Statement of Investment Policies and Procedures

University of Waterloo Pension Plan (2011)

Registration number: 0310565

Effective: November 1, 2024

Replaces previous version which was last revised and effective on April 4, 2023

Contents

Introduction

1) Purpose and Scope of Policy

a) This Statement of Investment Policies and Procedures (the "Policy") sets out the investment principles, guidelines and procedures for investing and managing the assets and the associated risks for the University of Waterloo Pension Plan (2011), registration number 0310565, as amended (the "Plan").

b) The University of Waterloo (the "University") was established by an Act of Legislature in the Province of Ontario. The University's Board of Governors (the "Board") has established a governance structure to administer the Plan.

c) The Policy is informed by the requirements of the *Income Tax Act* (Canada) ("ITA") and the *Pension Benefits Act* (Ontario) ("PBA"), including their respective regulations and all subsequent amendments, and any other applicable federal or provincial law governing the investment of pension funds, including Schedule III to the *Pension Benefits Standards Regulation, 1985* (Canada) ("PBSA") (the foregoing are, collectively, the "Applicable Law").

d) The Policy is intended to summarize and explain the investment approach but does not supersede the Plan text, resolutions of the Board of Governors, the Applicable Law or the Plan's Funding Policy & Guideline (the "Governing Documents"). In case of any dispute between this document and the Governing Documents, the Governing Documents shall prevail.

e) The Pension & Benefits Committee and the Pension Investment Committee shall annually review and either confirm or recommend amendments to this Policy to the Board who may amend this Policy and direct the University to file any such amendments with the regulator in accordance with the Applicable Law. The University will provide any amended copy of this Policy to the Fund Managers and the Plan's actuary.

2) Overview of the Plan and its Governance

a) The Plan is a contributory defined benefit plan based upon an individual's final average salary and years of participation in the Plan prior to retirement. Pensions paid under the Plan are escalated annually by the cost-of-living factor as described in the Governing Documents.

b) The University is the sponsor and legal administrator of the Plan for the purposes of Applicable Law. The University through its Board is ultimately responsible for all aspects of managing the Plan, including the prudent investment and administration of the assets of the Plan. In accordance with the Governing Documents, the Board has created committees and subcommittees, delegated to University staff, and appointed external agents, to carry out certain of its responsibilities. University staff are responsible for distributing all pertinent reports and information to the appropriate committees based on their terms of reference as well as communicating with the Fund Managers and agents regarding the committees' decisions.

c) The University will comply with the Governing Documents and will exercise the care, diligence and skill in the administration and investment of the Plan's assets (the "Fund") that a person of ordinary prudence would exercise in dealing with the property of another person. The individuals acting on behalf of the Plan in furtherance of its duty will use all knowledge and skill that they possess or ought to possess in the administration and investment of the Fund.

3) Plan Objectives

The objective of the Plan is to provide members of the Plan with the retirement benefits prescribed under the terms thereof.

a) The University established the Plan to provide members with a defined level of retirement income in accordance with the Plan's terms. Further, the intent is to ensure that retirement benefits, and University and member contributions remain reasonable and relatively stable over the life of the Plan while ensuring its sustainability (the Plan's funding practices are detailed in the Funding Policy & Guideline, which establishes a formal framework to achieve the Plan's funding requirements).

b) To achieve the Plan's goals, its assets will be invested in a prudent and efficient manner. The Plan will strive to maximize long-term real returns on its invested assets subject to an appropriate level of risk.

4) Investment Objectives

Return and risk objectives are established taking into consideration factors, including the nature and sensitivity of the Plan's liabilities; allocation of liabilities between active and retired members; the going concern and solvency positions of the Plan, as calculated and projected by the Plan's actuary; net cash flow position of the Plan and liquidity needs to meet Plan obligations; investment horizon of the Plan; historical and expected capital market returns; volatility of different asset classes; financial implications of Environmental, Social and Governance ("ESG") factors; inflation and interest rate risks; benefits of investment diversification; and the University's risk tolerance with respect to the Fund.

5) Portfolio Return and Risk Objectives

The return objectives of the Fund are:

a) Earn a rate of return, after investment expenses, of CPI[1] + 3.5% over four-year moving periods. This objective is reviewed annually to ensure that it is realistic based on market conditions and consistent with the actuarial discount rate used to calculate the Plan's going concern liabilities

b) Achieve a minimum absolute rate of return, after investment expenses, which exceeds the benchmark return by 0.25% over four-year moving periods

The risk objective of the Fund is to reduce the frequency and severity of funding deficits.

6) Expected Volatility

The volatility of the Fund's returns is directly related to the asset mix. The Benchmark Portfolio in Section 12 has been constructed with the expected returns and related risks in mind. Provided the Fund's investment structure stays within the permitted ranges for each asset class, the volatility of the Fund's returns should be similar that of the Benchmark Portfolio.

[1] CPI source Bank of Canada Total CPI: https://www.bankofcanada.ca/rates/price-indexes/cpi/

7) Risk Factors

The Plan's investments are subject to the following risk factors:

a) Equity market
b) Interest rates (which includes interest rate risk on both liabilities and assets)
c) Credit
d) Liquidity
e) Inflation
f) Currency
g) Active manager underperformance
h) Governance
i) Operational
j) Regulatory

The primary method for managing these risks is diversification. The Plan will be diversified by asset class, geography, security (through well-diversified portfolios of bonds, equities and alternatives), fund manager and investment style.

8) Active and Passive Investments

The investment strategy may employ a mix of active and passive management styles. Active management is adopted where there is a reasonable expectation of adding value relative to the relevant benchmark over the long-term, net of expenses. Passive management is adopted where the prospect of adding value above the relevant benchmark is diminished or for the purpose of managing active risk within asset classes.

9) Liability Hedging

The Fund's investment strategy will consider the sensitivity of the Plan liabilities to interest rate and inflation changes and consider opportunities for hedging those liabilities through its investments.

10) Liquidity

The investment strategy should provide sufficient liquidity to meet the Plan's financial obligations as they come due, while ensuring the Fund does not contain excessive cash or low yielding liquid assets. Provided the liquidity requirements of the Plan are met, the Plan may consider investing a portion of the Fund in illiquid assets, where such investment has the potential of enhanced returns, in part, due to the illiquidity premium.

11) Currency Hedging

Currency movements relative to the Canadian dollar are not expected to have a significant impact over the long term. The Plan policy is to not hedge currency at the total fund level. Over shorter periods, currency movements may increase volatility and currency hedging may be employed by Fund Managers where expressly permitted.

12) Asset Mix

The Fund will be invested in a broad range of assets with the goal of meeting or exceeding return expectations and mitigating investment risks. The following benchmark portfolio ("Benchmark Portfolio") is representative of the long-term asset mix policy for the Fund based on the analysis conducted in the asset-liability study.

Assets	Minimum[2] %	Maximum[2] %	Benchmark Portfolio %	Benchmark
Cash	0	5	2	FTSE Canada 91-Day T-Bill Index
Fixed Income	15	25	20	FTSE Canada Long Bond Index
Total Fixed Income	**15**	**30**	**22**	
Canadian Equity	0	10	5	S&P/TSX Composite
Global Equity	40	55	48	MSCI ACWI (Net) (CAD)
Total Equity	**40**	**65**	**53**	
Listed Infrastructure	0	10	5	FTSE Developed Core Infrastructure 50/50 (CAD)
Direct Infrastructure	0	10	5	OECD CPI +5%
Listed Real Estate	0	10	5	FTSE EPRA/NAREIT Developed (CAD)
Direct Real Estate	0	10	5	MSCI Global Property Funds Index (CAD)
Total Real Assets	**10**	**30**	**20**	
Private Debt	0	10	5	SOFR + 4%

For the purpose of the total asset mix described above, the Fund Managers' asset class pooled funds are deemed to be 100% invested, even though these funds may contain a portion held in cash and cash equivalent instruments.

[2] Minimum and Maximum percentages for "total" asset classes may not be equal to the sum of the minimum and maximum percentages for each sub-category of the asset class. Differences may be included to facilitate risk mitigation efforts within each larger asset class.

The Plan's target asset allocation for each investment category listed in subsection 76(12) of Regulation 909 under the *Pension Benefits Act* (Ontario) is as follows:

Asset Class under Sub-section 76(12) of Regulation 909, under the *Pension Benefits Act* (Ontario)		**Long Term Target Allocation**
1.	Insured Contracts	0.0%
2.	Mutual or pooled funds or segregated funds	0.0%
3.	Demand deposits and cash on hand	1.0%
4.	Short-term notes and treasury bills	1.0%
5.	Term Deposits and guaranteed investment certificates	0.0%
6.	Mortgage Loans	0.0%
7.	Real Estate	10.0%
8.	Real Estate Debentures	0.0%
9.	Resource properties	0.0%
10.	Venture Capital	0.0%
11.	Corporations referred to in subsection 11(2) of Schedule III to the federal investment regs	0.0%
12.	Employer issued securities	0.0%
13.	Canadian stocks other than investments referred to in 1 to 12 above	5.0%
14.	Non-Canadian stocks other than investments referred to in 1 to 12 above	48.0%
15.	Canadian bonds and debentures other than investments referred to in 1 to 12 above	20.0%
16.	Non-Canadian bonds and debentures other than investments referred to in 1 to 12 above	0.0%
17.	Investments other than investments referred to in 1 to 16 above[3]	15.0%

13) Rebalancing

At all times, the market value of the individual asset classes will be within the minimum and maximum aggregate investment limits prescribed in Section 12 but may deviate from the benchmark portfolio.

The Board recognizes that, due to the illiquid nature of the real asset and private debt asset classes, that the target allocation will be invested gradually and held in fixed income and equities during the intervening period.

14) Responsible Investing

Consistent with its fiduciary duty, when selecting Fund Managers or direct investments, the Plan considers criteria that include: the Fund Manager's business and staff; historical performance; the integration of environmental, social and governance (ESG) factors, including climate change risks and opportunities, which may have a financial impact on the investments, as well as the Fund Manager's Responsible Investing Policy. The adoption of sound ESG practices is intended to reduce financial risk over all time periods and offer enhanced long-term value to the Fund. The Plan's ESG practices are further detailed in the University of Waterloo Responsible Investment Policy.

[3] Refers to the long-term target allocation to Infrastructure and Private Debt

Permitted and Prohibited Investments

15) Permitted Investments

In general, and subject to the restrictions in Sections 16 & 17, the Fund Manager may invest in any of the following asset classes and in any of the investment instruments listed.

a) Cash and Short-Term Investments

Cash on hand, demand deposits, treasury bills, short-term notes and bankers' acceptances, commercial paper, term deposits and guaranteed investment certificates having a term of less than or equal to one year.

b) Fixed Income

Bonds, debentures, or other debt instruments of corporations, Canadian Governments, Government agencies, or guaranteed by Governments, supranationals, federal real return bonds, mortgage-backed securities, mortgages, asset-backed securities, non-convertible preferred shares, term deposits, guaranteed investment certificates, insurance contracts, private placements and bonds where capital, interest or both are linked to increases in the cost-of-living (i.e., real return bonds).

c) Equities

Common shares, preferred shares, American Depository Receipts, Global Depository Receipts, rights, warrants, installment receipts, index units, income trust units (including real estate investment trusts) and securities convertible into common shares.

d) Derivatives

Derivatives are a type of financial contract which can be traded on an exchange or over the counter for which the value is dependent on an underlying asset, group of assets or a benchmark; common derivatives include futures contracts, forwards, options and swaps.

The pooled funds in which the Plan invests may invest directly in derivatives to create synthetic exposures, or for hedging purposes, if their objectives and strategies permit, and if the exposure to derivatives is subject to limits based on the intended use and strategies for derivatives and the risks associated with them. Derivatives may also be used to hedge currency and provide downside protection. Derivatives may not be used for speculative trading or to create a portfolio with leverage. Investment funds that invest in derivatives must comply with all Applicable Law and must be invested and managed in accordance with regulatory derivatives best practices.

e) Infrastructure

Listed, direct or indirect investments in the debt or equity securities of infrastructure entities including the transportation, energy, utilities, telecommunications and social infrastructure sectors.

f) Real Estate

REITs, direct or indirect investments in the debt or equity securities of real property assets including industrial, office, retail, multi-residential, agriculture and timberland properties.

g) Private Debt

Senior and junior debt instruments including secured and unsecured loans, bonds and other related instruments.

h) Pooled Funds

Investments in open-ended or closed-ended pooled funds, or private/limited partnerships, provided that the assets of such funds are permissible investments under this Policy. It is recognized that where pooled funds are held, there may be instances where there is a conflict between this policy and the investment policy of the pooled fund. In that case, the pooled fund policy shall dominate.

The Fund manager shall ensure that the Plan has received a copy of the most recent version of the pooled fund policy.

16) Minimum Quality Requirements

a) Quality Standards

i) The minimum quality standard for publicly-traded bonds and debentures is ‘BBB’ or equivalent as rated by at least one Recognized Bond Rating Agency at the time of purchase. Where an investment in the portfolio is downgraded below a ‘BBB’ rating, the following steps will be taken:

- The Fund Manager will notify the Plan of the downgrade at the earliest possible opportunity;
- Within ten business days of the downgrade, the Fund Manager will advise the Plan in writing of the course of action taken or to be taken by the Fund Manager, and its rationale; and
- Immediately upon downgrade, the Fund Manager will place the asset on a Watch List subject to monthly review by the Fund Manager with the Plan until such time as the security matures, is sold or until it is upgraded to a level consistent with the purchase quality standards as expressed in this policy.

ii) In cases in which the Recognized Bond Agencies do not agree on the credit rating, the bond will be classified as follows:

- If two agencies rate a security, use the lower of the two ratings; or
- If three agencies rate a security, use the middle of the three ratings.

iii) Private Debt investments that are rated internally by the fund manager as investment grade and non-investment grade are permitted.

b) Rating Agencies

For the purposes of this Policy, the following rating agencies shall be considered to be ‘Recognized Bond Rating Agencies:’

i) Morningstar DBRS;

ii) Standard & Poor’s; and

iii) Moody’s Investors Services

17) Maximum Quantity Restrictions

a) Total Plan Level

The Plan shall not, directly or indirectly, lend or invest moneys to or in any one person, any associated persons or any affiliated corporations if:

i) 10% or more of the total market value of the Plan'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% or more of the total market value of the Plan'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.

iii) Holdings issued by the Government of Canada and its agencies are exempt from the abovementioned 10% limitations.

The Plan shall not, directly or indirectly, invest moneys in the securities of a corporation to which are attached more than 30% of the votes that may be cast to elect the directors of the corporation.

This section applies to those investments and loans subject to quantitative limit under Section 9(1) of Schedule III to Pension Benefits Standards Regulations, 1985 (Canada).

b) Fixed Income

i) A maximum of 15% of the market value of the Canadian fixed income securities shall be invested in BBB bonds or debentures.

ii) A maximum of 10% of the market value of the actively managed fixed income portfolio may be invested in debt denominated in US currency issued by the US Government, its agencies and instrumentalities. Fixed Income in any other foreign currency will not be purchased.

c) Equities

No one equity holding shall represent more than 10% of the total market value of the fund manager portfolio.

18) Fund Manager Compliance

Fund Managers must be compliant with the Policy, the Fund Implementation Procedures and the Responsible Investment Policy.

The Fund Managers shall not make investments in asset categories other than those explicitly permitted in the Policy, unless the Plan first consents in writing.

19) Securities and Cash Lending

The Fund Managers and custodian may participate in securities lending programs for the purpose of generating revenue, subject to the provisions of the Applicable Law.

Such loans must be secured by cash and/or readily marketable government bonds, treasury bills and/or letters of credit, discount notes, banker's acceptances of Canadian chartered banks, or high quality, liquid equities. The amount of collateral taken for securities lending should reflect OSFI standards and best practices in local markets. This market value relationship must be calculated at least daily.

Fund Managers and custodians participating in securities lending will make available the terms and conditions of any securities lending program(s) with the Plan.

20) Short Selling

Short selling and/or pair trading are not permitted.

21) Borrowing

The Plan shall not borrow money, except to cover short-term contingency and the borrowing is for a period that does not exceed ninety days, subject to the PBA and the ITA.

22) Monitoring

Compliance with this Policy, together with relevant risk metrics, will be monitored quarterly including:

a) Achievement of the total return objective

b) Liquidity requirements

c) Asset mix limits

d) Credit quality requirements

e) Single issuer limits

f) Fund Manager Performance and related ESG integration

General Provisions

23) Conflicts of Interest

a) Responsibilities

This standard, which is consistent with the University Policy 69 (Conflict of Interest) applies to the University and the members of the University, as well as to all agents employed by the Plan, in the execution of their responsibilities under the Pension Benefits Act (the “Affected Persons”).

An “agent” is defined to mean a company, organization, association or individual, as well as its employees who are retained to provide specific services with respect to the investment, administration and management of the assets of the Plan.

b) Disclosure

In the execution of their duties, the Affected Persons shall disclose any material conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased advice, or to make unbiased decisions, affecting the administration of the Plan assets.

Further, it is expected that no Affected Person shall make any personal financial gain (direct or indirect) because of his or her fiduciary position. However, normal and reasonable fees and expenses incurred in the discharge of their responsibilities are permitted if documented and approved by the Plan.

No Affected Person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from a person with whom they deal with in the course of performance of his or her duties and responsibilities for the Plan.

It is incumbent on any Affected Person who believes that he or she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation to the attention of the University immediately. The University, in turn, will decide what action is appropriate under the circumstances but, at a minimum, will table the matter at the next regular meeting of the appropriate committee.

No Affected Person who has or is required to make a disclosure as contemplated in this Policy shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure.

24) Voting Rights

The voting rights acquired through the investments held by the Plan are delegated to the Fund Managers of the securities. Fund Managers are expected to exercise all voting rights related to investments held by the Plan in the best interests of the Plan. Fund Managers shall report their voting activities to the Plan on a quarterly basis documenting how they voted as well as how ESG factors were included in the rationale for the voting decision.

25) Valuation of Investments Not Regularly Traded

The following principles will apply for the valuation of investments that are not traded regularly:

a) Equities

Average of bid-and-ask prices from two major investment dealers, at least once every month.

b) Fixed Income

Same as for equities.

c) Real Assets and Private Debt

The fair value of infrastructure, real estate and private debt investments is determined by the general partner, or the pooled Fund Manager based on industry standards, which may include consideration of previous transaction prices, discounted cash flow, and the valuations of other comparable publicly traded investments. Limited partnerships and pooled funds will be audited annually by a qualified independent third party appointed by the fund's general partner or Fund Manager.

26) Related Party Transactions

The University, on behalf of the Plan, may not enter into a transaction with a related party unless:

a) The transaction is made for the operation or administration of the Plan under terms and conditions that are not less favourable to the Plan than market terms and conditions and such transaction does not involve the making of loans to, or investments in, the related party; or

b) The combined value of all transactions with the same related party is nominal or the transaction(s) is immaterial to the Plan.

For the purposes of this section, only the market value of the combined assets of the Plan shall be used as the criteria to determine whether a transaction is nominal or immaterial to the Plan.

Transactions less than 0.5% of the combined market value of the assets of the Plan are considered nominal.

In addition, the prohibition to entering into transactions with a related party does not apply to investments:

a) In an investment fund in which investors other than the Administrator and its affiliates may invest and that complies with the requirements set out in Sections 9 and 11 of Schedule III to the PBSA;

b) In an unallocated general fund of a person authorized to carry on a life insurance business in Canada;

c) In securities issued or fully guaranteed by the Government of Canada, the government of a province, or an agency of either one of them;

d) In a fund composed of mortgage-backed securities that are fully guaranteed by the Government of Canada, the government of a province, or an agency of either one of them;

e) In a fund that replicates the composition of a widely recognized index of a broad class of securities traded at a marketplace (as that term is defined in the PBSA); and

f) That involve the purchase of a contract or agreement in respect of which the return is based on performance of a widely recognized index of a broad class of securities traded at a marketplace (as that term is defined in the PBSA).

A "related party" in respect of the Plan means:

a) A person who is the administrator of the Plan including any officer, director or employee of the administrator. It also includes the Fund Managers and their employees, a union representing employees of the employer, a member of the Plan, a spouse or child of the persons named previously, or a corporation that is directly or indirectly controlled by the persons named previously, among others. Related party does not include government or a government agency, or a bank, trust company or other financial institution that holds the assets of the Plan, where that person is not the administrator of the Plan;

b) An officer, director or employee of one of the administrators of the Plan;

c) A person responsible for holding or investing the assets of the Plan, or any officer, director or employee thereof;

d) An association or union representing employees of the University, or an officer or employee thereof;

e) A member of the Plan;

f) The spouse or child of any person referred to in any of paragraphs (a) to (e);

g) An affiliate of the University;

h) A corporation that is directly or indirectly controlled by a person referred to in any of paragraphs (a) to (g); and/or

i) An entity in which a person referred to in paragraph (a) or (b), or the spouse or a child of such a person, has a substantial investment.