

INVESTMENT OBJECTIVES AND POLICY STATEMENT



SASKATCHEWAN
TEACHERS'
FEDERATION

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INVESTMENT OBJECTIVES AND POLICY STATEMENT

This Investment Objectives and Policy Statement (IOPS) is:

- Reviewed annually by the STF Investment Committee.
- Approved by the STF Executive based on the recommendation of the Investment Committee.
- Forwarded to each fund board, governing body and advisory committee for information.

SECTION 1 – PURPOSE OF THE STATEMENT

1.1. PURPOSE

The purpose of the Investment Objectives and Policy Statement (IOPS) is to provide:

- (a) An organized approach to the management of the assets under the jurisdiction of the Saskatchewan Teachers' Federation, defined as the Federation funds in Section 1.2.
- (b) For the appropriate investment of the assets of the Federation funds.
- (c) For the formulation of investment objectives.
- (d) A standard for evaluating the investment results achieved for the assets of each fund and each investment manager of Federation funds.

1.2. FEDERATION FUNDS

The Federation funds covered by this IOPS are:

- (a) Saskatchewan Teachers' Retirement Plan
- (b) STF Employees' Pension Plan
- (c) Teachers' Long-Term Disability Plan
- (d) Members' Health Plan
- (e) Portaplan
- (f) Dr. Stirling McDowell Foundation for Research Into Teaching
- (g) Federation Ancillary Funds
 - (i) Contingency Fund
 - (ii) Operations and Capital Fund
 - (iii) Working Capital Fund
 - (iv) Endowment Fund

1.3. ASSET MANAGEMENT

The Executive, in accordance with The Teachers' Federation Act, 2006 and Federation bylaws has established the Investment Committee to assist the Federation's investment unit in managing the assets of the Federation, including:

- (a) Saskatchewan Teachers' Retirement Plan
- (b) STF Employees' Pension Plan
- (c) Teachers' Long-Term Disability Plan
- (d) STF Portaplan and Members' Health Plan
- (e) Dr. Stirling McDowell Foundation for Research Into Teaching
- (f) Ancillary Funds

1.4. POLICY AND GUIDELINES

The IOPS sets out investment beliefs, permitted investments, roles and responsibilities, and other administrative guidelines common to all of the Federation funds.

The Investment Committee will establish an Investment Management Guidelines Statement (IMGS) to address the unique investment objectives and constraints for specific funds, as well as outlining relevant legislation and governance.

1.5. ANNUAL REVIEW

This IOPS is open to review at any time but must be reviewed annually. The Executive may amend or modify this IOPS at any time based on the recommendation of the Investment Committee.

Housekeeping or changes of a non-substantive nature will be approved by the Executive Director.

The IMGS is open to review at any time but must be reviewed annually. The Investment Committee may amend the IMGS at any time in accordance with their Terms of Reference.

The IMGS and any future version will be shared with the Executive for information.

SECTION 2 – ORGANIZATION AND ALLOCATION OF RESPONSIBILITIES

This section sets out the allocation of investment management responsibilities in accordance with The Teachers' Federation Act, 2006, corresponding Federation bylaws, policies and the terms of reference for each governing body or advisory committee.

Governance Responsibilities:

2.1. STF EXECUTIVE

The Executive of the Federation is the trustee for the Federation funds, noted in Section 1.2, in accordance with The Teachers' Federation Act, 2006 and Federation bylaws. The Executive approves the Investment Objectives and Policy Statement and delegates governance responsibilities for management of the assets of Federation funds through the approval of Terms of Reference.

2.2. INVESTMENT COMMITTEE

The Investment Committee provides advisory support to Federation governing bodies, in accordance with their Terms of Reference, for investment activities to ensure prudent management of Federation investment assets and address matters that impact all of the Federation's plans and funds where continuity is desired.

All recommendations of the Investment Committee for changes to this policy are submitted for approval to the Executive prior to implementation.

2.3. INVESTMENT SERVICES UNIT

The Investment Services unit is responsible for:

- (a) Investing the assets of the funds in accordance with this document and the Investment Management Guidelines Statement.
- (b) Meeting with governing bodies, governance support committees and administrative committees as required and providing written reports regarding their past performance, their investment strategy, and other issues as requested.
- (c) Submitting quarterly compliance reports.

Administrative (Operational) Responsibilities:

2.4. INVESTMENT CONSULTANT (EXTERNAL)

The external investment consultant, if any, will provide assistance as set out in contractual arrangements or as requested by the Federation.

2.5. CUSTODIAN

The custodian is responsible for the safekeeping of assets, income collection, settlement of investment transactions and accounting for investment transactions.

The custodian will provide any other services as set out in contractual arrangements with the Federation or as otherwise agreed between the two parties.

2.6. ACTUARY

The actuary performs actuarial valuations of the plans as required and advises the applicable boards of directors and other governing bodies as well as the Investment Services unit, on matters relating to plan funding and contribution rate.

2.7. AUDITOR

The auditor is responsible for auditing the financial statements and providing advice on financial reporting issues.

SECTION 3 – INVESTMENT PHILOSOPHY

3.1. INVESTMENT AND RISK PHILOSOPHY

Each of the Federation funds must be prudently managed to assist in meeting the return objectives while avoiding actuarial deficits and/or excessive volatility in annual rates of return. A number of factors will influence the risk tolerance and investment strategy for each of the funds and are outlined in the IMGS.

In order to achieve the long-term investment goals, the Federation funds must invest in assets that have uncertain returns. The Federation attempts to reduce the overall level of risk by measures outlined throughout this IOPS and the IMGS.

As noted in the Federation's Statement of Investment Beliefs contained in Appendix A, diversification by adding asset classes and investment managers tends to increase asset return and reduce funded position volatility. However, increasing diversification often increases the complexity and cost of managing the funds. Therefore, the advantages of diversification must be weighed against the disadvantages of increased complexity and higher investment manager fees for each of the Federation funds.

3.2. INVESTMENT BELIEFS

These are parameters under which the Federation funds are managed, which are influenced by several basic assumptions about the characteristics and trends in capital markets. The Statement of Investment Beliefs addresses investment objectives, investment portfolio construction and investment processes and implementation, and shall be approved by the Executive. Investment beliefs will be reviewed by the Investment Committee at least every four years and periodically reviewed and confirmed by the Executive. The Statement of Investment Beliefs as approved by the Executive in September 2020 is included as Appendix A.

3.3. STATEMENT ON RESPONSIBLE INVESTING

The Federation has approved a standalone Responsible Investment Policy which will be read and reviewed in conjunction with the IOPS.

SECTION 4 – PERMITTED INVESTMENTS AND INVESTMENT LIMITS

4.1. GENERAL GUIDELINES

The investment manager's overall responsibility is to manage the assets in a manner that provides competitive returns consistent with the investment environment and to comply with the rules and guidelines set out in this IOPS, including the IMGS, and relevant laws and regulations governing the funds.

4.2. PERMITTED INVESTMENTS

The Federation has approved the following categories of investments. In general (and subject to the restrictions in this section, the IMGS and the investment manager mandates), the funds may be invested in any of the following asset classes.

(a) Equities

Publicly-traded, developed and emerging market equities listed on a recognized stock exchange including common shares, depository receipts, rights, warrants, securities convertible into common shares, exchange traded funds and income trusts or limited partnerships¹ associated with provinces that have related liability protection in place.

Private placement equity where the investment manager determines the security will become eligible for trading on a listed exchange within a reasonable and defined time frame.

1 Funds that are structured as Limited Partnerships are governed by a limited partnership agreement between the fund manager, called the general partner (GP), and the fund's investors, called limited partners (LPs). Whereas the GP has management control over the fund and is jointly liable for all debts, LPs have limited liability, i.e., they do not risk more than the amount of their investment in the fund.

(b) Fixed Income

Bonds, debentures, asset-backed securitization, loans and mortgages, and preferred shares of Canadian and non-Canadian issuers including issues denominated in non-Canadian currencies.

Private placement debt securities where the investment manager is satisfied there is sufficient liquidity to ensure the sale at a reasonable price.

(c) Cash and Short-Term Investments

Cash on hand, demand deposits, treasury bills, short-term notes and bankers' acceptances, term deposits, and guaranteed investment certificates.

To maintain liquidity for payments out of the funds, excess cash not allocated specifically to an investment mandate may be invested in the demand deposits of the custodian or primary operations account.

(d) Derivatives

Forward, options, futures, and swap contracts are permitted for the purpose of:

- (i) Replicating the investment performance of a recognized index.
- (ii) Replicating securities or strategies consistent with this IOPS.
- (iii) Managing market exposures to interest rates and market indexes.
- (iv) Equitizing cash.
- (v) Managing foreign currency risk.

Derivatives will not be used for any other purposes, unless permitted within a specific manager mandate.

(e) Real Estate

Real estate investments that are permitted by relevant legislation, through closed or open-ended pooled funds, through co-investments and direct investments, or through participating shares or debentures of corporations or partnerships formed to invest in real estate.

(f) Infrastructure

Infrastructure, through closed or open-ended pooled funds or co-investment contracts, or through participating shares or debentures of corporations or partnerships formed to invest in infrastructure.

(g) Private Equity

Private equity investments that are permitted by relevant legislation, through closed or open-ended pooled funds, through direct investments, or through participating shares or debentures of corporations or partnerships formed to invest in private equity.

(h) Pooled Funds

It is expected that investments in pooled funds will be consistent with this IOPS. It is recognized, however, that there may be instances where there is a conflict between this policy statement and the pooled fund policy. In that case, the pooled fund policy will take precedence. However, wherever such a conflict results in non-compliance with the IOPS or IMGS, the investment manager is required to report this conflict explicitly in the compliance report.

The investment manager is required to disclose the pooled fund policy and to notify the investment unit immediately in writing of any material changes to the pooled fund policy.

4.3. INVESTMENTS NOT PERMITTED

The investment manager will not make any investment not specifically permitted under this IOPS, the IMGS and the investment manager mandate.

SECTION 5 – OTHER INVESTMENT MATTERS

5.1. BORROWING

(a) Acceptable Use of Borrowing

The fund will not borrow money, except for the following purposes:

- (i) To cover a short-term contingency and the borrowing is for a period that does not exceed 90 days.
- (ii) To cover a temporary overdraft in the normal course of daily portfolio management.
- (iii) Margin accounts may be required to efficiently hedge currency exposures and reduce cash drag.

Borrowing by an investment manager is restricted to alternative investments², and subject to the borrowing limits as set out in the investment policy of the related investment vehicles. For other mandates, investment manager borrowing is prohibited unless permission is explicitly granted.

5.2. SECURITIES LENDING

Securities of the funds may be loaned providing the loaned investments are at all times secured by cash or readily marketable investments having a market value of at least 105 percent of the loan or such percentage as may represent best practices in the local market. All terms and conditions of such securities lending arrangements shall conform to the agreement made between the Federation and the custodian or any third party with whom the Federation is entering into a securities lending arrangement.

5.3. VOTING RIGHTS

Each investment manager is delegated the responsibility of exercising all voting rights acquired through of the fund's investments under the investment manager mandate. The investment manager will exercise acquired voting rights with the intent of enhancing the long-term value of the investments.

Notwithstanding the foregoing, the Federation reserves the right to direct or override the voting decisions of the investment manager with respect to the voting rights acquired through the fund's investments, if in its view such action is in the best interests of the funds and beneficiaries. All parties exercising voting rights shall at all times act prudently and solely in the interests of members and other beneficiaries of the funds. In the case of doubt as to the best interests of the funds, the investment manager shall request direction from the investment unit.

² Alternative Investments collectively refer to the many asset classes that fall outside the traditional definitions of stock and bonds, including types of assets such as real estate, infrastructure, commodities, and various collectables, as well as some specific structures of investment vehicles.

It is recognized that the above constraints and policy on voting rights are not enforceable by the Federation to the extent that the funds are invested in pooled funds.

5.4. SOFT DOLLAR BROKERAGE COMMISSIONS

The funds currently do not engage in self-directed brokerage.

The investment manager may use soft dollars to pay for research and other investment-related services, provided they comply with the soft dollar standards promulgated by the CFA Institute.

The investment manager must maintain accurate soft dollar activity and report the usage annually to the Investment Services unit.

5.5. VALUING INVESTMENTS

It is expected that the majority of the securities held by the funds will have an active market and, therefore, valuation of the securities held by the funds will, where possible, be based on their market values.

Real estate and infrastructure investments shall be appraised on a basis which meets the requirements of applicable legislation and the policies of the investment vehicles. Generally, it is anticipated that independent appraisals will be done annually.

Private placements (equities and bonds) shall be valued at June 30 of each calendar year by an independent source qualified to determine market values, where such values are not readily available from normal market sources.

If any other security held by the plan does not have an active market, then the Federation will engage qualified external independent advice to render an appropriate value.

5.6. QUANTITATIVE LIMITS

- (a) Pursuant to The Teachers' Federation Act, 2006, the assets of the funds must be invested in accordance with the Pension Benefits Standards Regulations, 1985 (Canada), which include the quantitative limits set out in Schedule III thereof ("Schedule III").
- (b) Except as otherwise permitted by Schedule III, assets of a fund must not be directly or indirectly lent or invested to or in any one "person" (as defined in Schedule III), any associated persons or any affiliated corporations if:
 - (i) 10 percent or more of the total market value of such fund's assets has already been lent or invested, in total, to or in the person, the associated persons or the affiliated corporations, or
 - (ii) 10 percent or more of the total market value of such fund's assets would be lent or invested, in total, to or in the person, the associated persons or the affiliated corporations as a result of the loan or investment.
- (c) Except as otherwise permitted by Schedule III, assets of a fund must not be invested, directly or indirectly, in the securities of a corporation to which are attached more than 30 percent of the votes that may be cast to elect the directors of such corporation.

SECTION 6 – CONFLICT OF INTEREST POLICY, DISCLOSURE REQUIREMENTS AND RELATED PARTY TRANSACTIONS

6.1. INDIVIDUALS GOVERNED BY GUIDELINES

These guidelines apply to:

- (a) Members of the
 - (i) STF Executive
 - (ii) Budget and Finance Committee
 - (iii) Investment Committee
- (b) Officers or employees of the Federation
- (c) Investment managers
- (d) Custodians
- (e) Pension or investment consultants
- (f) Employees or agents retained by those listed in (a) to (e) to provide services to the plan

6.2. CONFLICT OF INTEREST

Any party listed above must disclose any direct or indirect association or material interest or involvement in aspects related to his or her role with regard to the fund's investments that would result in any potential or actual conflict of interest. Without limiting the generality of the foregoing, this would include benefit from any asset held by the funds, any significant holdings, membership on the boards of other corporations, or any actual or proposed contracts.

Black's Law Dictionary describes conflict of interest as being in connection with "public officials and fiduciaries and their relationship to matters of private interest or gain to them" in situations where regard for one's duty tends to lead to disregard of another. The term "private interest" means any tangible benefit accruing directly to the one with a conflict of interest or indirectly through associates, relation organizations, friends or family members. Tangible benefits can include, for example, direct financial rewards, improved employment, social positioning, public recognition, advocacy and publicity, business referrals or political influence.

6.3. PROCEDURE ON DISCLOSURE

Any party listed above shall disclose the nature and extent of their conflict to his or her applicable committee or governing body in writing, or request to have entered in the minutes of the meeting of their applicable committee or governing body at the earliest of:

- (a) Upon first becoming aware of the conflict.
- (b) At the first meeting in which the matter in issue is discussed.
- (c) At the first meeting in which the party knows or ought to have known that he or she has an interest in the matter discussed.

For the purposes of (b) above, the disclosure must be made verbally if knowledge of the conflict arises in the course of a discussion at the meeting. If the party is a voting member on decisions affecting the funds, the party may elect not to participate in the activities related to the issue in conflict, or may continue such activities with the approval of their applicable committee or governing body. If the party disclosing the conflict is a voting member, the party may continue in activities in respect to the issue in conflict only with

the unanimous approval of the other participants with voting rights. In this situation, the party may elect not to participate with respect to the issue in conflict, but must not participate without the unanimous approval of the other members. The notification made by the party shall be considered a continuing disclosure on that issue, subject to any future notification by the party, for the purpose of the obligations outlined by these guidelines.

Officers and employees must provide written disclosure to the Executive Director of any issue in conflict. The Executive Director must provide written disclosure to the Executive of any issue in conflict.

6.4. RELATED PARTY TRANSACTIONS

- (a) For the purpose of this section, a “related party” and a “transaction” in respect of the funds have the meanings given to such terms in Schedule III of the *Pension Benefits Standards Regulations, 1985* (Canada) (“**Schedule III**”).
- (b) Subject to (c), it is not permitted to, directly or indirectly,
 - (i) lend the moneys of a fund to a related party or use those moneys to hold an investment in the securities of a related party; or
 - (ii) enter into a transaction with a related party on behalf of a fund (two or more transactions with the same related party shall be considered a single transaction).
- (c) Despite (b), the following related party transactions are permitted for the funds:
 - (i) Any transaction that is for the operation or administration of a fund, the terms and conditions of which are not less favourable to the fund than market terms and conditions and that does not involve the making of loans to, or investments in, the related party;
 - (ii) Any transaction the value of which is nominal or which is immaterial to the relevant fund (that is, less than one quarter of 1 percent of the market value of the fund’s assets as of the date of the investment); and
 - (iii) Any investment permitted pursuant to Section 17(2) of Schedule III.

SECTION 7 – PERFORMANCE OBJECTIVES AND EVALUATION OF INVESTMENT PERFORMANCE

7.1. TOTAL RETURN OBJECTIVES

The objectives noted in this section are total return objectives and include realized and unrealized capital gains or losses plus income from all sources. Investment returns are measured on a time-weighted basis, before the deduction of investment management fees.

7.2. MONITORING OF PERFORMANCE

Investment performance will be monitored and reviewed on a quarterly basis. The primary time frame for evaluating investment performance will be based on rolling four-year periods.

7.3. BENCHMARK

The primary long-term objective for each fund is outlined in the IMGS. On an ongoing basis, the objective for each fund will be to outperform the strategic benchmark portfolio as outlined in the IMGS. The benchmark consists of various market index total returns weighted as appropriate, and is referred to as the strategic benchmark.

7.4. SECONDARY PERFORMANCE OBJECTIVES

Secondary performance objectives for active mandates are to earn asset class returns of at least those noted in the IMGS.

For passive mandates, investment manager returns are expected to fall within the target tracking error ranges noted in the IMGS.

Recognizing these value-added and tracking error objectives may not be achieved over a particular measurement period; the trend of the results relative to the objective and the degree of consistency will be taken into consideration when evaluating an investment manager.

7.5. BENCHMARK VERSUS LONG-TERM OBJECTIVES

Each of the Federation funds will review the performance of the benchmark portfolio against long-term objectives at least annually. These objectives are outlined in the IMGS.

7.6. VALUE-ADDED FROM ACTIVE MANAGEMENT

To evaluate the contribution from active management, the total performance of the funds will be analyzed quarterly. This will involve comparisons of the actual total fund return to the return that would have been earned had the strategic benchmark been passively managed. Analysis will also be conducted on an individual asset class level for each investment manager.

7.7. TOTAL PERFORMANCE OBJECTIVES

The total performance of the funds will be considered satisfactory if the annualized total fund return, before investment management fees, over every four-year period and using a four-year moving average, is at least equal to the annualized strategic benchmark return. Each fund will have its specific value-added objectives included in the IMGS.

7.8. INDIVIDUAL ASSET CLASS PERFORMANCE

In addition, the individual asset class performance of an investment manager will be considered satisfactory if the actual asset class returns, before management fees, over every four-year period and using a four-year moving average, are at least equal to the market index for the particular asset class plus the value-added target set out in the IMGS.

7.9. RISK EVALUATION

Various measures of risk (e.g., volatility of returns, volatility of value-added returns, etc.) as identified by the Investment Committee will also be regularly evaluated in addition to the analysis of return performance.

7.10. REVIEW OF INVESTMENT MANAGER PERFORMANCE

Should an investment manager fail to achieve satisfactory performance in any consecutive four-year period, the manager will be deemed to be under review, and the investment unit will determine whether some or all of the fund assets should be managed by another investment firm.

7.11. INVESTMENT MANAGER OVERSIGHT

Independent of the above investment performance analysis, the investment unit will monitor the performance of each investment manager by analyzing factors, including but not limited to, the following:

- (a) Significant turnover of investment manager's staff.
- (b) Investment manager meeting the responsibilities set out in the Investment Management Guidelines Statement.
- (c) Investment manager meeting the investment constraints set out in the Investment Management Guidelines Statement.

- (d) Changes in the investment manager's ownership or key personnel.
- (e) Changes in the investment manager's investment style.
- (f) Any changes to investment management fees.

The Investment Committee will oversee procedures and processes used by the investment unit to monitor investment managers. The investment unit will prepare an investment manager watch list to be reviewed by the Investment Committee.

7.12. ANNUAL REVIEW OF INVESTMENT STRATEGY

The Investment Committee, at least annually, shall monitor, review and report on investment strategy to the Executive.

APPENDIX A

STATEMENT OF INVESTMENT BELIEFS

Purpose

Investment beliefs are a set of guiding principles that govern investment activities and provide a framework that forms the basis for all investment decisions.

Investment Objective

Understanding the nature and variability of each plan's liability and funding policy is critical to devising an appropriate investment strategy.

Financial Markets

Risk and Return

There is a relationship between risk and return:

- Risk-and-return relationships are more predictable over the longer term; it is extremely difficult to forecast short-term investment returns.
- Over the long term, investors should receive additional compensation for taking investment risks.
- It is expected that equities will outperform fixed income over long time periods to compensate for their higher risk.
- Asset classes with restricted liquidity, such as real estate, infrastructure, and private equity, may provide higher returns or less volatility of return than traditional asset classes to compensate investors for their illiquidity.

Portfolio Construction

Asset Allocation

The long-term strategic asset allocation decision is the most important factor in determining long-term investment risk and returns.

Diversification

The risk/return profile of investment portfolios can be improved through prudent diversification that takes advantage of the lack of perfect correlation across:

- Major asset classes, including public and private investments in equities, fixed income and real assets.
- Geographical regions.
- Market capitalizations.
- Sectors and holdings within an asset class.

Liquidity

Cash flow needs of the plans will impact the ability to invest in illiquid assets.

- *Cash flow needs should be monitored; however, the investments can generally be directed toward long-term growth without significant concern about short-term liquidity requirements.*

Currency Exposure

Foreign currency exposures moderate both gains and losses, resulting in a less volatile portfolio return. Active currency management, in theory, has the potential to create value against a cash alternative, but in practice has not been a reliable source of return over the long run.

- *Currency hedging can be employed for defensive purposes to reduce the volatility of income-generating investments.*

Active Versus Passive Management

Markets are efficient to varying degrees, and short-term deviations from long-term fundamentals can occur.

- *Active management should be undertaken in asset classes where there are sufficient opportunities for skilled managers to add value and/or reduce risk relative to a passive exposure to the market.*
- *The opportunity for value-added and/or reduced risk from active management should be weighed against the incremental cost of active management relative to passive management.*
- *Unlisted real estate and infrastructure are preferred to listed real estate and infrastructure due to their diversification properties.*

Equity Management Style

No one equity management style will consistently produce higher returns, and it is difficult to predict which style will outperform over a given period. Low volatility funds are expected to result in lower volatility than the other styles.

Costs

Costs matter and need to be effectively managed so that a greater proportion of investment return passes to the plan. In addition, there is a reputation risk management aspect to cost control.

- *Asset classes should be selected with consideration to prevailing fees.*
- *Within asset classes, managers should be selected with consideration of the ability to add value net of fees.*

Investment Process and Implementation

Asset Management

The decision to manage investments either internally or externally is influenced by cost effectiveness, market transparency and liquidity, the ability to manage active risk, and infrastructure and resource requirements.

- *Both internal and external investment management should be considered when making portfolio implementation decisions.*

Asset Rebalancing

Asset mix rebalancing is useful to ensure that the plans' desired risk exposure is maintained over the long-term but may not be ideal in the event of extreme market circumstances when defensive measures are warranted.

Derivatives and Leverage

The prudent use of derivatives and leverage, within clearly defined limits, can enhance the risk/return profile of the plans.

Investment Transparency

It is important to understand the risk that investment portfolios are exposed to, both to manage the portfolio and to communicate to stakeholders.

- *Asset class or strategies that either do not provide transparency to investors or that are excessively complex should not be considered, regardless of the return potential of the investment.*

Investment Oversight

Investment oversight plays an important role in ensuring targeted risk-and-return profiles are maintained.

Environmental, Social and Governance (ESG)




The Saskatchewan Teachers' Federation's overriding obligation is to act in the best interest of the plan members. In this fiduciary role, the Federation believes that ESG are risk factors that can affect the performance of investment portfolios.

- *Consideration of ESG factors will be part of the investment process.*



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