

## **Fund Implementation Procedures**

University of Waterloo Pension Plan (2011)

Registration number: 0310565

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**APPROVED** on this October 17, 2024 [date of approval by Pension & Benefits Committee]

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# Fund Implementation Procedures

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This Fund Implementation Procedures (FIP) document outlines the monitoring and reporting obligations of Board committees, University staff, and third parties engaged to provide services to the Plan. With respect to the investment of pension assets, this policy is intended to be read together with the Statement of Investment Policies and Procedures (SIPP) established for the Plan, as amended from time to time. To the extent there is any conflict in the investment principles and approach as set out in this FIP or the SIPP, the SIPP shall govern.

## 1) Delegation of Responsibility

The Board of Governors of the University of Waterloo (the “Board”) has established a Pension Investment Committee (“PIC”) to assist in the determination and execution of the Plan’s overall investment philosophy, policies, objectives and strategies for the Plan, a Finance & Investment Committee (F&I) established to provide expert investment advice to PIC, and a Pension & Benefits Committee (P&B) to provide oversight of the pension plan (the “Committees”).

The Committees, contracted third party professional firms and University staff will carry out the responsibilities listed below.

a) PIC will:

- i. perform oversight activities as in the PIC Terms of Reference. To the extent there is any conflict this document and the Terms of Reference the Terms of Reference shall govern;
- ii. review this document annually and recommend any changes to P&B;
- iii. review Fund Manager performance, total Fund performance and achievement of the total return objective on a quarterly basis;
- iv. make recommendations on the selection of Fund Managers and investment funds to P&B, consulting with F&I as applicable;
- v. approve asset mix changes and investment decisions where the cumulative annual transaction(s) represent less than 20% of market value of the Plan’s total assets at the beginning of the calendar year;
- vi. consult with F&I, prior to making recommendations to P&B, for additional investment decisions which cumulatively impact more than 20% of the market value of Plan’s total assets as measured at the beginning of the calendar year;
- vii. commission asset liability studies at least every 10 years and in cases of significant changes in actuarial assumptions or capital market forecasts, consulting with P&B as applicable
- viii. determine when active vs passive management strategies are appropriate
- ix. review Plan liquidity requirements
- x. convene a meeting with P&B in the event of a significant market event or shift to discuss issues and market opportunities; and
- xi. provide quarterly reports to P&B and F&I.

b) P&B will make recommendations to the Board in the following areas, consulting with PIC with respect to investment philosophy, policies, objectives and strategies for the Plan:

- i. the content of the SIPP after its annual review and consideration of recommendations from PIC;
  - ii. the selection of a Custodian/Trustee to hold the pension fund assets.
- c) In addition, the P&B Committee will:
- i. approve the content of this FIP in consultation with PIC;
  - ii. review the Fund's Funding Policy & Guideline at least every three (3) years, and approve changes as necessary;
  - iii. appoint a Consulting Actuary;
  - iv. appoint an Investment Consultant;
  - v. select Fund Managers and/or investment funds, based on the recommendation from PIC;
  - vi. approve asset mix changes and investment decisions where the cumulative annual transaction(s) exceed 20% of the market value of the Plan's total assets at the beginning of the calendar year, based on the recommendation from PIC; and
  - vii. review reports from PIC on Fund Manager performance and pension fund performance on at least a quarterly basis, as well as reviewing the outlook of the fund overall; and
  - viii. report to Plan members on at least an annual basis.
- d) The Fund Managers will:
- i. forward to University staff (for review and discussion at PIC) quarterly reviews of investment performance, expectations of future returns on various asset classes and proposed investment strategies for the following 12 to 24 months;
  - ii. manage asset mix and select securities within each asset class, subject to applicable legislation and the philosophy and other constraints set out in the SIPP, this document and the Responsible Investment Policy (RIP);
  - iii. forward to University staff (for review and discussion at PIC) quarterly reports describing their ESG analysis, approach and metrics, and periodically forward a climate risk assessment of their portfolio including any scenario analysis;
  - iv. advise University staff (for review and discussion at PIC) immediately of any changes in its senior investment personnel and/or significant changes in the size or mix of assets managed;
  - v. comply with all applicable legislation concerning the investment of the pension fund, including the Pension Benefits Act (Ontario) ("Applicable Laws");
  - vi. complete and deliver a compliance report (see Appendix A) to University staff and the Fund's Investment Consultant each quarter. The compliance report will indicate whether or not the Fund Manager was in compliance with Applicable Laws, the SIPP and the RIP during the quarter. In the event that the Fund Manager is not in compliance with Applicable Laws, the SIPP and/or the RIP, the Fund Manager is required to immediately advise University staff (for discussion at PIC), detail the nature of the non-compliance and recommend the appropriate course of action to remedy the situation;
  - vii. comply, at all times and in all respects, with the Code of Ethics and Standards of

Professional Conduct as promulgated by the CFA Institute;

viii. in managing the Plan assets, the Fund Manager shall at all times exercise the degree of care that a person of ordinary prudence would exercise in dealing with the property of another person and shall use all relevant knowledge and skill which it possesses, or by reason of its profession, ought to possess.

e) The Consulting Actuary (or his/her delegate approved by P&B) will:

- i. assist in the preparation and subsequent annual reviews of the SIPP and any supplementary documents;
- ii. comment on any changes in the Plan's benefits, membership or contribution flow which may affect how the Plan's assets are invested;
- iii. assist University staff, the PIC and P&B, as needed, in the implementation of the SIPP and this document;
- iv. support PIC and P&B on matters related to investment risk management and administration of the Plan; and
- v. meet with University staff, PIC and P&B as required.

f) Investment Consultant will:

- i. assist in the preparation and subsequent annual reviews of the SIPP and any supplementary documents;
- ii. participate in all reviews of the Fund Managers;
- iii. report quarterly on the performance of the Fund Managers and the Plan;
- iv. comment on the impact of potential investment opportunities/strategies/legislative changes which may affect how the Plan's assets are invested;
- v. monitor the performance of the Plan and the Fund Managers on a regular basis, and contact University staff immediately if there are adverse changes of any kind, which warrant further review and/or discussion with PIC;
- vi. meet with University staff, PIC and P&B as required.

g) Performance Measurement Service Providers will:

- i. Provide detailed performance reporting in the required format including ESG integration by Fund Managers as well as the carbon metrics for the total Plan asset portfolio

h) The Custodian/Trustee will:

- i. fulfill the regular duties required by law of a Custodian/Trustee and perform the specific duties required of the Custodian/Trustee pursuant to agreements entered into from time to time with the University on behalf of the Plan; and
- ii. provide University staff with monthly portfolio reports of all assets of the Plan and transactions during the period.

i) University staff will:

- i. Prepare reporting for the PIC, P&B and F&I committees on Plan investment matters and act

as resources to these Committees in this regard

- ii. Act as a contact for contracted third party professional firms relating to the investment of the Plan's assets and provide administration and monitoring related to these firms' contracts and deliverables
- iii. Provide cash flow information as necessary or requested by PIC
- iv. Make determinations on investment distributions (interest, dividends, capital distributions, etc.) based on cash requirements, authorizing cash payouts or distribution reinvestments as required
- v. Monitor Fund Manager's and overall compliance with the SIPP, FIP, and RIP
- vi. Appoint Performance Measurement Service Providers.

## **2) Performance Measurement & Monitoring**

For purposes of evaluating the performance of the Fund Managers, all rates of return are measured over rolling four-year periods. Return objectives are net of fees and include realized and unrealized capital gains or losses plus income from all sources.

Performance reporting provided by the Fund Managers and the Investment Consultant will include annualized returns when available for 5 years, as well as a detailed attribution analysis for the most recent quarter and year-to-date periods.

The Investment Consultant will report on each Fund Manager's performance relative to their peers.

In addition to performance criteria, the following factors will also be monitored and evaluated:

- a) Stability of the investment firm (personnel, assets under administration, operational capabilities, etc.);
- b) Investment objective and portfolio composition;
- c) Changes in the investment philosophy used in the investment fund;
- d) Consistency of style or approach;
- e) Adherence to investment policy statement; and
- f) ESG analysis and reporting including climate risk assessment and carbon metrics

## **3) Compliance Reporting by Fund Manager**

The Fund Manager is required to complete and deliver a compliance report to University staff and the Plan's investment consultant each quarter. The compliance report will indicate whether or not the Fund Manager was in compliance with Applicable Laws, the SIPP, FIP and the RIP during the quarter.

In the event that a Fund Manager is not in compliance with Applicable Laws, the SIPP, FIP and/or the RIP the Fund Manager is required to immediately advise University staff, detail the nature of the non-compliance and recommend an appropriate course of action to remedy the situation.

While the guidelines in the SIPP are intended to guide the management of the assets, it is recognized that, where pooled funds are held, there may be instances where there is a conflict between the SIPP and the investment policy of a pooled fund. In that case, the pooled fund policy shall dominate, subject to the compliance reporting procedures outlined in this section. However, the Fund Manager is required to advise University staff, in advance, if there are any material

discrepancies between the SIPP and the pooled fund's own investment guidelines. In addition, the Fund Manager will ensure that University staff have received a copy of the most recent version of the pooled fund policy and of any amendments made to the pooled fund policy.

#### **4) Audit**

The Plan's financial reporting for the regulatory authorities shall be audited annually by external auditors appointed by the University.

#### **5) Monitoring of Asset Mix**

In order to ensure that the assets of the Plan operate within the minimum and maximum asset mix ranges, as prescribed in the SIPP, PIC shall review the asset mix at least quarterly. Please refer to the section on Rebalancing Policy.

#### **6) Selecting Fund Managers**

Should PIC determine that there is a requirement for an additional Fund Manager, PIC will establish a sub-committee to undertake a Fund Manager search. The criteria used for selecting a Fund Manager will be consistent with the investment and risk philosophy set out in the SIPP. Although each search process will apply a specific list of considerations, the evaluation criteria shall include:

- a) Establishing the relevant performance benchmark
- b) Performance history
- c) Quality of the firm and the fund specific investment team
- d) Quality and consistency of the fund's investment process
- e) Quality and transparency in reporting including valuation methods
- f) ESG integration within the investment process and related reporting, including reporting on the Manager's integration of climate related risk factors and disclosure of carbon metrics
- g) Risk management approach
- h) Competitiveness of fees
- i) Terms of the applicable investment management agreement

#### **7) Monitoring Fund Manager Performance**

At least quarterly, University staff will monitor and review:

- a) Each Fund Manager's staff turnover, consistency of style and record of service;
- b) Each Fund Manager's current economic outlook and investment strategies including ESG approach;
- c) Each Fund Manager's compliance with the SIPP, FIP and RIP; and
- d) Investment performance of the assets of the Plan in relation to the rate of return expectations outlined in the SIPP.

## **8) Dismissal of Fund Manager**

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

- a) Performance results which are below the stated performance benchmarks;
- b) Changes in the overall structure of the Plan's assets such that the Fund Manager's services are no longer required;
- c) Change in personnel, firm structure or investment philosophy which might adversely affect the potential return and/or risk level of the portfolio; and/or
- d) Failure to adhere to the SIPP, FIP or RIP.

## **9) Rebalancing Policy**

University staff shall monitor the asset mix and the net cash flow on a quarterly basis. Rebalancing will occur when the market value of an asset class varies from the limits set out in the SIPP, or if any individual Fund Manager's component exceeds a limit set out in the SIPP.

Rebalancing will be generally implemented within two quarters by:

- a) Redirecting the net cash flows [administered monthly by University staff and not included in PIC's cumulative 20% asset mix change threshold]
- b) Transfer of cash between portfolios
- c) Liquidating exceedances and directing those to assets below the benchmark taking into account the transaction costs and liquidity of the particular asset class

Notwithstanding the rebalancing policy, in certain circumstances, PIC may adjust the weight of any asset class within the permitted ranges for the purpose of protecting capital and managing risk.

## **10) Liability Hedging**

PIC will determine the type of investment strategies, if any, to be implemented to hedge the interest rate and/or inflation sensitive liabilities of the plan.



## Appendix A — Fund Manager Compliance Letter

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*To be completed by fund managers each quarter.*

**UNIVERSITY OF  
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This is to certify that I/we have complied with the *Pension Benefits Act* (Ontario) and all other laws and regulations applicable to the investment of the Pension Plan's assets and adhered to the guidelines contained in the Statement of Investment Policies and Procedures, the Fund Implementation Procedures for the University of Waterloo Pension Plan (2011), and the Responsible Investment Policy as approved by the Board of Governors of the University of Waterloo as well as the investment management agreement in place

Signed \_\_\_\_\_

On behalf of \_\_\_\_\_

Date \_\_\_\_\_