



**STATEMENT OF INVESTMENT POLICIES, STANDARDS AND PROCEDURES  
FOR ASSETS MANAGED BY  
THE PUBLIC SECTOR PENSION INVESTMENT BOARD**

**Effective on March 31<sup>st</sup>, 2009**

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**STATEMENT OF INVESTMENT POLICIES, STANDARDS AND PROCEDURES FOR  
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PUBLIC SECTOR PENSION INVESTMENT BOARD**

**Effective on March 31<sup>st</sup>, 2009**

**1. Purpose, Plan Overview & Investment Objectives**

**A. Purpose**

The *Public Sector Pension Investment Board Act*, S.C. 1999, c. 34, (the “Act”) established a corporation, the Public Sector Pension Investment Board (“PSP Investments”), to manage and invest certain pension funds (together the “Funds”, each a “Fund”) of the pension plans established under the *Public Service Superannuation Act*, the *Canadian Forces Superannuation Act* and the *Royal Canadian Mounted Police Superannuation Act* (collectively the “Initial Plans”) and the pension plan established by regulations made pursuant to section 59.1 of the *Canadian Forces Superannuation Act* (the “Reserve Force Plan”). The Initial Plans and the Reserve Force Plan (collectively the “Plans”).

Pursuant to paragraph 7(2)(a) of the Act, the board of directors (the “Board of Directors”) of PSP Investments is required to establish, on an annual basis, a statement of investment policies, standards and procedures (the “Statement”) for each of the Funds. This Statement has been developed to fulfil this requirement, and governs assets received by PSP Investments from the Funds and invested by PSP Investments in accordance with the Act. This Statement is intended to comply with the requirements of section 9 of Part 1 of the Regulations Amending the Public Sector Pension Investment Board Regulations, SOR/2000-243 (Interpretation provisions and Part 1 of SOR/2000-243 hereinafter referred to herein as the “Regulations”). In accordance with subsection 9(3) of the Regulations, the Board of Directors shall review and either confirm or amend this Statement at least once each financial year (i.e., the 12-month period April 1-March 31).

This Statement is or may be relevant to a number of different entities or groups of people, including the Board of Directors of PSP Investments (section 7 of the Act), employees of PSP Investments (section 7 of the Act), investment managers who are required to comply with this Statement (section 33 of the Act) and the actuary for the Plans.

**B. Overview of the Plans**

A brief summary of each Plan is attached as Appendix “A”. The Plans are not identical; however, they have a number of fundamental features in common that allows this Statement to apply in relation to the assets transferred to PSP Investments from all four Funds. Each Plan is a contributory (i.e., member contributions are required) defined benefit pension plan and pensions are usually

## SIP&P FOR ASSETS MANAGED BY PSP INVESTMENTS

fully indexed to the consumer price index once the pension is in pay <sup>(1)</sup>. The Initial Plans are final average earnings defined benefit plans and pensions under the Initial Plans are integrated with CPP and QPP. The Reserve Force Plan is a defined benefit plan where pensions are based on the aggregate of the member's pensionable earnings throughout the member's career (adjusted for wage growth) although pensions under the Reserve Force Plan are, in general, not integrated with CPP or QPP.

Cash inflows are high because (i) in relation to the Initial Plans, the Funds support only benefits payable out of the Initial Plans in respect of service on or after April 1, 2000 and (ii) in relation to the Reserve Force Plan the Fund only supports benefits payable for reserve force members who retire or otherwise cease to be members of the reserve force after March 1, 2007.

Factors which may affect the funding of the Plans and the Plans' ability to meet their financial obligations include:

- (i) rate of inflation;
- (ii) rate of increase of members' pensionable earnings;
- (iii) rate of return on Fund assets invested by PSP Investments;
- (iv) level of employee and employer contributions;
- (v) mortality rates both for active members and retirees; and
- (vi) rates of termination and age at retirement

Benefits payable out of the Plans are to be charged to the respective Funds. Each month PSP Investments receives monies from each Plan and the net amounts available for investment are comprised of member contributions, plus employer contributions, less amounts used to pay applicable benefits under each Plan and less administration costs relating to the administration of the relevant Plan.

The actuarial estimates by the Chief Actuary for the Government of Canada indicate that PSP Investments can expect a net positive contribution of cash (i.e., contributions net of benefit payments) for at least the next 10 years and therefore can adopt a long-term investment strategy.

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<sup>(1)</sup> The indexation portion of a retirement, disability or survivor pension normally starts being paid when the pension is put into pay. However, for the Canadian Forces members, Reserve Force members and the Regular Members of the RCMP, the indexation payments start only when the pensioner is either at least 60 years old, or is at least 55 years old provided the sum of age and pensionable service is 85.

C. Objectives

The mission of PSP Investments, as stated in section 4 of the Act, is to manage the amounts transferred from the Funds in the best interests of the contributors and beneficiaries under the legislation applicable to each and to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans and the ability of the Plans to meet their financial obligations.

Accordingly, the Board of Directors has established a Policy Portfolio which has an expected real rate of return that is at least equal to the actuarial rate of return assumption for the Plans as used by the Chief Actuary of Canada in his valuation of each of the Plans. All investments shall be made in accordance with the standards set out in the Act and the Regulations and the public markets investments shall also be made in accordance with the *Code of Ethics and Standards of Practice of the CFA Institute*.

2. **Policy Portfolio**

The Policy Portfolio is a market exposure to benchmark returns of approved asset classes in the approved weightings. This market exposure will be achieved using both internal and external managers, by investing in both physical and synthetic assets and by employing both active and index management strategies. The Board of Directors has adopted the asset mix (Policy Portfolio) shown below, with target weights and ranges as indicated.

The risk to the Funds is that the assets are insufficient to meet the Pension Liabilities as calculated from time to time. Studies conducted on behalf of the Board of Directors suggest that this risk is addressed with the following diversified Policy Portfolio holding a range of asset classes. Over the long term, this asset mix is expected to generate, at a minimum, the required actuarial rate of return, within the approved levels of return volatility.

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Asset Class	Long-term Target Weight (%) <sup>(3)</sup>	Long-term range <sup>(3)</sup>	Benchmark
<b>World Equity (Total)</b>	<b>62</b>	<b>40 - 70</b>	
Canadian Equity	30	20 – 40	S&P/TSX Equity Index
Foreign Equity (Total)	22	10 – 42	
• US Large Cap Equity	5	0 – 10	S&P 500 Index
• EAFE Large Cap Equity	5	0 – 10	MSCI EAFE Index
• Small Cap Developed World Equity	5	0 – 10	80% of S&P 600 Index plus 20% of MSCI EAFE Small Cap Index
• Emerging Markets Equity	7	0 – 12	MSCI EMF Index
Private Equity <sup>(2)</sup>	10	5 – 15	Undisclosed <sup>(4)</sup>
<b>Nominal Fixed Income (Total)</b>	<b>15</b>	<b>10 – 30</b>	
Cash & Cash Equivalents	2	0 – 10	DEX 91 Day T-Bill Index
World Government Bonds	5	0 – 10	JP Morgan Government Bond Index Global
Canadian Fixed Income	8	5 – 15	DEX Universe Bond Index
<b>Real Return Assets (Total)</b>	<b>23</b>	<b>20 - 40</b>	
World Inflation-Linked Bonds	5	0 – 10	Barclays Global Inflation-Linked Bond Index
Real Estate	10	5 – 15	Undisclosed <sup>(4)</sup>
Infrastructure <sup>(1)(2)</sup>	8	5 – 15	Undisclosed <sup>(4)</sup>
<b>Total</b>	<b>100</b>		

Note <sup>(1)</sup> Until the phase-in is complete, there will be discrepancies between long-term policy and actual asset allocations for certain asset classes. Existing Policy Portfolio weights will be drawn down to bring these asset classes to their respective long-term policy weights during the transition period. A phase-in will be considered completed when the targeted weight of an asset class will be achieved for a full fiscal year.

Note <sup>(2)</sup> Benchmark on deployed assets accrued during ramp-up period, where relevant.

Note <sup>(3)</sup> Market Value basis.

Note <sup>(4)</sup> For competitive reasons these benchmarks are not disclosed.

During the transition period, the asset allocation to new asset classes can be below their respective minimum ranges. This would apply to Infrastructure, which will be funded by overweights in Canadian Fixed Income. Management will rebalance the assets within the ranges according to the Rebalancing Policy.

### A. Description of Various Asset Classes

Investments described below may be made directly (*e.g.*, by holding the relevant equity, bond or other instruments) or indirectly (*e.g.*, through exchange traded funds, pooled funds, trusts, limited partnerships, futures contracts (see section 4 regarding derivative products), asset backed securities, mutual funds or segregated funds).

## SIP&P FOR ASSETS MANAGED BY PSP INVESTMENTS

### (i) *Public Markets*

#### (a) Debt

Public Markets Debt includes Cash and Cash Equivalents and Bonds.

Cash and Cash Equivalents - Cash on hand and cash equivalents, being any of the following instruments and provided they have a term of 1 year or less: demand deposits, treasury bills, short-term notes, bankers' acceptances, term deposits and guaranteed investment certificates. Floating rate notes are considered cash and cash equivalents provided the coupons reset more than once per year. No more than 10% of the cash equivalents may be held in instruments with a rating of BBB or less by a recognized rating agency – the remainder to be held in the highest rating category by a recognized rating agency (For example: P-1, A-1, R-1).

Bonds - Bonds, debentures and other debt instruments - No more than 10% of the fixed income portfolio may be held in fixed income instruments with a rating of BBB or less by a recognized rating agency – the remainder to be held in fixed income instruments with a rating of A or higher by a recognized rating agency. Should the commitment to fixed income investments rated BBB or less exceed the 10% limit as a result of a rating reduction, such investments may be retained or disposed of at the discretion of the investment manager. If retained, such investments shall count towards the 10% limit that can be held in securities rated BBB by a recognized rating agency.

#### (b) Equities

Public Markets Equities include common shares, American depository receipts, global depository receipts, rights, participation notes, preferred shares, warrants, instalment receipts, Income Trust units, exchange traded funds, securities convertible into common shares of publicly listed issuers, and publicly traded futures of the index of any widely recognized stock market (see Section 4 below for restrictions on use of derivative products). Any cash or cash equivalents that are associated with a derivative for the purpose of replicating an exposure to the market represented by the derivative shall be considered part of public market equities. Investments in Public Markets Equities may include subscriptions in private placements.

### (ii) *Private Equity*

Private Equity investments consist primarily of investments in private companies and other entities but may also include publicly listed companies which may become privately held upon acquisition. The majority of these investments are concentrated in buyouts. Other investments include mezzanine debt, distressed debt, special situations, venture capital, secondaries and private investments in Public Markets

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Equities (PIPEs). Private Equity investments include both direct investments in companies and indirect investments such as fund investments and co-investments with external private equity funds.

### (iii) *Real Estate*

Real Estate investments use two portfolios (a debt portfolio and an equity portfolio) both in public and private markets using various investment vehicles to purchase real estate related products. A diversified real estate portfolio includes amongst other products properties in office, retail, industrial, leisure, hospitality and residential sectors.

Real Estate investments can be realized in accordance with the approved policies for leverage specifically drafted for Real Estate investments.

Real Estate investments include direct and indirect investments. Direct investments may include land or other property held for cash flow or for development purposes whereby the value and cash flow can be improved through capital expenditure on improvements. Indirect investments may include investments in funds and co-investments, as well as debt (including senior debt, mezzanine debt and other junior debt products) and other structured investments where significant portions of the value are attributed to the underlying Real Estate assets and/or related earnings.

### (iv) *Infrastructure*

Infrastructure investments are investments in long-term capital facilities serving the community. Infrastructure assets generally have long investment lives, which can range anywhere between 20 and 100 years and even longer. These assets typically have a low obsolescence risk. They usually have a high capital cost but operating costs tend to be low, resulting in high operating margins. As infrastructure assets provide an essential service to the community, they experience relatively inelastic demand and often face little or no competition.

Infrastructure investments can be realized in accordance with the approved policies for leverage specifically drafted for the Infrastructure investments.

Infrastructure investments are generally comprised of equity and debt instruments in private companies or other entities or in publicly listed companies primarily engaged in the management, ownership or operation of assets in power, regulated businesses, transportation, telecom or social infrastructure for example.

## B. Return Expectations

The Policy Portfolio is expected to earn a real rate of return of at least 4.3% per annum over 10 years after all PSP Investments' costs. However, in any one year the annual real return may be significantly above or below 4.3%. This return expectation is calculated on the basis of expected returns of the various asset

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classes and correlation factors (the active portfolio is expected to add 0.35% per annum net of all expenses of PSP Investments to the Policy Portfolio return. The approved Active Management Policy is outlined in Appendix C.)

### C. Risk and Diversification

In the Policy Portfolio, market risk is managed through diversification among the various asset classes while credit risk is controlled through issuer specific requirements based on recognized rating agencies. Currency risk may be managed through diversification and, when considered appropriate, a hedging policy. All other risks will be managed in accordance with the investment restrictions contained in the Act and the Regulations and risk and compliance procedures and policies.

## 3. **Permitted Borrowings**

- A. PSP Investments or its subsidiaries (including, but not limited to trusts, partnerships, corporations and other special purpose vehicles) may borrow money or guarantee the payment of monies as permitted under the Act and within the limitations described herein (“Permitted Borrowings”).
- B. PSP Investments may, as part of its Permitted Borrowings, borrow money (including but not limited to issue debt) or provide a guarantee.
- C. When engaging in Permitted Borrowings, PSP Investments and its subsidiaries shall give consideration to the related risks.
- D. PSP Investments’ leverage shall be managed in order to maintain an extremely strong capacity to meet its financial commitments.
- E. Any private investment asset class that requires borrowings from a third party to its subsidiaries must have a specific leverage policy governing its investment portfolio approved by the Board of Directors or as of April 1<sup>st</sup>, 2009, a specific leverage procedure approved by the Management Investment Committee.
- F. Permitted Borrowings that have direct recourse to PSP Investments must be approved by the Board of Directors or its delegates, unless the direct recourse to PSP Investments is limited to situations involving fraud, wrong-doing, environmental matters or change in special purpose entities.

## 4. **Derivatives**

PSP Investments may use derivatives to achieve its investment and financial objectives, including without limitation, strategies to mitigate risk, reduce costs, increase expected returns, increase cash liquidity or diversify financing and investing alternatives available to it.

**5. Liquidity of Investments**

The Funds' liquidity requirements are expected to be minimal. In general, investments in Cash and Cash Equivalents, Debt and Public Equities are expected to be highly liquid, as they will be invested in securities that will either be publicly traded on a recognized exchange or traded over the counter. Private Equity, Real Estate and Infrastructure investments have, by their nature, a long term investment horizon and are illiquid in the short term. Overall, the liquidity of public market asset exposure is expected to be sufficient to meet any liquidity requirements that may arise.

**6. Lending of Cash or Securities**

Assets may be lent out under a securities lending agreement. Any such securities lending agreement shall require collateral in cash or high quality debt instruments or shares securities with a market value equal to no less than 102% of the value of the securities lent for Canadian and U.S. securities, and, no less than 105% of the value of the securities lent for all other securities. A prospective borrower must have clear title to the collateral. Collateral will be marked-to-market on a daily basis, and any shortfall in the amount of collateral will be rectified immediately. Where PSP Investments invests through pooled funds, mutual funds or insurance contracts, it will inform itself about the securities lending practices of such investment vehicles and satisfy itself that the practices are sound, and sufficient security is provided for any loans.

**7. Retention or Delegation of Voting Rights Acquired Through Investments**

PSP Investments will exercise all voting rights acquired through the investment of all assets managed internally and externally according to PSP Investments' Proxy Voting Guidelines, with the intent of fulfilling the investment objectives and policies of this Statement for the long term benefit of the Funds and consistent with the objects of PSP Investments, as set out in section 4 of the Act. PSP Investments may engage one or more proxy voting service providers to assist in discharging PSP Investments' voting responsibilities. Where it is not practical for PSP Investments to retain responsibility for share voting, PSP Investments may delegate voting rights to an external investment manager who must vote according to the same principles described above.

Subject to PSP Investments' internal procedures, representatives of PSP Investments may become members of boards of directors, advisory boards or committees of all types, or officers, in connection with investments made by their respective groups.

**Social and Environmental Responsibility**

Please refer to PSP's Policy on Social and Environmental Responsibility.

**8. Method of, and the Basis for, the Valuation of Investments that are not Regularly Traded at a Public Exchange**

Generally, for over the counter public markets securities, market values shall be obtained or valuations prepared on a daily basis. Real Estate, Private Equity and Infrastructure

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Investments are not valued on a daily basis. Where quoted market prices or audited fair value fund financial statements from general partnerships are not readily available, Real Estate, Private Equity and Infrastructure Investments are valued using acceptable industry valuation methods such as discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate. External appraisals may be used to provide independent valuations or verify the reasonableness of internal valuations.

In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value unless there is an indication of permanent impairment of value or unless there is a specific and objectively verifiable reason to change the value of an investment.

### 9. **Related Party Transactions and the Criteria Used to Establish Whether the Value of a Related Party Transaction is Nominal**

PSP Investments may enter into a transaction with a “related party” (as defined in section 1 of the Regulations) if:

- A. The transaction is required for the operation or administration of PSP Investments and the terms and conditions of the transaction are not less favourable to PSP Investments than market terms and conditions. For these purposes “market terms and conditions”, in respect of a transaction, means terms and conditions, including those relating to price, rent or interest rate, that would apply to a similar transaction in an open market under conditions requisite to a fair transaction between parties who are at arm's length and acting prudently, knowledgeably and willingly.
- B. PSP Investments may invest in the securities of a related party if those securities are acquired on a public exchange.
- C. PSP Investments may also enter into a transaction with a related party if the value of the transaction is nominal. In assessing whether the value of a transaction is nominal, two or more transactions with the same related party shall be considered a single transaction. For these purposes, a transaction shall be considered nominal if it has a value of less than \$20,000.

In addition, a director or officer of PSP Investments who is a party to a transaction or proposed transaction with PSP Investments, or is a director or an officer of or has a material interest in any person who is a party to a transaction or proposed transaction with PSP Investments, shall comply with PSP Investments’ Conflict of Interest Procedures for Directors and Code of Conduct for Officers and Employees, as the case may be.

### 10. **Investment Procedures**

#### A. Responsibility and Accountability for the Investment Process

The overall responsibility for investment strategies and investment structures is shared among the Board of Directors, the Investment Committee and the Chief Executive Officer of PSP Investments in accordance with the Terms of Reference

for the Board of Directors, the Investment Committee and the Chief Executive Officer.

Procedures have been put in place to ensure that individuals responsible for making investment decisions in public markets are not responsible for maintaining custody of any securities acquired pursuant to those investment decisions. Further, these procedures will ensure that as far as practical, different individuals will be responsible for (i) disbursing and receiving funds and (ii) reviewing and retaining records relating to transactions authorized by the individual responsible for making investment decisions. With respect to the preceding sentence, the different individuals may be members of the same department but cannot have a reporting relationship except on an exceptional and temporary basis.

### B. Investment Decision Making Processes

The Board will approve investment decisions upon the recommendation of Management. When the delegation of authority exists, investment managers (both internal and external) will undertake individual investment decisions within the scope of their respective mandates.

### C. Performance Measurement and Evaluation

The primary purpose of performance evaluation should be to determine: (a) the impact of the long-term asset mix policy decision by the Board, and (b) the value added by active investment management. The impact of asset mix policy should be measured by comparing the average returns on market indices or relevant benchmarks, weighted by the Fund's long-term asset mix policy, against the actuarial discount rate. The value added by active management should be measured by comparing the actual return of the total Fund against the average return on market indices or relevant market benchmarks, weighted by the Fund's long-term asset mix policy.

The performance of individual asset classes and investment managers should be measured against relevant market indices, benchmarks or, where appropriate, a peer group sample of other managers. The performance of the total Fund, individual asset classes and investment managers should be reviewed over periods that are long enough to provide a fair and appropriate basis for evaluation in each case. In particular, the impact of policy portfolio decisions should be evaluated over a relatively long time period (such as five to seven years), while the value added by active management should be evaluated over a shorter time period (such as four years). In all cases, however, investment performance should be measured and analyzed regularly on an on-going basis.

### D. Review of Investment Performance

Management will review the Fund's performance on a regular and ongoing basis and present the results to the Board on a quarterly basis.

**APPENDIX “A”**

**SUMMARY OF PLANS**

**Effective on March 31<sup>st</sup>, 2009**

**Public Service Superannuation Act (PSSA)**

The PSSA is a contributory (employee/employer) defined benefit plan. For the period 2000 through 2003, the employee rates will be 4% of earnings on that portion of salary below the Yearly Maximum Pensionable Earnings (YMPE) as defined by the CPP and QPP and 7.5% on the remainder. Beyond 2003, the Treasury Board (subject to certain legislated limits) will set the employee rates on the recommendation of the President of the Treasury Board. Subject to its integration with pensions paid by the CPP and QPP, the initial rate of retirement pension is equal to 2% of the highest average annual pensionable earnings over any period of five consecutive years multiplied by the number of years of pensionable service not exceeding 35. Normal retirement age is 60 although there is provision for earlier retirement with an unreduced pension. Entitlements to benefits depend on either service in the Public Service or pensionable service. Once in pay, the pension is indexed annually with the CPI.

**Canadian Forces Superannuation Act (CFSA)**

The CFSA is a contributory (employee/employer) defined benefit plan. For the period 2000 through 2003, the employee rates will be 4% of earnings on that portion of salary below the Yearly Maximum Pensionable Earnings (YMPE) as defined by the CPP and QPP and 7.5% on the remainder. Beyond 2003, the Treasury Board (subject to certain legislated limits) will set the employee rates on the recommendation of the President of the Treasury Board in consultation with the Minister of Defence. Subject to its integration with pensions paid by the CPP and QPP, the initial rate of retirement pension is equal to 2% of the highest average annual pensionable earnings over any period of five consecutive years multiplied by the number of years of pensionable service not exceeding 35. Entitlement to benefits depends on either service in the Force or pensionable service. Once in pay, the pension is usually indexed annually with the CPI subject to certain restrictions.

**Royal Canadian Mounted Police Superannuation Act (RCMPSA)**

The RCMPSA is a contributory (employee/employer) defined benefit plan. For the period 2000 through 2003, the employee rates will be 4% of earnings on that portion of salary below the Yearly Maximum Pensionable Earnings (YMPE) as defined by the CPP and QPP and 7.5% on the remainder. Beyond 2003, the Treasury Board (subject to certain legislated limits) will set the employee rates on the recommendation of the President of the Treasury Board in consultation with the Solicitor General of Canada. Subject to its integration with pensions paid by the CPP and QPP, the initial rate of retirement pension is equal to 2% of the highest average annual pensionable earnings over any period of five consecutive years multiplied by the number of years of pensionable service not exceeding 35. Entitlement to benefits depends on either service in the RCMP or pensionable service. Once in pay the pension is usually indexed annually with the CPI subject to certain restrictions.

**Reserve Force Pension Plan (RFPP)**

The RFPP is a contributory (employee/employer) defined benefit plan. In general, employee contributions rates are 4.3% of earnings in 2007, rising to 5.2% in 2010 and subsequent years. The annual retirement pension for a person eligible for an immediate pension is equal to 1.5% of total pensionable earnings of that person (adjusted for wage growth). Once in pay the pension is usually indexed annually with the CPI subject to certain restrictions.

**APPENDIX “B”**

**RESTRICTIONS IMPOSED BY THE ACT AND THE REGULATIONS**

**Effective on March 31<sup>st</sup>, 2009**

1. Most of the limitations applicable to PSP Investments are detailed in the Regulations as amended from time to time. This appendix only lists existing quantitative restrictions and does not cover related parties transactions. For a complete list of the investments restrictions, the reader should refer to the Regulations.
2. PSP Investments **cannot** invest directly or indirectly more than 10% of the total book value of its assets in the securities of:
  - A. Any one person or entity;
  - B. Two or more associated persons or entities; or
  - C. Two or more affiliated corporations.
3. This restriction does not apply to:
  - A. A subsidiary of PSP Investments;
  - B. Securities issues or guaranteed by the Government of Canada, the government of a province or one of their agencies;
  - C. A fund composed of mortgage-backed securities that are fully guaranteed by the Government of Canada, the government of a province or one of their agencies;
  - D. A fund that substantially replicates the composition of a widely recognized index of a broad class of securities traded on a public exchange; or
  - E. A segregated fund or mutual or pooled fund that complies with the requirements applicable to a plan under the Pension Benefits Standards Regulations, 1985.
4. PSP Investments **cannot** invest directly or indirectly in the securities of a corporation representing more than 30% of the votes that may be cast to elect the directors of the corporation.
5. This restriction does not apply to :
  - A. The securities issued by a subsidiary of PSP Investments;
  - B. The securities issued by an investment corporation that complies with the requirements of the Regulations;
  - C. The securities issued by a real estate corporation that complies with the requirements of the Regulations; and
  - D. The securities issued by a resource corporation that complies with the requirements of the Regulations.

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6. **Real Estate and Canadian resources properties.**
  - A. PSP Investments **cannot** invest in real or immovable property or Canadian resource properties, if at the time of the investment; the book value of the investment exceeds 5% of the book value of PSP Investments' assets.
  - B. The aggregate of all investments in Canadian resource properties **cannot** exceed 15% of the book value of PSP Investments' assets.
  - C. The aggregate of all investments in real or immovable property and Canadian resource properties **cannot** exceed 25% of the book value of PSP Investments' assets.
  - D. Where real or immovable property with the same beneficial owner is subdivided into two or more parcels, the real or immovable property shall be treated as one parcel of real or immovable property and, where two parcels of real or immovable property are acquired for the purpose of consolidation, the real or immovable property shall be treated as one parcel of real or immovable property.

**APPENDIX “C”**

**ACTIVE MANAGEMENT POLICY**

**Effective on March 31<sup>st</sup>, 2009**

**1. Definition**

Section 2 of PSP Investments’ Statement of Investment Policies and Procedures makes reference to the Active Management Policy. Active risk refers to all investment risk arising from active management. Active management is defined as any deviations from the approved Policy Portfolio.

**2. Objective**

The Active Management objective is to generate to the Board the approved amount of value added (returns in excess of those in the Policy Portfolio) using no more than the Board approved level of total Active Risk. These active strategies will be undertaken by both internal and external managers, investing in asset classes from the underlying Policy Portfolio or asset classes unrelated to the Policy Portfolio (only after approval by the Board), and in either physical or synthetic assets.

One active strategy that Management may employ is short-term changes to the weights of the Policy Asset Classes (within approved ranges) based on their assessment of relative valuations of these asset classes, supplementing re-balancing policies in place.

**3. Process**

PSP Investments will seek to minimize the correlation of returns between the active portfolio and the Policy Portfolio. The active portfolio will be composed of a number of lowly correlated and widely diversified investment activities each expected to generate superior returns within their allocated risk parameters.

**4. Target return and approved risk**

The annual active management return objective is 35 bps over the return of the Policy Portfolio, net of all expenses of PSP Investments. Although the objective is stated as annual, the emphasis will be on the four-year average return. The maximum approved level of total portfolio active risk is 400 bps. Risk will be monitored at all levels of investment using a VaR based methodology.

**5. Diversification**

PSP Investments will diversify its active risk by:

- A. Asset classes (e.g. equities, credit, real estate);
- B. Geography; and
- C. Style (e.g. fundamental, trending, quantitative).

The result will be a pool of investment activities having a low correlation of expected returns.