

**Statement of  
Investment Policies  
and Goals**

Saskatchewan  
Pension Plan  
Annuity Fund

As of January 1, 2019

APPROVED on this 3<sup>rd</sup> day  
of December 2018

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Tim Calibaba, Chair  
on behalf of the Board of Trustees

# Contents

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<b>Section 1—Overview</b>	<b>1</b>
1.01 Purpose of Statement	1
1.02 Background of the Plan	1
1.03 Plan Profile	1
1.04 Objective of the Plan	2
1.05 Investment and Risk Philosophy	2
1.06 Administration	2
1.07 Distinction of Responsibilities	3
<b>Section 2—Asset Mix and Diversification Policy</b>	<b>4</b>
2.01 Long-term Mission Statement	4
2.02 Portfolio Structure	4
2.03 Management Structure	4
<b>Section 3—Investment Guidelines</b>	<b>5</b>
3.01 General Guidelines	5
3.02 Permitted Investments	5
3.03 Minimum Quality Requirements	6
3.04 Maximum Quantity Restrictions	7
3.05 Securities Lending	7
3.06 Prohibited Investments	7
3.07 Borrowing	7
<b>Section 4—Monitoring and Control</b>	<b>8</b>
4.01 Delegation of Responsibilities	8
4.02 Performance Standards	9
4.03 Compliance Reporting by Investment Manager	9
4.04 Standard of Professional Conduct	9
4.05 Suppression of Terrorism	9
<b>Section 5—Administration</b>	<b>10</b>
5.01 Conflicts of Interest	10
5.02 Related Party Transactions	11
5.03 Selecting Investment Managers	11
5.04 Monitoring of Investment Managers	11
5.05 Dismissal of an Investment Manager	12
5.06 Policy Review	12
<b>Appendix A—Compliance Report</b>	

# Section 1—Overview

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## 1.01 Purpose of Statement

The purpose of this policy statement is to provide a framework for management of the pension fund within acceptable risk levels. The policy provides the investment managers with a written statement of specific quality, quantity and rate of return standards for the Annuity Fund.

A major goal of this policy statement is to establish ongoing communication between the Board and the investment manager. Effective communication will contribute to management of the portfolio in a manner that is consistent with market conditions and with the objectives of the Board. Consultation between the two parties will take the form of regular meetings supplemented, from time to time, by informal contact requested by either party.

This Policy is based on the “prudent person portfolio approach” to ensure the prudent investment and administration of the assets of the Plan, within the parameters set out in applicable legislation.

## 1.02 Background of the Plan

The Saskatchewan Pension Plan was established by the Government of Saskatchewan to provide a means of retirement income planning for all Saskatchewan residents, and particularly for those residents with little or no access to the Canada Pension Plan or other pension plans. The Plan was created by *The Saskatchewan Pension Plan Act* (the Act).

Section 5 of the Act authorizes the Board to invest the Plan's money in securities authorized for investment pursuant to *The Pension Benefits Act 1992*.

Section 5 of the Act requires the Board to develop and implement an investment policy for the Fund.

## 1.03 Plan Profile

In order to establish an appropriate Policy for the investment and administration of Plan assets, it is important to understand the nature of the Plan. Accordingly, this section of the Policy summarizes various aspects of the Plan that impact investment return requirements and risk tolerance.

The Saskatchewan Pension Plan is unique in its design. Non-Retired members have two options in which to invest their assets, the Balanced Fund and the Short Term Fund. These two funds are collectively known as the Contribution Fund. Assets of retired members are held in the Annuity Fund. This policy sets out the guidelines for management of the Annuity Fund. A separate policy governs the Contribution Fund.

The Annuity Fund holds assets transferred from the Contribution Fund at retirement. Assets in the Annuity Fund are used to provide annuity payments to retired members. The amount of

the annuity is dependent on the balance in the member's account at the date of retirement, interest rates at the date the annuity is purchased, the type of annuity selected, and life expectancy of the member and the member's spouse, if applicable.

Subsection 7(3.2) of *The Saskatchewan Pension Plan Act* indicates that any amount by which the liabilities of the fund exceed the assets of the Annuity Fund is a charge on, and payable out of, the general revenue fund of the Government of Saskatchewan.

In the Contribution Fund, contributions and related earnings are locked in to age 55. Retirement options include purchase of an annuity from the Plan, or an external provider, or members may transfer assets to another financial institution for the purchase of a Prescribed Registered Retirement Income Fund (P-RRIF) or a Locked-in Retirement Account (LIRA). Benefit payments from Annuities must commence and transfers must take place no later than age 71, and can commence as early as age 55. The amount of funds available to a member to purchase pension benefits at retirement is equal to cumulative contributions and accumulated earnings.

#### **1.04 Objective of the Plan**

The purpose of the Saskatchewan Pension Plan Annuity Fund (the Fund) is to hold assets of retired members and provide annuity payments for the life of the member.

#### **1.05 Investment and Risk Philosophy**

##### **(a) Investment Philosophy**

Plan assets (Fund) required to support expected benefit payments and expenses (matching assets) should be invested in a diversified portfolio of fixed income assets in a manner that immunizes the Fund against interest rate movements through matching cash flows with expected benefit and expense payments, and earns a reasonable rate of return relative to the risk profile of the Fund. Any Plan assets in excess of the matching assets (surplus assets) should be invested in a portfolio of diversified assets.

##### **(b) Risk Philosophy**

Overall, the risk tolerance of the Annuity Fund can be considered low. The Fund cannot tolerate loss of principal. Risk is addressed through an investment approach that invests solely in high quality fixed income instruments. Interest rate risk is addressed by matching estimated future cash payments with interest and principal payments from the portfolio. As such, the Annuity Fund is immunized against changes in interest rates that may cause temporary differences between the asset and liability values.

#### **1.06 Administration**

In accordance with *The Saskatchewan Pension Plan Act*, a Board of Trustees is established to administer the Plan and act as Trustee of the Fund.

Responsibility for safekeeping of the assets, income collection, settlement of investment transactions, and accounting for the investment transactions has been delegated to a trust company. Responsibility for investing the assets of the fund has been delegated to a professional investment manager. The Board has a fiduciary responsibility to ensure the investments are managed prudently.

## **1.07 Distinction of Responsibilities**

The Board is responsible for investment of Fund assets.

Duties of the Board as relates to investments are to:

- Approve a Statement of Investment Policies and Goals;
- Set an appropriate investment structure;
- Appoint investment managers;
- Appoint the custodian;
- Monitor investment performance; and
- Review the investment policy on an annual basis.

## Section 2—Asset Mix and Diversification Policy

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### 2.01 Long-term Mission Statement

The investment objectives are:

- To structure the investment portfolio so that the Annuity Fund's matching assets are immune to changes in the level of interest rates;
- To provide sufficient liquidity to ensure payment to retired members when due; and
- To ensure long-run solvency.

### 2.02 Portfolio Structure

To achieve the objectives cited in 2.01 above, the assets of the Fund should be invested so that:

- The duration of the investment portfolio at cost is matched with the duration of the liabilities at cost on an annual basis. The matching should fall within a band of -.5 to +.5 years of the duration target;
- Portfolio liquidity, including investment cashflows and short-term investments, is sufficient to meet annuity payments and avoid the liquidation of long term bonds; and
- The present value of the asset cash flow stream matches or exceeds the present value of expected liability payments
- After the above objectives have been achieved, surplus assets may be invested to enhance Fund performance.

### 2.03 Management Structure

#### Philosophy

A structure with a single manager has been adopted for management of Fund assets.

This structure employs cash flow matching, which reduces the possibility of the Fund not being able to achieve its long-term objective.

## Section 3—Investment Guidelines

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### 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 *Saskatchewan Pension Benefits Act*, which refers to the federal *Pension Benefits Standards Act* on investment-related issues, the *Income Tax Act and Regulations*, and all subsequent amendments.

### 3.02 Permitted Investments

In general and subject to the restrictions in this Section 3, the Fund may invest in any of the following asset classes and investment instruments:

#### (a) Bonds

- (i) Bonds, debentures, notes and other evidence of indebtedness of Canadian issuers denominated and payable in Canadian dollars.
- (ii) Mortgage-backed securities.
- (iii) Mortgages on income producing commercial property and multi-unit residential properties in Canada, held in investment funds deemed permissible by the Board.
- (iv) Term deposits and guaranteed investment certificates.
- (v) Private placements of bonds and asset-backed securities subject to Section 3.03(e).

#### (b) 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.

#### (c) Other Investments

Deposit accounts of the custodian can be used to invest surplus cash holdings.

### 3.03 Minimum Quality Requirements

#### (a) Quality Standards

- (i) The minimum quality standard for government bonds and debentures is 'BBB' or equivalent as rated by a recognized bond rating agency, at the time of purchase (includes all sub-rating levels within the overall 'BBB' rating)
- (ii) The minimum quality standard for corporate bonds and debentures is 'A' or equivalent as rated by a recognized bond rating agency, at the time of purchase (includes all sub-rating levels within the overall 'A' rating)
- (iii) Callable bonds are not permitted, except for issues with a "doomsday" clause under which the issuer pays a redemption premium relative to current market prices, thus maintaining the Annuity Fund's capital
- (iv) The minimum quality standard for individual short-term investments is 'R-1' or equivalent as rated by a recognized bond rating agency, at the time of purchase
- (v) All investments shall be reasonably liquid (i.e., in normal circumstances they should be capable of liquidation within 3 months)
- (vi) Unrated bonds should be assigned a rating by the investment manager before purchase

#### (b) Split Ratings

In cases where the Recognized Bond Rating Agencies do not agree on the credit rating for a bond, preferred share or asset-backed security, the security will be classified according to the methodology used by FTSE for the Canada bond indices.

#### (c) Downgrades in Credit Quality

The Investment Manager will take the following steps in the event of a downgrade in the credit rating of a portfolio asset by a recognized bond rating agency to below the purchase standards set out in Section 3.03(a) Quality Standards:

- (i) The General Manager will be notified of the downgrade by telephone at the earliest possible opportunity;
- (ii) Within ten business days of the downgrade, the Investment Manager will advise the General Manager in writing of the course of action taken or to be taken by the Investment Manager, and its rationale; and
- (iii) The Investment Manager will provide regular reporting on the status of the asset until such time as it matures, is sold or is upgraded to a level consistent with the purchase quality standards as expressed in the above guidelines.

#### (d) Rating Agencies

For the purposes of this Policy, the following rating agencies shall be considered to be 'Recognized Bond Rating Agencies':

- (i) DBRS;
- (ii) Standard and Poor's;



(iii) Moody's Investors Services;

(iv) Fitch Ratings

**(e) Private Placements**

Private placement bonds and asset-backed securities are permitted subject to all of the following conditions:

(i) The issues acquired must be minimum 'A' or equivalent rated.

(ii) The portfolio may not hold more than 5% of the market value of any one private placement.

(iii) The Investment Manager must be satisfied that there is sufficient liquidity to ensure sale at a reasonable price.

(iv) The portfolio may not hold more than 5% of the portfolio market value in any one private placement.

**3.04 Maximum Quantity Restrictions**

The Investment Manager shall adhere to the following restrictions:

(a) The combined holdings of a single corporation and its associated or affiliated companies, at the time of purchase, shall not represent more than 10% of the total market value of the assets of the Fund.

(b) The combined market value of the corporate bond and mortgage holdings shall not exceed 10% of the Fund's market value, with the limit reviewed annually relative to the Fund's funding position.

(c) No one corporate bond holding shall represent more than 10% of the market value of the total outstanding for that bond issue.

(d) 'BBB' bonds may not be purchased if the purchase would raise the 'BBB' holdings to more than 15% of the market value of the bond portfolio.

**3.05 Securities Lending**

The securities of the Fund may not be loaned.

**3.06 Prohibited Investments**

The Investment Manager shall not make any investment not specifically permitted by this Policy.

**3.07 Borrowing**

The Fund shall not borrow money, except to cover short-term contingency and the borrowing is for a period that does not exceed ninety days. Also, any borrowing shall be made only in accordance with applicable legislation.

## Section 4—Monitoring and Control

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### 4.01 Delegation of Responsibilities

Overall responsibility for the Plans' assets rests with the Board. The Board is responsible for the investment policy, appointment custodians, investment managers, actuarial and consulting services, and plan changes. The Board is also charged with ensuring the Plan conforms to legislation and monitoring investment performance.

In completing the above duties a number of responsibilities have been delegated:

**(a) The Investment Manager will:**

- (i) Invest the assets of the Fund in accordance with this Policy;
- (ii) Notify the Board, in writing of any significant changes in the investment manager's philosophies and policies, personnel or organization and procedures;
- (iii) Meet with the Board as required and provide quarterly written reports regarding their past performance, their future strategies and other issues as requested;
- (iv) Reconcile account records with the custodian account records monthly; and
- (v) File quarterly compliance reports (see Section 4.03).

**(b) The custodian will:**

- (i) Maintain safe custody over the assets of the Fund;
- (ii) Execute the instructions of the Board, as communicated by Administration, and any Investment Manager appointed to manage the assets of the Fund; and
- (iii) Record income and provide monthly financial statements as required.

**(c) The investment consultant will:**

- (i) Assist in the development and implementation of this policy and provide related research;
- (ii) Monitor the investment performance of the Fund and the Investment Managers on a quarterly basis;
- (iii) Evaluate the appropriateness of investment fund vehicles made available to the Fund by the Investment Manager;
- (iv) Support the Board on matters relating to investment management and administration of the Fund; and

(v) Meet with the Board and Administration as required.

**(d) The General Manager:**

(i) Is appointed by the Board and is responsible for all investment matters of the Plan.

**4.02 Performance Standards**

- (a) Investment performance will be monitored and evaluated on a regular basis.
- (b) Portfolio risk will be monitored annually by measuring the duration gap between the assets and liabilities.
- (c) Long-term solvency will be monitored annually by comparing the present value of the asset cash flow stream to the present value of the estimated liability payments.
- (d) Performance review and investment strategy meetings will be held on a quarterly basis.

**4.03 Compliance Reporting by Investment Manager**

The Investment Manager is required to complete and sign a compliance report each quarter. The compliance report should indicate whether or not the Investment Manager's portfolio was in compliance with this Policy during the quarter. Copies of the compliance reports must be sent to the Board and to the Fund's investment consultant. Report formats for the compliance reports are included under the appendix.

In the event that an Investment Manager is not in compliance with this Policy, the Investment Manager is required to advise the Administration immediately, detailing the nature of the non-compliance and recommending an appropriate course of action to remedy the situation.

If an Investment Manager believes the Guidelines are inappropriate for anticipated economic conditions, the manager is responsible for advising the Board that a change in guidelines is desirable and the reasons therefore.

**4.04 Standard of Professional Conduct**

Each Investment Manager is 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.

Each Investment Manager will manage the assets with the care, diligence and skill that a prudent person skilled as a professional investment manager would use in dealing with pension plan assets. The Investment Manager will also use all relevant knowledge and skill that it possesses or ought to possess as a prudent investment manager.

**4.05 Suppression of Terrorism**

The Investment Managers must comply at all times and in all respects with the Federal Suppression of Terrorism Regulations.

## Section 5—Administration

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### 5.01 Conflicts of Interest

#### (a) Responsibilities

This standard applies to the members of the Board as well as to all agents employed by them, in the execution of their responsibilities to the Fund (the “Affected Persons”).

An “agent” is defined to mean a company, organization, association or individual, as well as its employees, who are retained by the Board to provide specific services with respect to the investment, administration and management of the Fund.

#### (b) 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 Fund.

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

No Affected Person shall accept a gift or gratuity or other personal favor, other than one of nominal value, from a person with whom the individual deals in the course of performance of his or her duties and responsibilities for the Board.

It is incumbent on any Affected Person who believes that he/she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation to the attention of the Board immediately. The Board, 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 Board.

No Affected Person who has or is required to make a disclosure which is determined to be in conflict as contemplated in this Policy shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure.

## 5.02 Related Party Transactions

The administrator of the plan may not enter into a transaction with a related party unless:

- (a) The transaction is required for the operation or administration of the plan and the terms and conditions of the transaction are not less favourable to the plan than market terms and conditions; or
- (b) The combined value of all transactions with the same related party is nominal or the combined transactions are immaterial, less than 0.5% of the Fund's market value; or
- (c) The investment is exempted under Section 17 of Schedule III of *the Pension Benefits Standards Regulations*.

"Related party" is defined in section 1 of Schedule III to the *Pension Benefits Standards Regulations, 1985* (Canada). A related party is a person who is the administrator of the plan including any officer, director or employee of the administrator, or any person who is a member of the Board. It also includes, the Investment Managers and their employees, a union representing employees of the employer, a member of the plan, a spouse or child of the persons named previously, or a corporation that is directly or indirectly controlled by the persons named previously, among others. Related party does not include government or a government agency.

Under the preceding conflict of interest guidelines, it is incumbent on any person to notify the Board if a conflict arises. Such conflict includes related party transactions.

## 5.03 Selecting Investment Managers

In the event that a new Investment Manager must be selected or additional Investment Manager(s) added to the existing Investment Managers, the Board will undertake an Investment Manager search. The criteria used for selecting an Investment Manager will be consistent with the investment and risk philosophy set out in Section 1.05 (Investment and Risk Philosophy), and the Management Structure Philosophy set out in Section 2.03.

## 5.04 Monitoring of Investment Managers

To enable the Board to fulfill its responsibility of monitoring and reviewing the Investment Managers, the Investment Consultant will assist the Board, on an ongoing basis, in considering:

- (a) Investment Manager's staff turnover, consistency of style and record of service;
- (b) Investment Manager's current economic outlook and investment strategies;
- (c) Investment Manager's compliance with this Policy, where a manager is required to complete and sign a compliance report; and,
- (d) Performance standards of the assets of the Plan in relation to the expectations outlined in this Policy.

### **5.05 Dismissal of an Investment Manager**

Reasons for considering the termination of the services of an Investment Manager include, but are not limited to, the following factors:

- (a) Performance standards, which over a reasonable period of time, are not in compliance with the stated performance benchmarks;
- (b) Changes in the overall structure of the Fund such that the Investment Manager's services are no longer required;
- (c) Change in personnel, firm structure and investment philosophy, style or approach which might adversely affect the potential return and/or risk level of the portfolio; and/or
- (d) Failure to adhere to this Policy.

### **5.06 Policy Review**

This Policy may be reviewed and amended at any time, but it must be formally reviewed by the Board, at least once in every calendar year.

# **Appendix A—Compliance Report**

**Saskatchewan Pension Plan  
Annuity Fund**  
Compliance Report for the Period From \_\_\_\_\_ to \_\_\_\_\_  
(date) (date)

		Guidelines	Policy Complied With Yes/No*
		%	
<b>Permitted Investments</b>			
	- Per Section 3. Canada, provincial and corporate bond issues, strips, mortgage backed securities, and short-term investments are permissible. Equities, options, futures, and other derivative securities are not permissible.		
<b>Constraints</b>			
	- Duration	+/- 0.5 years of liability duration (annually) for the liability matching assets	
	- Matching	Present value of assets matches or exceeds present value of expected liability payments (annually)	
	- Quality	Min 'BBB' for government bonds	
		Max 10% of market value in combined corporate bonds and mortgages	
		Max 15% of market value of bond portfolio in 'BBB'	
		Min 'A' rating for bonds of corporate issuers	
		Min 'R-1' for short-term investments	
	- Currency Risk	Foreign debt issues and foreign pay securities not permitted	
	- Private Placements	Min 'A' rating for private placement issuers	
	- Callable Bonds	Callable bonds are not permitted, except for bonds containing a "doomsday" clause	
	- Statutory Requirements	Must meet requirements for eligible investments outlined in <u>The Pension Benefits Act</u>	
		Must meet requirements for eligible investments outlined in the <u>Income Tax Act</u>	
<b>Conflicts of Interest</b>	- Disclosure	Conflicts of interest (if any) disclosed to the Chairperson of the Board	
<b>CFA Institute Code of Ethics and Standards of Professional Conduct</b>	- Compliance	CFA Institute Code of Ethics and Standards of Professional Conduct complied with	
<b>Suppression of Terrorism</b>	- Compliance	Compliance with Federal Suppression of Terrorism Regulations	

\* Provide actual weight or range where appropriate. If policy not complied with, comment on specifics.

I believe this to be a factual representation of compliance with the Statement of Investment Policies and Objectives throughout the reporting period.

\_\_\_\_\_  
Signature and Title

\_\_\_\_\_  
Company Name