

**Policy Sponsor:** CIO and Investment Risk Management

**Summary:** This Policy provides objectives, policies and procedures for the investment management of the RCA Investment Fund (defined below) and applies to all investments managed on behalf of the RCA by the OAC Board through OCM. **This Policy must be approved by the Investment Committee.**

## Contents

1. INTRODUCTION .....	1
2. COMPLIANCE .....	1
3. ANNUAL REVIEW .....	1
4. DELEGATION OF AUTHORITY .....	2
5. PLAN DESCRIPTION.....	2
6. REPORTING .....	2
7. OBJECTIVES AND RETURN EXPECTATIONS .....	2
8. LONG-TERM STRATEGIC ASSET MIX .....	3
9. CATEGORIES OF INVESTMENTS .....	3
9.1 Money Market Investments.....	3
9.2 Public Equities .....	3
9.3 CRA Refundable Tax Account.....	4
10. FOREIGN EXPOSURE .....	4
11. SHORT SELLING OF SECURITIES .....	4
12. RISK MANAGEMENT TOOLS .....	4
12.1 Asset Mix and Cash Flow Projection Studies .....	4
12.2 Diversification .....	4
12.3 Derivatives .....	4
12.4 Analytical Tools.....	4
13. LIQUIDITY .....	4
14. DELEGATION/RETENTION OF VOTING RIGHTS .....	5
15. SOCIALLY RESPONSIBLE INVESTING .....	5
16. VALUATION OF INVESTMENT ASSETS.....	5
17. SECURITIES LENDING .....	5
18. RELATED PARTY TRANSACTIONS.....	5
19. PERMITTED BORROWING.....	5
20. PERFORMANCE MEASUREMENT .....	6

## 1. INTRODUCTION

Investments must be selected and managed in accordance with the criteria and limitations established by this Policy and applicable legislation, including the OMERS Act and the ITA.

## 2. COMPLIANCE

IOA will actively monitor investments to ensure compliance with this Policy. Any breaches of this Policy shall be promptly reported by Senior Management to the OAC Board, along with an appropriate plan for resolution of the breach.

## 3. ANNUAL REVIEW

This Policy shall be reviewed and approved by the OAC Board sitting as the Investment Committee (“Investment Committee”) at least annually and will be delivered to the OAC’s actuary within 60 days of any amendment thereto.

#### **4. DELEGATION OF AUTHORITY**

In fulfilling its duties, the Investment Committee may delegate responsibilities for the investment of the RCA Investment Fund to the CEO and provide the CEO with the power to sub-delegate.

#### **5. PLAN DESCRIPTION**

The RCA provides retirement income that exceeds the ITA maximum pension limits applicable to benefits provided under the Primary Plan. The RCA was established in 1992 to provide full earnings pension benefits for those members of the Primary Plan with earnings exceeding the amount that generates the maximum pension allowed by the ITA. The RCA is governed by the OMERS Act and 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.

Benefits are payable from the RCA based on the same provisions as benefits paid from the Primary Plan without any ITA maximum pension limits, less the amount that can be paid from the Primary Plan. Contributions to the RCA are based on the same contribution rates as the Primary Plan and are calculated on earnings above an annual earnings threshold. The RCA is funded on a modified “pay-as-you-go” basis, such that contributions from contributing members and employers are primarily used to pay current pension benefits.

Because the RCA is not a registered pension plan, a 50% refundable tax is levied 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 the 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 (“RCA Investment Fund”) can be invested. The “RCA Fund” includes both the RCA Investment Fund and the Refundable Tax Account.

Participating employers and employees in the RCA equally share the required contributions and the investment experiences of the RCA Fund.

Effective January 1, 2008, 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, effective January 1, 2008.

#### **6. REPORTING**

In regard to the RCA Fund, IOA must prepare the following reports to the Investment Committee:

- a bi-monthly report on the asset mix; and
- a bi-monthly report on the investment performance of the RCA Investment Fund.

#### **7. OBJECTIVES AND RETURN EXPECTATIONS**

The OAC’s objective is to pay pensions through receipt of contributions and by investing to earn superior returns with due regard for risk. The OAC’s long-term investment goal in respect to the RCA Fund is to have sufficient funds to pay benefits as they fall due.

The OAC expects the long-term strategic allocation to enable the RCA Investment Fund to earn an average annual real rate of return in excess of 4.25 per cent over the long term.

## 8. LONG-TERM 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 long-term strategic asset mix allocation shown in the table below have been determined by the OAC to be consistent with the RCA long-term investment goals.

Investment	Refundable Tax Account	RCA Investment Fund	RCA Fund
Fixed Income (Refundable Tax Account)	100%	0%	As per ITA requirements (Approximately 50%)
Public Equities (Includes money market allocation of 0.0% to 5.0% of RCA Fund for cash management)	0%	100%	Remainder (Approximately 50%)

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 and interest income in the RCA Investment Fund which have not yet been moved to the Refundable Tax Account, and unrealized gains in the RCA Investment Fund, the asset mix for the RCA Fund will be approximately 50 per cent Public Equities and approximately 50 per cent Refundable Tax account. The OAC will implement the long-term strategic asset mix through OCM and external service providers or other entities (including, without limitation, external professional investment advisors, third party managed funds, mutual funds, pooled funds, unit trusts and similar vehicles).

## 9. CATEGORIES OF INVESTMENTS

The RCA Fund is invested directly and indirectly in the asset classes identified below. Within these asset classes, derivatives may be employed for the RCA Investment Fund.

Derivatives and synthetic securities include, but are not limited to, forwards, futures, options and swaps and are used to replicate asset returns and to manage the RCA Investment Fund's asset mix including its exposure to currencies and equities.

### 9.1 Money Market Investments

Money market investments (for cash management purposes) pay a fixed amount of interest at a regular interval with a maturity period of one year or less, provide income as well as the return of the original capital at maturity and are generally less volatile than equity securities.

### 9.2 Public Equities

Public equities are securities that represent ownership in a reporting issuer and include securities listed on recognized exchanges. Public equities are expected to produce higher returns than fixed income securities over the long term but have potentially higher return volatility.

**9.3 CRA Refundable Tax Account**

For purposes of determining the asset mix of the RCA Fund, the Refundable Tax Account is considered to have fixed income-like qualities. Specifically, the funds recorded in the Refundable Tax Account are assumed to have zero nominal return, negative real return equivalent to the rate of Canadian inflation, zero volatility and zero correlation with other asset classes.

**10. FOREIGN EXPOSURE**

Foreign investments are permitted as they may offer the potential for higher returns while diversifying the RCA Fund's asset mix. Foreign exposure of the RCA Fund will not exceed 75 per cent of the market value of the RCA Fund.

**11. SHORT SELLING OF SECURITIES**

The OAC may short sell securities in public market assets to enhance expected returns or protect capital. Engaging in short selling of securities will only be done after full consideration of the related risks. These risks will be identified, measured, managed and monitored.

**12. RISK MANAGEMENT TOOLS****12.1 Asset Mix and Cash Flow Projection Studies**

The RCA's main long-term risk is that the RCA Fund cannot meet the obligations of the retirement benefit promise. To manage this long-term risk, periodic asset mix and cash flow projection studies shall be conducted.

**12.2 Diversification**

In the long-run, the performance of the RCA Fund is determined mainly by the long-term asset mix decision. Diversification is an important risk management tool because it reduces the variability of returns by spreading the RCA Fund's long-term risk among:

- asset classes;
- countries and industries;
- asset holding periods;
- currencies; and
- securities

**12.3 Derivatives**

Where appropriate, derivatives are used to replicate asset returns (i.e. gain exposure to an asset class) and as a risk and liquidity management tool and to enhance expected returns. Engaging in derivatives will only be done after full consideration of the related risks and taking into account the income tax treatment of derivatives in the RCA Investment Fund. These risks will be identified, measured, managed and monitored.

**12.4 Analytical Tools**

Analytical investment tools to measure market exposures and risk and to ensure that the assets of the RCA Investment Fund are managed prudently.

**13. LIQUIDITY**

The OAC seeks to maintain sufficient liquidity in the RCA Fund to meet the financial obligations of the RCA as they come due. The liquidity of specific asset classes is considered in the development of the OAC's asset mix policy.

**14. DELEGATION/RETENTION OF VOTING RIGHTS**

The OAC retains overall responsibility for voting proxies related to securities owned by the RCA Investment Fund. The OAC exercises voting rights in a manner that is consistent with the OAC's [Proxy Voting Guidelines](#). The OAC may exercise judgment in connection with the voting of any proxy on a case-by-case basis and may engage a proxy voting service provider to assist the OAC with its share voting responsibilities.

**15. SOCIALLY RESPONSIBLE INVESTING**

The OAC believes that well-managed companies are those that demonstrate high ethical and environmental standards and respect for their employees, human rights, and the communities in which they do business, and that these actions contribute to long-term financial performance.

Corporations should account for their behaviour and its implications for the creation of value. The OAC supports the view that companies should maintain policies and procedures with respect to environmental, social and governance issues that materially affect long-term shareholder value.

The OAC encourages the adoption of high standards of behaviour as a means to maximize long-term shareholder value. As part of its due diligence in researching investments and monitoring performance, the OAC incorporates environmental, social and governance factors into its decision-making processes.

**16. VALUATION OF INVESTMENT ASSETS**

Investments are stated at fair value. Fair value represents the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. It is the OAC's practice to use quoted independent market prices for the valuation of the RCA Investment Fund wherever such quoted market prices exist. In cases where a public market price is not readily available, industry accepted models and assumptions will be used to determine valuations.

**17. SECURITIES LENDING**

The RCA Investment Fund may not engage in securities lending activities.

**18. RELATED PARTY TRANSACTIONS**

The RCA Investment Fund may enter into a transaction with a related party of the Primary Plan, as determined under the applicable legislation (i.e. PBA or ITA) and in accordance with the requirements of the OAC's [Special Transactions Review Policy](#).

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

**19. PERMITTED BORROWING**

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

The RCA Investment Fund may pledge, charge or otherwise grant a security interest in assets or post margin as required to complete derivative transactions in accordance with applicable law including the ITA.

**20. PERFORMANCE MEASUREMENT**

Investment performance will be evaluated against investment performance benchmarks which provide a standard for an asset class or underlying portfolio against which its performance is assessed. Investment performance benchmarks are approved annually by the OAC Board. The investment performance of the RCA Investment Fund will be reported to the Investment Committee, separate from the Primary Plan investment performance, both before and after expenses incurred in the management of the RCA Investment Fund and will be reviewed bi-monthly by the Investment Committee. Since the long-term strategic asset mixes for the Primary Plan and the RCA differ significantly, the returns for the two plans may differ significantly.

**HISTORY**

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