

# Statement of Investment Policies and Procedures – RCA

RISK MANAGEMENT



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## OVERALL PRINCIPLES

This Policy sets out how the assets of the Retirement Compensation Arrangement Fund (the “RCA Fund” or the “RCA”) are invested by OMERS Administration Corporation (“OAC”). Investments will be selected and held in accordance with the objectives, requirements and limitations described in this Policy.

**The Policy applies to all investments of the RCA Fund.**

Next renewal date:	January 2019
Frequency of review:	Every year

## RCA Description

The RCA was established in 1992 and provides pension benefits that exceed the ITA maximum pension limits applicable to benefits provided under the Primary Plan. Governed by the *OMERS Act, 2006* and the ITA, the RCA is a separate trust arrangement that is not registered as a pension plan under either the PBA or the ITA. The benefit provisions and other terms of the RCA are set out in a plan text and RCA Declaration of Trust as amended from time to time.

Because the RCA is not a registered pension plan, a 50% refundable tax is levied by CRA on all contributions made to the RCA as well as all investment income and realized investment gains of the invested assets. Such tax is held by CRA in a refundable tax account (“Refundable Tax Account”) without earning investment income and is refunded on the basis (of one dollar per two dollars) of benefits paid out of the RCA. As a result, only half of the contributions, investment income and realized investment gains, less benefit payments and expenses can be invested (“RCA Investment Fund”). The RCA Fund includes both the RCA Investment Fund and the Refundable Tax Account.

The RCA is funded by equal member and employer contributions, taking into account the investment earnings on the RCA Fund. Contributions to the RCA are based on the same contribution rates as the Primary Plan and are calculated on earnings above the annual earnings threshold set by the SC.

The RCA Fund is segregated and invested separate and apart from the Primary Plan. The RCA Fund is subject to the RCA Declaration of Trust.

## Funding of the RCA

The RCA is not subject to the minimum funding standards under the PBA. Given the tax treatment of the

RCA Fund, the RCA is partially funded, operating on a modified pay-as-you-go basis.

The funding target as established by the SC is to ensure the existing RCA Fund, projected contributions and investment earnings are sufficient to pay for benefits and expenses for a period of 20 years following each annual valuation date. The funding target is reviewed and revised as appropriate by the SC.

Where appropriate, OAC shall provide to the SC its views on the funding target. In the event that circumstances indicate that the funding methodology established by the SC presents risks to the continuing health and long-term viability of the RCA, OAC will advise the SC of the OAC's fiduciary concerns.

## Objectives of the RCA Fund

**Return Expectations:** OAC will invest contributions and undertake investing activities to support the SC in meeting its 20-year funding target. The RCA Investment Fund is intended to generate real returns of 4.25% per annum. The Refundable Tax Account is assumed to earn a negative real return equivalent to the rate of inflation and a nominal return of zero.

**Strategic Asset Allocation:** OAC uses two strategic asset classes (fixed income and public equities) as part of its long-term RCA strategic asset mix.

The long-term strategic asset mix has been developed taking into account multiple factors such as the Refundable Tax Account, ease of administration, economic factors, the investment environment and cash flow projections.

The OAC Board of Directors has approved the following strategic asset mix allocations:

Investment	Refundable Tax Account	RCA Investment Fund	RCA Fund
Fixed Income	100%	0%	As per ITA requirements (Approximately 50%)
Public Equities <sup>1</sup>	0%	100%	Remainder (Approximately 50%)

<sup>1</sup> Includes cash allocation

Implementation of the long-term strategic asset mix, subject to a small ongoing allocation managed in a money market account for cash management purposes, will be completed in a prudent manner subject to market

conditions and investment opportunities. Further, to the extent there are realized gains or losses and interest income in the RCA Fund which have not yet been moved to, or from, the Refundable Tax Account, the asset mix for the RCA Fund will be approximately 50% public equities and the remaining balance in the Refundable Tax Account. OAC will implement the long-term strategic asset mix through Capital Markets and external service providers or other entities (including, without limitation, external professional investment advisors, third-party managed funds, pooled funds, unit trusts and similar vehicles).

**Performance Measurement:** Investment performance will be evaluated against performance targets/benchmarks that are approved annually by the OAC Board of Directors. The investment performance of the RCA Fund will be reported to the Investment Committee of the OAC Board, separate from the Primary Plan investment performance, both before and after management expenses incurred. Performance reporting will be consistent with industry recognized practices.

## Categories of Investments

The RCA Fund is invested directly and indirectly in the two asset classes: fixed income (the Refundable Tax Account) and public equities (including cash investments).

### Cash

Cash investments consist of cash, related interest, money market investments as well as equivalent short term investments and are used primarily for cash management purposes.

### Public Equities

Public equities are securities that represent ownership in a reporting issuer and include securities listed on recognized exchanges. Public equities include domestic and global equities and pooled funds which primarily invest in equities such as ETF's.

### Fixed Income

Fixed Income comprises amounts held in the Refundable Tax Account.

## RCA Governance

**Delegation of Authority:** In fulfilling its duties, the OAC Board of Directors may delegate responsibilities for the investment of the RCA Fund to the CEO and provide the CEO with the power to sub-delegate.

**Annual Review and Filing Requirements:** This Policy will be reviewed and approved by the OAC Board of Directors at least annually and a copy of this Policy will be delivered to OAC's actuary within 60 days of any amendment thereto.

**Delegation of Voting Rights:** OAC retains overall responsibility for voting proxies related to securities owned by the RCA Investment Fund. OAC exercises voting rights in a manner that is consistent with its *Proxy Voting Guidelines*. OAC exercises judgment in connection with the voting of any proxy on a case-by-case basis and may also engage a proxy voting service provider.

**Consideration of Environmental, Social and Governance Factors:** OAC believes that well run companies with sound environmental, social and governance ("ESG") practices will perform better in the long-term. OAC encourages the adoption of policies and practices that maximize financial performance including responsible corporate behavior with respect to ESG.

OAC incorporates ESG factors into its investment decision-making process and asset management practices, as such factors could have a material impact on investment performance. OAC does not consider ESG factors of the component parts of broad based equity index ETFs for the RCA Investment Fund. OAC does not engage in the practice of excluding investments through ethical screening. OAC exercises voting rights in respect of its public equity portfolio in a manner consistent with its *Proxy Voting Guidelines*. OAC may also encourage responsible corporate behavior through direct engagement with the public and private companies in which it invests.

OAC believes that the consideration of ESG factors is consistent with its objective to meet its long-term payment obligations to members.

## Valuation of Investment Assets and Liabilities

Investments are stated at fair value. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. It is best evidenced by a publicly quoted market price, if one exists. OAC uses quoted public market prices for the valuation of its assets wherever such quoted prices exist. All assets held by the RCA Fund are priced using quoted public market prices.

## Other Investment Matters

**Exposure to Foreign Assets:** Foreign investments are permitted as they provide the benefit of diversification to the RCA Fund.

**Currency Hedging:** The RCA Fund does not engage in currency hedging for its foreign investments.

**Use of Derivatives:** The RCA Fund may not engage in derivative transactions.

**Short Selling:** The RCA Fund may not engage in short selling.

**Securities Lending:** The RCA Fund may not engage in securities lending activities.

**Repurchase Transactions:** The RCA Fund may not engage in repurchase transactions.

**Related Party Transactions:** OAC may enter into a transaction with a related party of the Primary Plan or RCA Fund, as determined under the applicable legislation (i.e., PBA or ITA) and in accordance with the requirements of the *Related Party Transactions Review Policy*.

For the purposes of the applicable legislation, a transaction will be considered by OAC to be nominal or immaterial if its value is no more than 3% of the market value of the RCA Fund at the time the transaction is entered into or completed.

**Collateral:** Considering its categories of investments, the RCA Fund does not pledge, charge or otherwise grant a security in assets or post margin. The pledging or granting of a security interest in assets of the RCA Fund is not permitted.

**Borrowing:** Borrowing or providing guarantees on behalf of the RCA Fund is not permitted.

## Risk Management

OAC is exposed to a variety of investment risks. These include but are not limited to:

- Market risk (e.g. interest rate risk; foreign currency risk);
- Liquidity risk; and
- Credit risk.

These risks are measured and managed using systematic quantitative and qualitative approaches that assist OAC in assessing the total risk associated with the RCA's investment activities. The risk management

function assesses key investment risks across the enterprise.

An overview of funding risk and funding risk management mechanisms are provided in the RCA Funding Policy. To manage funding risk and investment risk, periodic asset mix and annual cash flow projection studies will be conducted.

## Diversification

Diversification is an important risk management tool because it reduces the variability of returns by distributing the RCA Fund's exposure among:

- asset classes;
- countries and industries; and
- securities

OAC regularly reviews the composition of its portfolios and adjusts its exposures based upon its risk appetite.

## Exceptions

The Policy Sponsor may grant non-substantive exceptions to this policy. The reasons for granting an exception should be recorded in writing and communicated annually to the OAC Board.

## Monitoring and Reporting

OAC has various functions and processes that monitor, and report on investment activity under this Policy. These functions include investment operations, risk management and compliance. These groups collectively monitor investment activities to ensure that Business Units operate within all limits established by the organization and in accordance with this and other applicable policies.

### ROLES & RESPONSIBILITIES

Policy Approver	OAC Board of Directors	Responsible for approving the Policy
Policy Sponsor	Chief Financial Officer	Ultimately accountable for the Policy, including its development, implementation and administration
Policy Manager and Monitor	VP, Risk Metrics	Responsible for the design and operational effectiveness of the day-to-day administration of the Policy, and for its monitoring, compliance and reporting functions