

**STATEMENT OF INVESTMENT POLICIES - GUIDELINES AND
OBJECTIVES**

**for the
Defined Benefit component of the University of Winnipeg Trusteed Pension Plan**

PLAN DESCRIPTION

The defined benefit (DB) component of the University of Winnipeg Trusteed Pension Plan (the “Plan”) provides an annual pension benefit of 2% of final average salary for each year of credited service reduced by 0.6% of final average Canada Pension Plan (CPP) salary for each year of credited service after 1987 (pre 1988 benefit calculation does not take into account the reduction for CPP). Plan members contribute at 6% of salary reduced by 1.8% of that part of the salary on which CPP contributions are made. The University of Winnipeg (the “University”) regular contribution is one percent higher than the member contribution. Contributions are capped at a salary level that reflects the maximum Plan benefit of \$1,722.22 for each year of pensionable service.

In the event of an unfunded liability the University is responsible for the additional funding required under the Pension Benefits Act. The University has been granted an exemption from solvency deficiency payments under Regulation M.R. 141/2007; however, in the event that a solvency deficiency exists at Plan windup, the University is responsible for funding the deficiency. The DB component of the Plan is closed to new members and many of the younger members elected to transfer to the defined contribution (DC) component of the Plan with effect from January 1, 2000. Accordingly, the average age of the active members in the DB component is high relative to other defined benefit pension plans and will get steadily higher. At the same time, the Plan liabilities with respect to the pensioners as a percentage of total DB liabilities will grow steadily.

PURPOSE

The primary goal of the defined benefit component of the Plan is to provide members with retirement income at reasonable cost. The prudent and effective management of the Plan assets has a direct impact on the achievement of this goal. The assets of the Plan are to be managed in a manner that achieves security and solvency of Plan benefits. The focus will be to achieve a substantial long-term rate of return consistent with the needs for security and solvency of Plan benefits. As a result the Plan must be managed in a manner that ensures its long-term sustainability. This recognition affects the level of risk that the Board of Trustees for the University of Winnipeg Trusteed Pension Plan Trust (the “Board”) is prepared to accept.

This Investment Objectives and Policy Statement has been prepared in accordance with the relevant legislation affecting the Plan to ensure continued prudent and effective management of the Plan assets.

BACKGROUND

The defined benefit component of the Plan is a contributory Plan covering certain eligible employees of the University. Under the Plan, contributions are made by the Plan members and the University. The Plan is a trustee plan established November 1, 1977, and is registered under the University of Winnipeg Pension Plan #1416 (CRA 0309914). The University of Winnipeg, being the Plan sponsor, must fund any unfunded liability as prescribed by law. The determination of the value of the benefits is made on the basis of a triennial actuarial valuation.

A review of all of the above factors have led the Board to adopt investment objectives and policies which they believe would reflect an average to below average risk tolerance amongst defined benefit Pension Plan sponsors in Canada.

COMPONENTS OF INVESTMENT POLICY

The Board, through the Defined Benefit Committee, monitors the performance of investments and makes investment policy decisions. The Defined Benefit Committee will carry out its duties indirectly, by recommending and monitoring specialists in *investment* management. This policy establishes the boundaries within which the Defined Benefit Committee will carry out its duties and offer advice.

ASSET ALLOCATION

Type of Investments

Investments must meet the qualitative requirements of the regulations made pursuant to the Pension Benefits Standards Act, 1985 (Canada), Pension Benefits Act of Manitoba, Income Tax Act and any other legislative governing pensions as amended from time to time.

The assets of the Pension Plan will be invested in fixed income and equity securities in such proportions as are described in this policy. Within the constraints of this policy the proportions may be changed from time to time on the recommendation and advice of the Defined Benefit Committee.

The Fund's investments in equities, bonds, and short term securities will be broadly diversified, but not to the degree that the portfolio is fragmented into individual holdings of uneconomic and unmanageable size as set out below.

Within this overall asset allocation the funds will be split among a variety of asset classes chosen to ensure diversification and provide a responsible mix of return and volatility. The following table provides the effective ranges and the benchmarks for each of the asset classes described.

Overall Asset Allocation

	<u>Minimum</u>	<u>Maximum</u>	<u>Market Value</u> <u>Benchmarks</u>
<i>Cash and Short-term</i>	0%	20%	0%
<i>Fixed Income</i>	30%	55%	40%
<i>High Yield Bond</i>	0%	6%	5%
<i>Total Fixed Income</i>	35%	55%	45%
<i>Income-Based Equity</i>	0%	6%	5%
<i>Canadian Equity</i>	20%	40%	20%
<i>Foreign Equity</i>	15%	30%	25%
<i>Specialty Equity (assorted)</i>	0%	8%	5%
<i>Total Equity</i>	45%	65%	55%

* The book value of foreign equity, including the foreign components of specialty equity is not to exceed the limit set by the Income Tax Act (Canada).

Asset Allocation

The overall allocation between the Income Portion and the Equity portion cannot vary by more than 10% in either direction. That is, the effective range for the income portion is from 35-55% and the effective range for the equity portion is from 45-65%.

The degree of discretion is as described in the Overall Asset allocation table.

Description of Asset Classes

Cash and Short term:

This includes a variety of short-term securities which combine high security of capital with a predictable yield to maturity. Examples include federal and provincial treasury bills, certificates of deposit, short-term corporate notes, bankers acceptances and term deposits.

Fixed Income:

This includes fixed income securities that qualify as investment grade because the issue has achieved a rating of BBB (or its equivalent) or higher. Examples of

securities in this asset class include mortgages, sovereign debt (Government of Canada and the Provinces), corporate bonds, debentures and asset-based securities.

High-Yield Bond:

This includes fixed income securities that do not qualify as investment grade because the issue has a rank below the level of BBB or higher.

Income-based Equity:

This includes equity-based securities whose primary purpose is income. Examples of securities in this asset class include Real Estate Investment Trusts, Royalty Trusts, Income Trusts, Preferred Shares, convertible debentures, convertible preferred shares and may include the common shares in utilities and other slow growth industries where their dividend is significant.

Canadian Equity:

This class primarily includes publicly traded shares for Canadian companies. They may also include exchangeable shares, rights and warrants for individual companies or Exchange Traded Funds for groups of companies. Publicly traded options and other derivatives may be used where such actions do not increase the overall risk of the portfolio.

Foreign Equity:

For the purpose of this policy foreign equity refers to well-diversified investments in equity from countries other than Canada. Investments in the US and in the rest of the world may be split.

Specialty Equity:

Specialty equity refers to equity funds with a narrow, specialized focus. This focus could be on a single industry or single geographic region or single type of security. Examples of this focus include Canadian small cap, distress or vulture Funds, Venture Capital Funds, Hedge Funds and Arbitrage Funds. This section must be used for professionally-managed securities, however, and cannot be used for other assets.

Derivatives

Derivative instruments will only be used in ways that reduce risk or transfer risk and not to increase risk and are consistent with the fund's and the Investor's investment objectives. They will not be used to add leverage to the fund. Counterparty risk arising

from derivative transactions will be limited to credits rated "A" or better. Instruments used may include but are not limited to futures, options, swaps and structured notes.

MANAGING THE FUND

Overall Approach

The funds of the Plan will be externally managed. The funds may be invested through either separate purchase of individual securities or through pooled funds.

Code of Ethics

Investment activities by the investment managers will be conducted in a manner consistent with the Code of Ethics and Standards of Professional Conduct adopted by the Association of Investment Management and Research (AIMR).

Responsibility of the Defined Benefit Committee

The Defined Benefit Committee will recommend to the Board the retention, change or addition of particular managers, and monitor their performance. In carrying out their duties the Defined Benefit Committee will establish for each manager the mandate, objectives and method of performance measurement. They will ensure that assets are reassigned from one manager to the other to maintain an overall asset split in line with this policy.

Mandate:

The Mandate is a clearly stated description of the expectations the Defined Benefit Committee will have of the asset manager. It will provide a description of the following: the types of securities the investment manager will be permitted to purchase; the asset classes the investment manager may invest in; where the investment manager is a balanced fund manager the percentage of the assets under supervision that can be placed in each of the asset classes; the degree and the type of diversification of securities required; any quality restrictions including credit quality for bonds; any restrictions on the use of derivatives; any limitations with regard to style or other criteria; and the basis for securities lending. Where the investment is a pooled fund the mandate may simply name the fund. Where the investment is a segregated fund, the mandate will be discussed with and agreed upon by the investment management firm.

Objectives:

The Objectives will outline the overall objective of the individual fund and also detail the specific techniques to be used to measure the manager's success. These would include both risk measures (stated in the degree of volatility) and the return

objectives (stated in overall terms, in relationship to an index, and in comparison to other funds).

The objectives, although different for each manager, would be similar to those shown below:

- ❖ Maximize long-term total return while protecting the capital value of the class/fund from major market fluctuations through prudent management of asset allocation and prudent selection of investments as described below.
- ❖ Maintain current purchasing power of monies placed in the fund plus a real incremental return over time of 3% (i.e., longer term returns should equal inflation, as measured by the CPI, plus 3%).
- ❖ Generate returns in excess of the return of a Benchmark Fund over rolling four-year periods. The specific components of the benchmarks will be as follows.
 - 25% TSE 300 capped to a maximum of 10% in any issues
 - 45% Scotia McLeod Bond Universe
 - 30% Morgan Stanley World Index (ex-Canada)
- ❖ Obtain a 33rd percentile performance ranking over rolling four-year periods as measured by a nationally recognized service.

For Specialty Fund managers the objectives will be separately established but will include some of all of:

- ❖ Generate returns for the specialty Fund in excess of the return of the equivalent balanced fund index by a pre-defined amount over a rolling four year period. (For example a small cap fund could state an objective of having a net return 1.5% greater than the TSE 300. A high yield bond fund could have an objective of achieving a yield 2% greater than the yield on the SMU.
- ❖ Exceed the return on a standardized specialty index by an amount equivalent to the management fee for the specialty fund plus .25% on a rolling four year period
- ❖ Obtain a 33rd percentile performance ranking against similar funds over rolling four-year periods as measured by a nationally recognized service.

Responsibility of the Professional Managers

The managers will ensure that the assets under their management do not exceed the asset allocation limits, or depart from the criteria described in the mandate. Within that frame of reference the managers will determine the securities to invest in and strive to achieve the objectives established in the mandate. This means that, for example, balanced managers will have discretion to choose between bonds and equities within the limits established in the mandates.

TYPES OF FUNDS

The plan will achieve its desired asset allocation through two types of funds. Traditional Funds (Balanced Funds, or large funds devoted to one of either Bond, Canadian Equity or Foreign equity) will be used for 85% of the assets. Specialty funds will be used to establish special asset classes that supplement the balanced funds. These special asset classes include High Yield bonds (5%), High Yield equity (5%) and other Specialty equity (5%).

The search for traditional managers will be separate from the search for specialty managers although the same management firm may be chosen for both traditional and specialty funds.

NUMBER OF MANAGERS

Overall Approach

The Defined Benefit Committee believes that too large a number of managers will significantly increase the difficulty of providing effective oversight and maintaining effective control over asset allocation. Therefore, a maximum of 3 money management firms and/or manager of managers will manage 95% of the assets. There may be as few as one manager.

If there is more than one manager then the managers chosen will be a combination of either one or two traditional balanced portfolio mandates with a limited number of pooled funds for specialty purposes.

Balanced Fund Managers

For the generic component preference will be given to managers who have balanced portfolios and can therefore do asset allocation internally within the policy guidelines. There should be a maximum of two balanced managers. They should have offsetting styles.

Specialty Fund Managers

All specialty fund managers may use pooled funds. Each specialty mandate will represent a minimum of 2.5% of assets and a maximum as established in the asset allocation portion of this policy. The specialty mandates may be granted to the balanced managers. More than one specialty mandate may be granted to a single management firm.

Specialty mandates may be arranged through third party brokers. The Defined Benefit Committee may choose to go above three managers to get specialized expertise in specific areas but the total assets provided to these extra managers will not exceed 5%.

Additional Restrictions

Single specialty funds in areas with substantial potential for loss will be limited to no more than 2.5% of assets. These would include:

- ❖ Venture Capital
- ❖ Hedge Funds or arbitrage funds with the potential to use leveraged positions.
- ❖ Any fund that invests in illiquid assets.

CONFLICT OF INTEREST GUIDELINES

Individuals Affected by Guidelines and Definition of Conflict of Interest

Any employee/member of:

- Defined Benefit Committee;
- Board of Trustees;
- UWinnipeg employee in the Financial Services Department
- Investment Manager;
- Custodian;
- Or any Committee thereof

or of any other retained third party will disclose to the Defined Benefit Committee in writing and, if appropriate, orally, an actual or perceived conflict of interest that could reasonably be expected to impair, or could reasonably be interpreted as impairing the individual's ability to render unbiased and objective advice or to fulfill fiduciary responsibilities to act in the interest of the beneficiaries of the Plan.

Procedure for Acting on Conflict of Interest

The disclosure of any conflict of interest should be made in writing to the Defined Benefit Committee and in the case of the Investment Manager to a Senior Partner or Compliance Officer of the Investment Manager within 3 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 plan business.

The disclosure of a conflict of interest, the name of the individual declaring the conflict and how the conflict was resolved will be recorded in the minutes of the Defined Benefit Committees.

ONGOING MAINTENANCE

Communication

The investment managers will be expected to provide written reports to the Defined Benefit Committee at least quarterly. These reports will include, at a minimum the total assets, the return, the current portfolio and any transactions.

In addition the investment managers will meet with the Defined Benefit Committee to discuss investment philosophy, investment policy and guidelines, asset allocation and fund performance. The timing and frequency of such meetings will be mutually agreed between the parties and will vary by investment manager.

The Investment Manager agrees to notify the Defined Benefit Committee as to the names of the account managers and to notify the Defined Benefit Committee of changes in account managers.

The Investment Manager will advise the Defined Benefit Committee of any significant change in the Investment Manager's organizational structure and any other significant or material corporate developments.

Valuation of Portfolio

The components of the portfolio will be revalued quarterly and the results of this revaluation will be used to ensure that the asset classes for the different funds and for the Plan as a whole are consistent with the Policy Guidelines and the Investment manager mandates. If, as a result of these quarterly reviews it is determined that a reallocation is required the university or its designate will inform the Investment Managers involved.

Valuation of Non-Marketable Securities

In the case of a security that becomes illiquid, or an inherited security that does not have an active market over an extended period of time, the value of the security will be determined in such manner as the Investment Manager from time to time determines in consultation with Defined Benefit Committee.

Reallocation between Managers

From time to time the Board or its designate will find it necessary to reallocate assets from one manager to another. This will be most likely to occur when the funds of a

specialty manager exceed the range established for the fund. Such reallocation will be done in a manner that is the least disruptive to ongoing management of the funds.

Delegation of Voting Rights

The Investment Manager is responsible for exercising all voting rights acquired through the Plan's investments. The Investment Manager will vote on the Board's behalf and in the favour of management. Where it is not in the best interests of the Plan, in the opinion of the Investment Manager, to vote with management, the Manager will advise the Board after casting a negative vote. The Defined Benefit Committee retains the right to exercise acquired voting rights directly at any time by notifying the Investment Manager.

Termination

The Defined Benefit Committee may recommend the termination of the contract with the Investment Manager at any time upon thirty days written notice to the Investment Manager for any cause whatsoever or the Investment Manager may resign as Investment Manager by giving ninety days prior written notice to the Defined Benefit Committee. The notice by either party may be carried out by facsimile transmission.

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