costs associated with the Plan should be monitored to ensure they remain competitive and transparent.

g) **Environmental, social and governance ("ESG")** - The Board believes that it is part of its fiduciary duty to Plan beneficiaries to consider the risks related to ESG factors. The Plan's Responsible Investing Policy describes the Plan's approach to integrating ESG considerations into investment decision-making and ongoing portfolio management processes.

h) **Liquidity -** The Fund is managed with a view of providing sufficient liquidity to enable the Plan to meet all of its future obligations as they become payable. The approved SAA includes an allocation to cash to ensure adequate cash reserves are available. Additionally, investments are selected with consideration given to their effect on liquidity risk within the context of the investment portfolio as well as the income to be derived (in addition to the capital appreciation component of total expected return). The illiquidity premium of select non-public investments is expected to adequately compensate the Fund for the associated risks with these investments.

5.4 Asset Liability Studies

The Plan's primary long-term risk is an inability to meet expected benefits payable as they come due. To manage this long-term risk, asset liability studies will be conducted periodically as determined by the IC. These studies lead to the recommendation and adoption of a long-term asset mix policy based on consideration of a number of factors (including the Funding Policy requirements and related JSA obligations including the Promissory Note, the liability profile, future Plan demographics, future return and risk expectations, etc.). The asset mix policy is designed such that it is expected to generate a return above the return required to fund the liabilities as determined by the most recent actuarial valuation.

5.5 Elements of Risk

Management monitors and reports on the significant risk factors affecting investments on a quarterly and annual basis. Elements of risk and their effects are incorporated into the overall risk management framework of the TPPC.

SECTION 6 – ASSET MIX POLICY

6.1 The Board will set, evaluate and modify (if necessary) the asset mix of the Fund to:

a) meet the current and future payment obligations of the Plan as they occur; and

b) manage the volatility of the Plan's funded ratio.

A modification to the asset mix of the Fund may directly impact the discount rate set by the actuary for the purpose of performing a going-concern valuation of the Plan.

6.2 The Board approved the SAA based on the ALM finalized in December 2020. During 2022, TPPC undertook a review of the structure of the Plan's equity portfolio. Based on this review, in March 2023 the Board approved a change in the SAA whereby the Plan's Emerging Market Equity allocation decreased from 8.0% to 4.0%. As a result, the Global Equity and Private Equity allocations each increased by 2%.

The implementation of the SAA, from an investment commitment perspective, is expected to be completed by December 31, 2025. Through this implementation period, the TPPC will utilize interim asset allocations to form the basis for measurement of the Fund. Such interim asset allocations will be adjusted annually to reflect commitments made and available opportunities. The 2023 Interim Asset Allocation is as follows and is subject to the rebalancing policy as contained in Section 7:

Asset Class	Strategic Asset Allocation	Minimum Weight	2023 Interim Asset Allocation	Maximum Weight
Equities	**45.0%**		**53.0%**	
Public Equity	38.0%	30.0%	46.0%	60.0%
Private Equity	7.0%	4.0%	7.0%	10.0%
Real Assets	**30.0%**		**22.0%**	
Real Estate	12.5%	5.0%	10.0%	12.5%
Infrastructure	17.5%	7.0%	12.0%	17.5%
Fixed Income	**23.0%**		**23.0%**	
Bonds	15.5%	10.5%	15.5%	20.5%
Private Debt	7.5%	5.0%	7.5%	12.5%
Cash	**2.0%**	1.0%	**2.0%**	5.5%

SECTION 7 – REBALANCING POLICY

7.1 The Board recognizes that the asset mix allocations will deviate over time as a result of capital market fluctuations, the progress associated with implementation of the SAA, and the performance of the investments. However, the Board believes that it is in the best interest of the Fund to control asset mix deviations in order to maintain the asset mix allocation that was established based on risk/return parameters.

7.2 The asset class allocations may deviate from the 2023 Interim Asset Allocation by certain percentage points as outlined in the minimum and maximum weights included in section 6.2

7.3 Management will monitor the asset mix allocation no less than on a quarterly basis. If there are deviations from the prescribed ranges and a limit is breached, Management will rebalance to within the prescribed ranges using cash management as the first approach.

7.4 Notwithstanding the above, the Board reserves the right, in exceptional circumstances, to permit the asset mix allocation to vary temporarily above or below the stated ranges. If a permanent deviation is contemplated, the asset mix allocation policy will be amended.

SECTION 8 – PERFORMANCE OBJECTIVES

8.1 The primary performance objective for the total Fund is to generate a return that is equal to or exceeds the discount rate used by the Plan's actuary. However, the ongoing funded status of the Plan may be affected adversely or favourably by numerous non-investment factors including wage growth, inflation, termination rates, mortality rates, member growth and benefit changes.

8.2 The secondary performance objective for the total Fund is to equal or outperform a benchmark portfolio after investment management and fund fees over rolling four-year periods. The Fund benchmark is a composite of the relevant indices weighted in accordance with the 2023 Interim Asset Allocation or the SAA as appropriate.

8.3 In addition to the total Fund benchmark referenced in section 8.2, asset class, investment manager and fund mandate benchmarks are used to assess the success of the investment strategy, investment manager structure, fund strategy and performance. Such benchmarks include market indices, total return objectives and / or inflation objectives.

8.4 Investments' performance will be monitored and reviewed on a quarterly basis. The time frame for evaluating investment performance will generally be based at a minimum on rolling four-year periods.

8.5 The objective for each asset class is to earn a return equal to or exceeding its respective benchmark (plus a value-added target for certain asset classes), before investment fees, over rolling four-year periods.

SECTION 9 – PERMITTED INVESTMENTS

9.1 Investments may be made in any of the following investment categories either directly or through fund vehicles that hold these investments.

a) Equities
- Securities publicly traded and listed on recognized stock exchanges including, but not limited to: common shares, instalment receipts, depository receipts, exchange traded funds, rights, income trusts, real estate investment trusts, and debt securities convertible into equity
- Private placement equity where the investment manager determines the security will become eligible for trading on a listed exchange within a reasonable and defined timeframe
- Private equity (investments in non-public equity securities through co-investments and limited partnerships pursuing strategies including buyouts, venture capital, distressed opportunities and special situations)

b) Real Assets
- Real estate (investments in co-investments, direct or indirect (fund) investments in the debt or equity of real estate assets in sectors including industrial, office, retail, and multi-residential)
- Infrastructure (investments in co-investments, direct or indirect (fund) investments in the debt or equity of infrastructure entities in sectors including transportation, energy, utilities, telecommunications and social infrastructure)
- Agriculture and timberland
- Commodities

c) Fixed Income
- Publicly traded bonds, real return bonds, high yield bonds, debentures, notes, or other debt instruments of domestic and foreign issuers
- Mortgages, and mortgage-backed securities
- Private debt (investments in co-investments, limited partnerships or other co-mingled fund vehicles pursuing investments in non-publicly traded debt securities including senior and subordinated loans and structured credit instruments)
- Convertible or other hybrid debt instruments
- Term deposits of licensed trust companies and banks
- Contracts with life insurance companies

d) Cash

Cash, short-term or money market investments such as demand deposits, treasury bills, commercial paper and bankers' acceptances

e) Derivatives
- Forwards, options, futures, warrants, and swap contracts, subject to Section 10.1.

SECTION 10 – OTHER INVESTMENT MATTERS

10.1 **Derivatives**

The use of derivatives is permitted for the following purposes:

a) To replicate the investment performance of a recognized index;
b) To replicate securities or strategies consistent with this SIPP including the purchase of warrants;
c) To hedge or manage market exposures to interest rates and market indices;
d) To equitize cash; and/or
e) To manage foreign currency exposure as contemplated in section 5.3(d).

Any authority for an investment manager to use derivatives will be set out in the investment manager mandate or investment manager agreement. For investments in fund vehicles, any authority to use derivatives will be as permitted pursuant to the fund documents or any side letter agreements.

10.2 **Short Selling Securities**

The use of short selling securities is permitted for the purpose of expanding the investment opportunity set, while maintaining overall exposure to a market. A security that is sold must be a permitted security as defined in Section 9. Proceeds of the short sale must be invested in permitted securities.

The authority for an investment manager to short sell securities will be set out in the mandate or investment manager agreement. Unless permission is explicitly granted, the investment manager is prohibited from using short selling.

10.3 **Soft Dollar Brokerage Commissions**

Soft dollar commission refers to the use of commission dollars to finance goods or services that assist in the making of investment related decisions for the benefit of the Fund. Investment managers may use soft dollars to pay for research and other investment-related services provided they comply with regulatory requirements and CFA Institute Soft Dollar Standards.

Investment managers must maintain accurate records of soft dollar activity and report the usage annually to Management.

10.4 **Voting Rights**

The Board is responsible for exercising and directing the use of voting rights acquired through the Fund's investments. The Board has delegated the task to vote the shares of its investments to the investment managers.

Investment managers, through their delegated rights, should be voting in the best interests of the Fund, including considering the Plan's Responsible Investment Policy.

The Board reserves the right to direct the investment managers with investment management agreements to vote in a specified manner.

Investment managers are to provide their proxy voting procedures and guidelines to Management, as amended from time to time. Investment managers must maintain complete and accurate voting records on all Fund securities which are voted by them and shall provide a report on proxy voting activity at least annually to Management.

10.5 **Valuation of Investments**

Investments are valued using the fair value principle.

The value of publicly traded instruments are based on quoted market prices.

For assets that do not trade on public markets, such as private equity, private credit, real estate and infrastructure investments, a suitable method of valuation shall be used, such as: discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate.

SECTION 11 – STANDARD OF CARE

11.1 This Standard of Care applies to all Board members, its delegates and subdelegates, IC members, Management and persons employed by the TPPC to help in the administration and investment of the Fund ("Fund Representative").

11.2 In the discharge of their duties under this SIPP, each Fund Representative shall exercise the care, diligence, and skill in the administration of the Plan and investment management of the Fund that a person of ordinary prudence would exercise in dealing with the affairs and property of another person. Furthermore, each Fund Representative shall use in the investment management of the Fund all relevant knowledge and skill that the Fund Representative possesses or, by reason of the Fund Representative's profession, business or calling, ought to possess.

11.3 External service providers under contract to the Fund shall maintain an appropriate standard of care in the management of the Fund's assets. The custodian shall perform its duties with the skill and care that would be expected from a professional custodian and investment managers shall exercise such competence and skill as may be expected of a prudent and professional investment manager.

SECTION 12 - CONFLICT OF INTEREST

12.1 Each Fund Representative and investment managers subject to an investment management agreement shall adhere to the TPPC Code of Conduct Policy.

SECTION 13 - RELATED PARTY TRANSACTIONS

13.1 The Plan may enter into a related party transaction if:

a) The terms and conditions of the transaction are not less favourable to the Plan than market terms and conditions and it does not involve the making of loans to, or investments in, the related party; or

b) The value of the transaction is nominal or the transaction is immaterial to the Plan. Two or more transactions with the same related party shall be considered as a single transaction when considering if a transaction is nominal or the transaction is immaterial to the Plan. The Board has determined that a related party transaction shall be classified as nominal or immaterial if such transaction represents less than 3% of the market value of the Plan.

Transactions between wholly owned subsidiaries of the Plan are excluded from these requirements.

Any related party transaction must be fully disclosed to the IC.

13.2 In respect of the Plan, a related party is:

a) the TPPC,

b) an officer, director or employee of the TPPC,

c) the Government of Newfoundland and Labrador,

d) the Newfoundland and Labrador Teachers' Association,

e) a member of the Sponsor Body of the Plan,

f) an employer who participates in the Plan, or an employee, officer or director thereof (other than (c) and (d)),

g) a member of the Plan,

h) the spouse or common-law partner or a child of any person referred to in any of paragraphs (a) to (g),

i) an affiliate of the TPPC,

j) a corporation that is directly or indirectly controlled by a person referred to in any of paragraphs (a) to (i), or

k) an entity in which a person referred to in paragraph (a), (b), or (e), or the spouse or common-law partner or a child of such a person, has a substantial investment,

but does not include His Majesty in right of Canada or of a province, or an agency thereof, or a bank, trust company or other financial institution that holds the assets of the plan, where that person is not the TPPC.

SECTION 14 – STATEMENT REVIEW

14.1 The Board shall review and approve the SIPP at least annually. Notwithstanding the minimum annual review requirement, the SIPP may be changed or modified at any time by the Board.