
Investment Guidelines



As approved by the Governance Council

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1 Purpose

The purpose of the Investment Guideline is to record the investment strategy and investment objectives of the Governance Council. The strategy and objectives exist to ensure that all parties involved in the management of the Investment Fund understand the goals, targets and overall management of the Investment Fund. This guideline will assist in clarifying delegations of responsibility and serve to maintain a long-term focus to operating in investment markets.

2 Overview

- 2.1 This guideline applies to the Investment Fund held by the Workers' Safety & Compensation Commission (WSCC) of the Northwest Territories and Nunavut. It contains guidelines for all facets of investment management. The Investment Fund will be managed in accordance with all applicable legal requirements notwithstanding any indication to the contrary which may be construed from the guideline.
- 2.2 With respect to any portion of the Investment Fund invested in pooled funds, provisions of the Investment Manager Mandate which govern such pooled funds shall prevail over those of this guideline to the extent that they may be in conflict.

3 Responsibilities

- 3.1 The Governance Council is responsible for the Investment Fund.
- 3.2 The Governance Council may delegate some of its responsibilities with respect to the investment of the Investment Fund to the Audit Committee, internal staff and external entities.
- 3.3 Any person to whom the Governance Council delegates responsibilities with respect to the investment of the Investment Fund must adhere to the provisions of this guideline.
- 3.4 The Audit Committee assumes the following responsibilities:
 - ensure that Policy 10.02, Workers' Protection Fund Investments, and the guideline are followed in the management of the Investment Fund; and
 - ensure there is an adequate oversight and reporting system in place and that the policy and guidelines are being adhered to.
- 3.5 The Governance Council retains its responsibilities for strategic direction of the Investment Fund, including definition of acceptable investment risk tolerance
- 3.6 In the case where an Oversight Manager is retained, the Oversight Manager will:
 - manage the assets of the Investment Fund in accordance with all applicable legislation and the constraints and directives contained in this Policy;

- have full discretion to invest the assets of the Investment Fund or cause the assets of the Investment Fund to be invested in accordance with these Guidelines;
- appoint one or more sub-investment managers to manage the investment of the whole or any portion or portions of the Investment Fund's assets;
- at least annually work with plan actuary to assess liability cash flows and recommend adjustments to the proportion of individual investments as appropriate;
- as required or at least annually, meet with the Governance Council/Audit Committee/WSCC Staff and present reviews and analysis of investment performance and provide a summary of current expectations for future returns on various asset classes and proposed investment strategies for the following period;
- inform the Governance Council/Audit Committee/WSCC Staff of recommended strategies and investments, which would require revisions or exemptions to the stated guidelines;
- provide the Governance Council/Audit Committee/WSCC Staff with annualized time-weighted rates of return for the each fund/mandate for quarterly periods and market values at the end of each quarter;
- ensure that it acts in the best interest of the Investment Fund in making all investment decisions, and
- notify the Governance Council/Audit Committee/WSCC Staff, in writing, of any significant changes in the Oversight Manager's philosophies and policies, personnel or organization and procedures, as well as any terminations or appointments of Investment Managers for the Fund.
- Inform the Governance Council / Audit Committee / WSCC Staff, in writing, of any derivations from item 2.2 as soon as practically possible and include such derivations in the quarterly reporting provided to the WSCC.

4 Conflict of Interest

- 4.1 An Investment Fund Fiduciary is a person who has discretionary authority over any investments within the Investment Fund. This definition includes but is not limited to members of the Governance Council, members of the Audit Committee, internal staff, external advisors, the Oversight Manager and the Investment Managers.
- 4.2 A conflict of interest is deemed to exist when an Investment Fund Fiduciary has an interest of sufficient substance and proximity to his/her duties and powers with respect to an investment to impair his/her ability to render unbiased advice or to make unbiased decisions affecting the investment.
- 4.3 An Investment Fund Fiduciary must disclose any conflict of interest, whether real or perceived, in writing as soon as possible along with all relevant details to the Chairperson of the Governance Council.

5 Liabilities

- 5.1 The Investment Fund provides for legislatively determined benefits with respect to work related injuries.
- 5.2 Benefits are paid to injured workers and their dependents.
- 5.3 Benefits include payments for medical assistance, rehabilitation programs, compensation for loss of earnings and life annuities.
- 5.4 Benefits related to injuries that occur in a given year may continue for an extended period of time, sometimes continuing for the life of the injured worker or surviving spouses and dependents. Such future payments are inflation sensitive.
- 5.5 Benefits are funded through annual assessments paid by employers. These assessments cover the cost of injuries expected to occur during the assessment year and the administrative costs of the WSCC.

6 Investment Objectives

- 6.1 The primary objective is to achieve a long term rate of return that is sufficient to allow the Commission to fund its benefit liability, cover its operating costs, and set reasonable and stable assessment rates for employers within an investment risk profile deemed appropriate by the Governance Council.
- 6.2 The Investment Fund's primary measurable objective is to outperform the Consumer Price Index by 3.5% over 4-year rolling periods, before investment management fees.

- 6.3 The Investment Fund's secondary measurable objective is to outperform the Total Investment Fund Benchmark Portfolio by 0.75% over 4-year rolling periods, before investment management fees. Effective October 1, 2011, the Total Investment Fund Benchmark Portfolio is defined as follows:
- 10% FTSE TMX Canada Short-Term Bond Index+
 - 35% FTSE TMX Canada Universe Bond +
 - 16% S&P/TSX Capped Composite +
 - 24% 24 MSCI World Index (Cdn\$) +
 - 15% REALpac/IPD Canada Property Index.
- 6.4 The Investment Fund's tertiary measurable objective is to outperform the median balanced pooled Investment Fund (from a nationally recognized pooled Investment Fund survey) over 4-year rolling periods, before investment management fees.
- 6.5 Investment returns are maximized given the level of risk deemed appropriate by the Governance Council.

7 Permitted Investments

- 7.1 The Investment Fund shall only be invested in the following asset categories:
- i) cash;
 - ii) demand or term deposits;
 - iii) short term notes;
 - iv) treasury bills;
 - v) bankers acceptances;
 - vi) commercial paper;
 - vii) investment certificates issued by banks, insurance companies or trust companies;
 - viii) bonds and non convertible debentures;
 - ix) mortgages and other asset-backed securities;
 - x) convertible debentures;
 - xi) common and preferred stocks;
 - xii) American Depository Receipts;
 - xiii) Global Depository Receipts;
 - xiv) 144A Securities;
 - xv) real estate.
- 7.2 The Investment Fund may hold derivative financial, commodity or currency related instruments such as forward contracts, options, futures or swaps in accordance with guidelines accepted in writing by the Audit Committee of the Governance Council.

- 7.3 The Investment Fund will not engage in the following:
- i) purchase of securities on margin;
 - ii) loans to individuals other than to arm's length parties guaranteed by a mortgage;
 - iii) short sales;
 - iv) resource properties;
 - v) venture capital;
 - vi) directed brokerage commissions.
- 7.4 Borrowing on behalf of the Investment Fund is not permitted. However, unanticipated overdrafts when cash is not sufficient to settle a purchase are expected to occur.
- 7.5 The Governance Council may enter into a written agreement with the Investment Fund's Custodian for securities lending provided that readily marketable securities having a market value of at least 105% of the market value of the securities lent are maintained on at least a daily basis.
- 7.6 Investments in pooled funds, closed end investment companies and other structured vehicles for any of the qualifying investments in 7.1.

8 Asset Allocation

- 8.1 The Investment Fund's target asset allocation is the following:

<u>Asset Class</u>	<u>Percent of Investment Fund (market value)</u>
Short term	0%
Bonds (universe duration)	35%
Mortgages	<u>10%</u>
(Fixed Income)	45%
Canadian stocks	16%
Global Stocks	<u>24%</u>
(Equity)	40%
Real estate	15%

- 8.2 The target asset allocation has been determined with respect to the WSCC's investment objectives. It reflects a risk/return tradeoff which was assessed by the Governance Council on the basis of long term prospects in the capital markets taking into account the WSCC's benefits, liabilities and financial situation with consideration given to all factors that may affect the WSCC's funding and the ability of the Investment Fund to meet the WSCC's financial obligations. The target asset allocation was last revised September 2019.
- 8.3 Short term investments include cash and fixed income investments having a maturity of less than one year when issued.
- 8.4 Bonds include preferred shares and fixed income securities having a maturity of one year and more when issued.
- 8.5 Mortgages primarily include all mortgages on Canadian properties.
- 8.6 Canadian stocks include common stocks and convertible debentures of Canadian issuers.
- 8.7 Global stocks include common stocks and convertible debentures of non-Canadian issuers.
- 8.8 Real estate includes Canadian properties.
- 8.9 Securities held in a pooled fund are classified on the basis of the assets comprising the major portion of such pooled funds.
- 8.10 Derivative instruments along with any collateral held thereon are included in the asset class comprising the securities whose return or price serves as the basis for the pricing of such derivative instruments.

9 Portfolio Rebalancing Rules

- 9.1 Recognizing that asset class weightings will change over time due to relative market price movements and that the costs of maintaining precise weightings exceed the benefits, the actual weightings will be permitted to vary within the following limits (without intervention through re-balancing).

9.2 Target ranges for the Asset Allocation (based on market values)

Asset Class	Minimum	Target	Maximum
Cash & short term	0%	0%	5%
Bonds (universe duration)	25%	35%	45%
Mortgages	5%	10%	15%
Canadian stocks	8%	16%	24%
Global Stocks	14%	24%	34%
Real Estate	10%	15%	20%

9.3 Rebalancing Investment Vehicles

Asset class positions and weightings will be monitored monthly using portfolio valuations provided by the Custodian. If the asset allocation is outside of the ranges specified in 9.2, the allocation will be rebalanced back to within the corresponding range as soon as practicable.

The Oversight Manager retains responsibilities for rebalancing consistent with the allocation ranges and will consider contributions, withdrawals or asset transfers in making rebalancing transfers among investment managers to maintain adherence to targets.

9.4 Rebalancing Procedures

Rebalancing operations will be conducted by the Oversight Manager in accordance with the following procedures:

- Projected annual and monthly cash flows and positions will be updated regularly and provided to the Oversight Manager

- All re-balancing activity will be reported quarterly by the Oversight Manager.

10 Manager Allocation

- 10.1 The Investment Fund will be allocated among external specialized Investment Managers. Each Investment Manager will be governed by a specific, Investment Manager Mandate.

11 Investment Risk

- 11.1 Diversification between asset classes is provided through the asset allocation procedures set forth in this guideline.
- 11.2 Diversification within each asset class is provided by limiting to 5% or less the percentage of the market value of the Investment Fund invested in a single security not issued by the World Bank nor guaranteed by the government of Canada or of a Canadian province/territory and by restricting investments in a group of equities whose returns are expected to be highly correlated. Investments in pooled real estate funds are not subject to the above limitation.
- 11.3 Liquidity is provided by restricting the use of private placements, by limiting to 15% or less the percentage of a single public issue to be held by the Investment Fund, by limiting to 15% or less the percentage of the Investment Fund to be invested in mortgages or other asset-backed securities, and by requiring that all stocks trade on a recognized exchange.
- 11.4 Quality is provided by requiring that 90% or more of the market value of short term securities have a minimum credit rating of R-1 (low) or its equivalent and that 90% or more of other fixed income securities have a minimum average credit rating of A- or its equivalent.
- 11.5 Mortgage fund default risk is mitigated through the use of a diversified approach by location, duration and property type through a well collateralized commercial mortgage pooled fund.
- 11.6 Currency risk is controlled by limiting investments in foreign stocks through the asset allocation guidelines set forth in the guideline and by limiting to 30% or less the percentage of the Investment Fund held in fixed income investments denominated in foreign currencies which are not 100% hedged into Canadian dollars.

12 Voting Rights

- 12.1 Voting rights on Investment Fund securities are delegated to the Investment Manager. However, the Governance Council reserves the right to exercise voting rights on Investment Fund securities when it deems appropriate.
- 12.2 The Investment Manager maintains a record on how Investment Fund voting rights have been exercised.
- 12.3 In case of doubt as to the best interests of the Investment Fund, the Investment Manager requests instructions from the Audit Committee or the Governance Council and will act in accordance with such instructions.

13 Valuation of Securities

- 13.1 Investments made in bonds and equities are recorded at market values which are determined by reference to closing sale prices from recognized security dealers or, in the absence of recorded sales, by reference to closing bid and ask prices. Short-term investments and mortgages are valued at cost and cost less amortization respectively. Securities that are not publicly traded are valued at cost unless there is an external transaction or other evidence that indicates market value is different from cost.
- 13.2 For other securities that are not frequently traded, the Investment Manager must provide a monthly estimate of the market value of the assets using one of the following methods:
- A valuation by an independent expert;
 - A valuation with respect to comparable regularly-traded securities; and
 - Any other generally accepted method.
- 13.3 Investments in pooled funds shall be valued according to the unit values published by the pooled fund administrator.

14 Monitoring

- 14.1 On a quarterly basis, the Investment Manager will provide a confirmation indicating compliance with the provisions of the *Investment Guidelines* or provide explanations where such provisions were violated.

- 14.2 Investment Fund performance will be evaluated each quarter. Such evaluation will be focused on objectives set for the Investment Fund and for the individual Investment Manager.
- 14.3 The Investment Manager will report each quarter to the Audit Committee to:
- i) provide information concerning new developments affecting the firm and its services;
 - ii) review transactions in the latest period, assets held at the end of the period and explain how they relate to the strategy advocated;
 - iii) explain the most recent performance; and
 - iv) provide an economic outlook and strategy under such circumstances.

15 Review

- 15.1 The *Investment Guidelines* are to be reviewed at least annually.
- 15.2 Material changes in the following may cause a revision to the *Investment Guidelines*:
- i) long term risk/return tradeoff in the capital markets;
 - ii) WSCC benefits, liabilities and financial situation;
 - iii) risk tolerance;
 - iv) legislative environment; and
 - v) any other factor the Audit Committee or the Governance Council deems relevant.

Chairperson

Appendix 1 Appointed Agents

As of September 2019, and until further amendment, WSCC has delegated the responsibilities as listed in Section 3 as follows:

Oversight Manager: An investment firm who is appointed by the asset owner to manage a portfolio on a discretionary basis. The Oversight Manager will select, hire, and monitor multiple investment managers to execute on the investment management function. The Oversight manager will advise on a customized strategic asset allocation and will take responsibility for on-going portfolio management, including manager terminations, changes to strategic asset allocation, as well as portfolio re-balancings and cash flow activity.

Appointed Oversight Manager: NT Global Advisors, Inc.

Custodian: A financial firm whose role is to safekeep investor assets by holding securities in either electronic or physical form. The custodian records all financial transactions of the account and processes instructions from the asset owner, external asset managers (if engaged), other financial institutions who transact on the account, and all depository and clearing corporations.

Appointed Custodian: State Street Bank and Trust Company