Workers' Compensation Board of Nova Scotia

Statement of Investment Policies and Objectives

Prepared By: FINANCIAL SERVICES
Board of Directors Approval: June 2, 1995
Revised Date: July 13, 1995
Revised Date: March 11, 1996
Revised Date: June 20, 1996
Revised Date: June 5, 1997
Revised Date: February 6, 1998
Revised Date: September 4, 1998
Revised Date: January 7, 1999
Revised Date: January 16, 2002
Revised Date: October 1, 2002
Revised Date: October 14, 2004
Revised Date: September 15, 2005
Revised Date: March 9, 2006
Revised Date: December 14, 2006
Revised Date: July 1, 2007
Revised Date: July 1, 2009
Revised Date: September 17, 2009
Revised Date: August 1, 2011
Revised Date: October 1, 2012
Revised Date: January 1, 2013
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HISTORY OF REVISIONS

DATE	REFERENCE
June 2, 1995	Original Document Approval
July 13, 1995	Section 8C
March 11, 1996	Section 14D and 14E
June 20, 1996	Section 6B
June 5, 1997	Sections 4B, 6B, 6E, 9, 12, 14 and 15
February 6, 1998	Sections 4A, 4B, 6A, 9, 12
September 4, 1998	Section 6B
January 7, 1999	Sections 15, 16
March 15, 2000	Section6B (revised but not reprinted)
January 16, 2002	Sections 4A, 6B, 12
October 1, 2002	Sections 4B, 6A, 6B, 12
October 1, 2004	Section 6B
July 1, 2005[1]	Sections 2, 4B, 12 (Released with September 1, 2005 revisions for approval September 15, 2005)
September 15, 2005	Sections 6B, 12, 15
March 9, 2006	Sections 1, 3A, 6A, 6B, 12, 15, 16I and 16G
December 14, 2006	Sections 6B, and I
July 1, 2007	Sections 4B, 6A, 6B and 12
July 1, 2009	Sections 3A, 4B, 6B, 12 and 15
September 17, 2009	Section 3A
August 1, 2011	Sections 3A, 4B and 12
October 1, 2012	Sections 3A, 4A, 4B, 6B, 12and Appendix B
January 1, 2013	Section 12
October 1, 2013	Sections 4B, 6A, 6B, 6C, 12 and 16D
October 1, 2014	Sections 6B, and 12

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES
INVESTMENT PORTFOLIO

1. INTRODUCTION AND GOVERNANCE

The Workers' Compensation Board is an independent agency of the Province of Nova Scotia. The Workers' Compensation Board administers a mutual accident insurance scheme whereby workers are compensated for loss resulting from work related injuries and employers are protected from suits alleging negligence. The Workers' Compensation Board administers a variety of benefits and vocational rehabilitation programs on behalf of injured workers and employers within the Province of Nova Scotia.

Benefits are defined independent of the value of the Fund Assets. The Fund Assets serve as security that awarded benefit commitments will be paid and are held in trust for injured workers. The annual establishment of assessment rates includes an estimate of investment revenue. The fund must achieve this target or a deficit may be created. The investment portfolio is a key component of the Workers' Compensation Board's funding strategy. This is of paramount importance given the magnitude of the unfunded liability.

There are four groups with significant interests in the Accident Fund: employees, employers, Board members, and the Government.

Employees have a significant interest in the Fund. The money provided by the employers is earmarked to provide compensation, vocational rehabilitation support, medical aid to workers who are injured out of and in the course of their employment, and to pay for the administration and legislated obligations of the legislation that establishes the basis for Workers' Compensation benefits. The level of security that these future costs will be paid is enhanced through prudent management of the Accident Fund. The basis for establishing benefits is provided by the Legislation.

Employers are responsible for providing the funding of Workers' Compensation benefits for injured workers. Therefore, employers stand to benefit from superior investment earnings if that translates into lower assessments; and conversely, employers will suffer from poor investment experience.

The Board of Directors have a fiduciary responsibility for prudently managing the assets in the Accident Fund on behalf of employers and injured workers. The overall management of the Accident Fund is subject to public accountability.

The Government's interest in the Fund is attributable to the fact that the benefits payable to injured workers are determined through the legislative process. The Workers' Compensation Act is a statute of the Province of Nova Scotia.

The legislative authority governing the Workers' Compensation Board's investment of funds is Section 149 of the Worker's Compensation Act, RSNS 1989, c.508, as amended. The section reads as follows:

> "The Workers' Compensation Board may
>
> (a)invest any funds arising under any provisions of this Act or under the Workers' Compensation Board's control according to investment and lending policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and obtain a reasonable return;..."

The Statement of Investment Policies and Objectives will define these policies, standards, and procedures.

2. PURPOSE

The purpose of this statement is to serve as a guide to those given responsibilities for fund management, including the Finance and Investment Committee, Fund Managers, and other parties having direct responsibility. This document will commit to writing the objectives and policies established by the Finance and Investment Committee. The purpose in establishing objectives and policies is two-fold:

1) To ensure that all parties involved in the management of the Fund clearly understand the policies, objectives, goals, and direction of the Fund.

2) To facilitate the delegation of Investment Management responsibilities.

The process of determining objectives and policies includes the following:

1) Clear identification of the nature of the liabilities of the Fund for which the Board of Directors have a fiduciary responsibility. The important characteristics to identify include the type of liability (a short term wage loss versus a benefit payable to age 65), the length of time the liability will be outstanding (one year versus twenty years), and the type of payment involved (single fixed amount versus monthly payments indexed to CPI).

2) Identification of assets which have characteristics similar to the liabilities being assumed (short term, fixed rate bonds for short term liabilities versus common stock equity and real estate investments for long-term indexed pensions).

3) Selection of the asset classes which best suit the needs of the liabilities and which will provide the highest rate of return at an acceptable level of risk.

4) Provision of sufficient diversification to eliminate unnecessary risk.

The basic goal is to ensure that the assets of the Fund, together with expected contributions, shall be invested in a continued, prudent, and effective manner so as to optimally meet the liabilities of the Workers' Compensation Board.

3. ROLES AND RESPONSIBILITIES

A Finance and Investment Committee

The Finance and Investment Committee (the "Committee") is a standing committee, advisory to the Board of Directors. The Committee is comprised of three full members and three Ex-officio members.

The Committee is responsible for reviewing and reporting to the Board of Directors on the administration, supervision and management of the investment program; and for recommending, where appropriate, changes for the Board of Directors to consider.

The full members are all from the Board of Directors. One Board member will be appointed as Chair of the Committee. The Chief Executive Officer; the Chief Financial Officer; and the Executive Corporate Secretary comprise the Ex-officio membership. The Chair of the Board of Directors shall not serve as a member of the Committee but may attend Committee meetings.

In the administration of the Workers' Compensation Board investment portfolio, Committee members shall exercise the care, diligence and skill that a person of ordinary prudence would exercise in dealing with the property of another person and shall use all relevant knowledge and skill that the member possesses.

Authority from the Board of Directors is delegated as follows:

The Committee will review and recommend to the Board of Directors:

- Statement of Investment Policies and Objectives
  In order to facilitate proper management of the assets, the Committee must establish the Statement of Investment Policies and Objectives. The Board of Directors shall retain the authority to approve the Statement of Investment Policies and Objectives (and amendments) which should be reviewed on an annual basis or at such other times as the Board of Directors deem necessary.

- Borrowing
  The Board of Directors shall retain the authority to approve borrowing and line of credit changes.

- Appointment of Consultants and Managers
  The Board of Directors shall retain the authority to approve the appointment or termination of investment consultants and managers.

The Committee will decide and approve and report to the Board of Directors:

- Investment consultants mandates.

- Investment manager mandates including the asset class and any constraints on investments within that asset class

- Periodic assessment of the investment consultant's performance and fees.

- Investments in accordance with delegated limits.

The Committee will monitor and report highlights to the Board of Directors through: Quarterly investment reports outlining the performance for all asset classes plus the total portfolio against performance measurement targets, and the actual performance of the portfolios versus the appropriate benchmarks.

The means by which the Committee carries out its responsibilities are varied. It may use internal personnel and/or retain professional expertise for advice, portfolio management, performance measurement, or such arrangements as the Committee may recommend to the Board of Directors to meet the investment objectives. It may consider the use of an advisory committee to provide advice and support to the Committee regarding investment structure and process. Any input/advice will be considered but is not binding. Administrative support will be provided by the Director Financial Services. Meetings will be at the call of the Committee Chair, or as directed by the Board of Directors.

B Fund Managers

Periodic meetings with the Committee will be scheduled for each Fund Manager.

At each meeting, each Fund Manager shall be prepared to discuss the following topics:

- discuss compliance with the Statement of Investment Policies and Objectives.

- a review of the firm including changes in personnel, client growth or decline, asset growth or decline, etc.

- the time weighted rate of return, including investment income and realized and unrealized capital appreciation and depreciation for the most recent quarter and for the one, two, three, four, and five year periods ending with the most recent quarter.

- a comparison of the value of the portfolio since the previous quarter or meeting and the end of the previous year.

- a review of the transactions undertaken during the most recent quarter with a list of brokerage firms and commissions.

- a review of equity, real estate and fixed income segments of the portfolio, if applicable, plus a forecast of anticipated changes during the next quarter or longer.

- an economic review and capital market forecast.

- inform the Committee of any new investment opportunities/asset classes and how they might assist the achievement of fund objectives.

- other items as determined by the Committee.

The investment managers will participate in any annual review of the Statement of Investment Policies and Objectives. They will be required to complete a "statement of compliance" annually.

Specific responsibilities are outlined in individual manager agreements.

C Fund Custodian

The Fund Custodian will fulfil the regular duties required by law of a Custodian/Trustee and duties outlined in the custodial agreement.

The custodian will provide the Workers' Compensation Board with monthly and annual reports detailing asset holdings and transactions during the period. In addition, the custodian will provide the Workers' Compensation Board with periodic rates of return of the total fund, each manager, and each asset class as agreed in our contract.

D Consultants

Consultants may be engaged to perform specific services that may include (but are not limited to) the following:

- performance measurement, reviews of the Statement of Investment Policies and Objectives, manager searches, provision of research and empirical information, etc.

The responsibilities will be set out by the terms of each engagement.

4. INVESTMENT OBJECTIVES

A Primary Objectives

The Workers' Compensation Board's investment policies must be responsive to the mandate to pay benefits. Two important goals must be recognized:

1) Inflation Protection - The Workers' Compensation Board's income replacement benefits will be indexed effective January 1, 2000, and thus will continue to grow year after year.

2) Liquidity Requirement - The Workers' Compensation Board has a significant need for cash as payment of benefits to injured workers begins as soon as the award has been made. It is anticipated that these liquidity requirements are facilitated by the operational cash flows of the Workers' Compensation Board.

The investment policies to be followed by the Workers' Compensation Board's Investment Managers must reflect the potentially conflicting requirements of these two goals.

The funds assets will be managed on a going-concern basis, with the primary objective of maximizing returns at an acceptable level of risk; which presumes management of the portfolio to an average allocation over time to asset classes in the proportions indicated in the benchmark portfolio.

.B Benchmark Portfolio

A benchmark portfolio constitutes a "neutral position" that is representative of the fund's long-term risk tolerance. It represents the portfolio that would be used if the fund were passively managed (i.e. no short-term asset mix movement, no securities selected outside the various indices). Such a fund could be managed at a low cost and the returns generated would be those of the broad indices representative of the invested asset classes.

The benchmark portfolio significantly enhances performance measurement/monitoring and allows the statement of Investment Policies and Objectives to be used as a true management tool.

Based on the policies contained in the document, the benchmark portfolio is constructed as follows:

ASSET CLASS	PERCENTAGE
Canadian Equity	20.0%
US Equity	10.0%
International Equity	10.0%
Global Equity	20.0%
Real Estate	10.0%
Nominal Bonds	30.0%
Cash and Short-term	0.0%
	100.0%

The allocation to the US and international equity asset classes will be hedged for currency fluctuations. The target hedge ratio will be 100% of those two asset classes and applied on all major currencies.

The portfolio benchmark will be rebalanced monthly.

5. CHARACTERISTICS OF THE LIABILITIES OF THE ACCIDENT FUND

The most significant characteristics of the liabilities of the Fund are:

Long-Term Disability Liabilities: Accidents occurring prior to March 23, 1990 that result in permanent disability produce pensions that are payable for biological life. In addition, supplementary benefits are available for eligible injured workers. Compensable injuries after this date that result in permanent impairment produce a monthly (small amounts may be paid as a lump sum) benefit based on the impairment, payable for biological life. Accidents after March 23, 1990 resulting in extended earnings replacement benefits (EERB) generate monthly benefits payable to age 65. Annuities based on permanent impairment benefits (PIB) and EERB will be payable at this time. Pensions, PIB's, and EERB's will be indexed (one half of the annual change in CPI) commencing January 1, 2000.

Survivor Benefits: These liabilities are long-term in nature and include monthly pension payments to surviving spouses of workers who have died as a result of a compensable accident. Fatalities that occur prior to the date of proclamation of the new Workers' Compensation Act result in pensions that are payable to surviving spouses for their biological life. Compensable deaths after that date produce benefits that will be paid to the later of the age the deceased worker would have attained the age of 65 years or until the surviving spouse attains the age of 65. A surviving spouse is also entitled to an annuity. In addition, monthly pension payments to dependants of these deceased workers are payable for defined periods based on age and educational requirements. These payments will be indexed (one-half of the annual change in CPI) commencing January 1, 2000.

Short-term Disability: These earnings loss liabilities are short-term in nature. Payments of a defined period will be indexed according to the annual change in the Canadian Consumer Price Index commencing January 1, 2000.

Health Care: Medical services are provided both in the short-term and long-term depending on the nature of the injury. This liability will increase with the overall price increase of these services.

Rehabilitation: This liability is in relation to the vocational and psychological costs associated with rehabilitation. It is short-term in nature and the liability will increase in line with increase in prices of these services.

The significant investment implications relating to these liabilities are:

1) In general, a long-term investment horizon can be adopted for the portion of the liabilities that are long-term in nature. However, given the current magnitude of the unfunded liability, the ability to match assets to specific liabilities is constrained.

2) Investments that tend to protect against inflation are appropriately matched against liabilities whose cost are related to inflation, directly or indirectly.

6. INVESTMENT GUIDELINES

A Asset Mix

The following ranges are based on the market value of the total portfolio. Should there be a desire to deviate from this policy, or revise it, a written submission should be provided to the Committee detailing the proposed changes and supporting evidence justifying the proposed change.

Not more than 10% of the Fund may be invested with a single active manager.

Asset mix ranges for the Fund:

Asset Class	Minimum %	Maximum %
Canadian Equity	15	25
Foreign Equity (including U.S.)	30	50
Total Equity	50	70
Real Estate	0	15
Bonds	20	40
Cash & Short-term Investments	0	15
Total Debt & Cash	20	40

B Investment Constraints

Equity

Defined As: Common shares, limited partnerships, rights, warrants, securities convertible into common shares, units in real estate investment trusts (“REITS”) and units in income trusts.

Unless permitted as a private equity investment as discussed below, all investments in equity will be limited to publicly traded issues. Canadian equities will be limited to equities traded on a recognized Canadian exchange. Foreign equities will be limited to equities that are traded on recognized exchanges in each country represented.

Where the Committee desires to invest in pooled funds, the Committee must satisfy itself that the investment policy of such pooled fund is consistent with this Statement of Investment Policies and Objectives.

No one holding should represent more than 10 percent (market value) of the total equity portfolio, nor should it be more that 10 percent of the voting shares of any corporation.

Not more than 15% of the Canadian equity portfolio may be invested in stocks having a market capitalization below $1 billion.

No private equity investments will be made without the prior written approval of the Committee.

Publicly traded REITs and income trusts that are reporting issuers under the applicable securities legislation in Canada must be governed by the laws of a province in Canada that limits the liability of unit holders by statute. Otherwise, REITs and income trusts are not permitted.

The Committee authorizes our investment managers to engage where they deem it to be appropriate in transactions involving derivative products for the express purpose of hedging foreign currency exposures on stocks held in foreign jurisdictions. Currency hedging will target 100% percent of the Fund's US and international equity exposures. Without limiting the generality of the forgoing, derivative instruments are to be utilized solely for the purpose of managing currency risk on foreign stocks.

Managers are to confirm annually that their respective organizations have the appropriate internal policies and procedures to monitor and measure risk and to inform us of our risk profile when these transactions are executed. Any change in the managers' internal controls are to be reported to the Workers' Compensation Board immediately.

In addition, as a part of quarterly reporting, managers will report when hedges are put in place, removed, and the associated results.

Derivative products are not to be utilized for the purpose of leveraging exposure of underlying securities.

Debt

Defined As: Bonds and debentures.

"The weighted average credit rating of the bond portfolio will be maintained at or above A^{+}". The minimum quality standard for individual bonds and debentures at the time of purchase is "BBB" or its equivalent by at least two recognized rating agencies (such as Dominion Bond Rating Service, Standard & Poor's and Moody's). For purposes of this Section, all debt ratings refer to the ratings of Dominion Bond Rating Service (DBRS) unless otherwise indicated, however, equivalent ratings by another major credit rating agency can be used.

Holdings of "BBB" bonds are permitted to a maximum of 10 percent of the bond portfolio. If a bonds credit rating falls below "BBB" after the purchase date, the Manager shall remove it from the portfolio as soon as practical, but taking care not to unduly impair performance. Debt rated below "BBB" at the time of purchase is not permitted.

The DBRS defines the bond and long-term debt ratings as:

AAA-Bonds which are rated AAA are of the highest credit quality. The degree of protection afforded principal and interest is of the highest order. Earnings are relatively stable, the structure of the industry in which the entity operates is very strong, and the outlook for future profitability is extremely favourable. There are few qualifying factors present which would detract from the performance of the entity, and the strength of liquidity and coverage ratios is unquestioned.

AA-Bonds rated AA are of superior credit quality, and protection of interest, and principal is considered high. In many cases, they differ from bonds rated AAA to a small degree.

A-Bonds rated "A" are of upper medium grade credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than with AA rated entities. Entities in the "A" category may be more susceptible to adverse economic conditions and have greater cyclical tendencies.

Canadian bonds denominated in foreign currencies (foreign pay bonds) are permissible to a maximum of 20 percent (market value) of the bond portfolio.

All foreign bonds, whether in Canadian currency or native currency, require Committee approval prior to purchase.

Corporate debt obligations will not exceed 50 percent (market value) of the bond portfolio. No individual corporate issuer will exceed 5 percent (market value) of the bond portfolio.

Private placement bonds and debentures will not exceed 10 percent (market value) of the bond portfolio and all unrated bonds will be assigned a rating by the Committee (based on discussions with the fund managers) prior to purchase.

Real Estate

Defined as: real property, whether held through open or closed-end pooled funds, participating debentures, shares of corporations or partnerships formed for tax exempt funds to invest in real estate.

Properties shall be diversified by location, type of use and tenants.

Not more than 10% of the Real Estate portfolio shall be invested in non-income producing property.

Not more than 10% of the Real Estate portfolio may be invested in any one property at the time of acquisition

Income-producing Real Estate holdings may be mortgaged, except that the principal amount of such mortgages shall not exceed 35% of the aggregate market value of the fund, and no mortgage on any single holding shall be more than 75% of the market value of such holding at the time the mortgage is given.

C Short-Term Investments and Cash

Defined As: Cash on hand, demand deposits, treasury bills, short-term notes, bankers' acceptances, term deposits and guaranteed investment certificates purchased with a maturity of one year or less and reside in the investment portfolio.

The cash and short term investments in the securities of one issuer will not be more than 10 percent of the total market value of all cash and short term investments held by the fund, unless the issuer is guaranteed by the Government of Canada or one of the provinces of Canada.

The purchase of short-term investments issued by corporations and financial institutions is restricted to those which have a minimum rating of "R-1or equivalent by at least two recognized rating agencies (such as Dominion Bond Rating Service, Standard & Poor's and Moody's); except for Province of Nova Scotia issues which have an "R-2" high level rating.

D Exceptions

When applying the guidelines, it is recognized that there may be occasions during which the policies are not met temporarily for valid investment reasons. It is the responsibility of the investment manager to report any violations and to recommend appropriate remedies.

No other category or type of investment is allowed without the prior written approval of the Committee.

E Other

All investments will be made in accordance with Standard III.C of the CFA Institute Standards of Practices Handbook. The standard requires that the Fund Manager, when taking an investment action for a specific portfolio or client, consider its appropriateness and suitability for such portfolio or client. In considering such matters, the Fund Manager shall take into account:

- the needs and circumstances of the client,

- the basic characteristics of the investment involved, and

- the characteristics of the total portfolio.

The Fund Manager will use reasonable judgement to determine the applicable relevant factors.

7. SECURITIES LENDING

The securities of the Fund may be loaned by the custodian provided that:

- The custodian sets individual credit limits per borrower which are reviewed at least annually. In addition, their financial strength, credit rating, and reputation are reviewed.
- The loans are secured by cash or readily marketable investments having a market value of at least 105 percent of the market value of the securities loaned.
- The loans are marked to market daily to ensure the collateral continues to have a market value of at least 105 percent of the market value of the loaned assets.
- The securities are not loaned to facilitate a dividend rental arrangement.

8. CONFLICTS OF INTEREST

A Standard of Care

The members of the Board of Directors and its Committee, as well as all agents (fund managers, custodian, consultant, administrator) employed by the Workers' Compensation Board, must maintain a standard of prudence and reasonableness in the management of the Workers' Compensation Board's funds.

An agent is defined to mean a company, organization, association or individual, as well as its employees, retained by the Workers' Compensation Board to provide specific services with respect to the administration and management of the Fund.

In carrying out their duties, the Board of Directors must act in the best interest, and for the benefit, of present and future participants in the Accident Fund. Agents, whose duties to the Workers' Compensation Board are mainly contractual, must act with the skill that can reasonably be expected of a person in their professional position.

B Disclosure

In the execution of their duties, members of the Board of Directors and their agents shall disclose any material ownership of securities, which could impair their ability to render unbiased decisions, as it relates to the administration of the Fund.

Further, it is expected that no Board of Directors member nor agent, shall make any personal financial gain (direct or indirect) because of their fiduciary position.

It is incumbent on any party affected by this Statement who believes that he/she may have a conflict of interest, or who is aware of any conflict of interest, to notify the Chair of the Board of Directors. Disclosure should be made promptly after the affected person becomes aware of the conflict. The Chair of the Board of Directors, 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 Board of Directors.

No affected person who has or is required to make a disclosure as contemplated in this Statement of Investment Policies and Objectives 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.

No affected person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from an individual with whom the person deals in the course of performance of his or her duties and responsibilities for the Accident Fund.

C Related Party Transactions

Any party with whom the Workers' Compensation Board contracts will not engage in a non-arm's length transaction without the prior written approval of the Committee.

9. VOTING RIGHTS

The Fund Manager is delegated the responsibility of exercising all voting rights acquired through the Fund's investments. The Fund Manager will exercise acquired voting rights with the intent of fulfilling the investment objectives and policies of the Fund. The Committee reserves the right to exercise voting rights on the Fund securities when it is deemed appropriate. When the Fund Manager votes against management on a particular issue, the Fund Manager will notify the Committee in writing providing a brief rationale for voting against management on the particular issue while continuing to hold the investment.

10. ANNUAL REVIEW

This policy is open to review at any time, but should be reviewed annually.

11. VALUATION OF INVESTMENTS

The Committee expects that all the securities held by the Fund will have an active market and therefore valuation of the securities held by the fund will be based on their market values.

The Fund Manager will notify the Committee if the market for any investment held by the Fund becomes inactive and provide for the Committee's consideration a method for valuing the affected investment.

12. PERFORMANCE EVALUATION

The performance objective is to generate a consistent, positive real rate of return on invested assets which will provide for payment of all liabilities as required. There are numerous methods to measure this objective and the following outlines the targets set for the Workers' Compensation Board's investment fund:

Fund Management Objective:

To exceed (on a five year moving average) the return generated by the benchmark portfolio (before investment management fees). The rate of return for the benchmark portfolio will be calculated based on the following parameters:

ASSET CLASS	PERCENTAGE	BENCHMARK INDEX
Canadian Equity	20.0%	S&P/TSX Capped (10%) Total Return Index
U.S. Equity	10.0%	Russell 1000 Total Return Index (in Canadian Dollars), 100% hedged
International Equity	10.0%	Morgan Stanley Capital International (MSCI) Europe, Australasia and Far East (EAFE) Net Total Return Index (in Canadian Dollars), 100% hedged
Global Equity	20.0%	Morgan Stanley Capital International (MSCI) All Country World (ACWI) Net Total Return Index (in Canadian Dollars)
Real Estate	10.0%	85% IPD All Property Composite Index + 15% DEX 91 Day Treasury Bills Total Return Index
Nominal Bonds	30.0%	FTSE TMX Canada Universe Bond Index
Cash and Short-term	0.0%	FTSE TMX 91 Day Treasury Bills Total Return Index
	100.0%	

All applicable fees will be reviewed in comparison to the performance objectives to ensure that the returns in excess of benchmarks exceed the cost of active management.

Investment returns are measured on a time-weighted basis. The benchmark will be adjusted to reflect the provisions of the Trustee Act for the applicable period of any review.

The portfolio benchmark will be rebalanced monthly.

In addition, individual asset classes will be compared to relevant indices. Specialist portfolios (if applicable) will be compared to the appropriate class market index returns.

Investment results will be monitored and reviewed on a quarterly basis. Performance will be assessed by comparing actual results to the investment objectives, based on five year, moving average time periods.

13. DISMISSAL OF INVESTMENT MANAGER

Reasons for terminating the service of the investment manager include, but are not limited to, the following factors:

- Investment performance, which over a reasonable period of time, is below the stated performance objectives.

- Changes in personnel, firm structure, investment philosophy, style or approach which might adversely affect the potential return and/or risk level of the portfolio.

- Failure to adhere to the stated investment guidelines.

- Failure to satisfy the stated responsibilities.

14. BORROWING

Borrowing on behalf of the Fund is only permitted in order to pay benefits or expenses with the written approval of the Committee.

15. REBALANCING APPROACH

On a regular basis, the effective asset mix will be compared with the policy/target allocation and predetermined tolerance ranges. If deviations are outside tolerance ranges, a transfer of assets between over-weighted and under-weighted asset classes and managers through timely instructions to the affected managers and the custodian will be initiated. In addition, cash flows in or out of the Fund, as determined necessary by the Workers' Compensation Board Chief Financial Officer, will be processed in a manner to bring the effective asset mix closer to the policy allocation.

Rebalancing of assets and cash flows in or out of the fund will be reported to the Committee on a quarterly basis.

16. SHORT TERM INVESTMENT POLICY

A Definition

Securities purchased with a maturity of one year or less. The funds are required to meet the day-to-day expenditures of the Workers' Compensation Board in a twelve month cycle. They reside outside the long-term investment portfolio.

B Policy Statement

The Finance Department is responsible for the management of the Workers' Compensation Board's short-term investment portfolio.

The overall investment objective for the short-term portfolio is to obtain a reasonable rate of return while maintaining a high degree of liquidity and matching as closely as possible the maturity of the assets to anticipated disbursements.

C Product

It is the policy of the Workers' Compensation Board to invest only in the following low-risk products:

- Government of Canada Treasury Bills
- Bankers Acceptance
- Commercial Paper ("R-1" rating)
- Term Deposits of Schedule I Banks and Major Trust companies
- Short-Term debt of the Provinces (including promissory notes)
- Debt of the Government of Canada that is less than one year.
- Debt of non-Canadian issuers and foreign-pay debt of Canadian issuers are not permitted.

D Rating

The minimum quality standard for individual bonds and debentures is "A" or its equivalent by at least two recognized rating agencies (such as Dominion Bond Rating Service, Standard & Poor's and Moody's), Provincial short-term debt or paper and debt of agencies guaranteed by the Provinces may be rated lower than "R-1" but may not exceed 10 percent of the short-term portfolio, except for Province of Nova Scotia issues which have no such limits so long as they remain at an "R-2" high level.

E Limits

Corporate: Short-term debt on paper of any one corporate issuer shall not exceed 5 percent of the short-term portfolio.

Provincial Issues: Provincial issues rated lower than "R-1" shall not exceed 10 percent of the short term portfolio, except for Province of Nova Scotia issues which the WCB may invest in at an "R-2" high level without such limits. There is no limit for Provincial Issues rated as "R-1".

Treasury Bills - no limit
Government of Canada - no limit

F Term

Investments are to be for a term not to exceed one year.

G Financial Institutions

Investment products should be purchased only from the following:

- Any registered member of the Investment Dealers Association
- Schedule I or II banks
- Any nationally recognized trust company.
- Province of Nova Scotia-Department of Finance

H Custody

All investment assets will remain in the custody of the Investment Dealer, Financial Institution, Custodian, or the Workers' Compensation Board.

I Approval

The short-term day to day investment activities are under the immediate direction of the Finance Department. Approval is outlined as follows:

Authorization Levels

Investment Amount	Duration	Authorized By
0 - $10,000,000	1 - 10 Days	Treasury Accountant and Director Financial Services
0 - $20,000,000	1 - 180 Days	Chief Financial Officer
$20,000,000+	1-365 Days	Chief Executive Officer

APPENDIX A

DESCRIPTION OF THE LIABILITIES OF

THE ACCIDENT FUND

DESCRIPTION OF THE LIABILITIES OF THE ACCIDENT FUND

The two major groups of long-term disability liabilities and short-term disability and related liabilities can be further broken down into sub categories as follows:

Long-Term Disability Liabilities and Survivor Benefits

1. Permanent Disability Pensions (pre-March 23, 1990 Accidents)

Accidents prior to March 23, 1990 that result in a permanent disability produce pension awards based on the degree of medical impairment as determined by a clinical rating schedule. The percentage of impairment is applied to 75 percent of the gross average earnings of the worker at the time of the accident. The awards were usually monthly payments but policies (based on award parameters) provided for lump sum payments. The monthly pensions will be indexed (one-half of the annual change in CPI) commencing January 1, 2000. These pensions are payable for biological life.

In addition, supplementary benefits are available to injured workers who meet eligibility criteria based on age, income, and other parameters. These benefits are payable to age 65.

2. Permanent Impairment Benefits (PIB) (accidents occurring on or after March 23, 1990)

Accidents in this time frame that result in permanent impairment are compensated based on the percentage of impairment applied to 30 percent of 85 percent of the worker's net average earnings. These awards can be monthly payments for biological life or processed as lump sum payments. The monthly payments will be indexed (one-half of the annual change in CPI) commencing January 1, 2000.

3. Extended Earnings Replacement Benefits (EERB) (accidents occurring on or after March 23, 1990)

These accidents that result in EERB's will compensate injured workers based on 85 percent of the difference between their pre and post net accident earnings. These earnings replacement benefits will be paid periodically until the worker attains age 65 (or the date the loss of earnings ends, whichever is earlier). The periodic payments will be indexed (one-half of the annual change in CPI) commencing January 1, 2000).

4. Annuities

Injured workers eligible for EERB's will be entitled to an annuity. The annuity will be based on 5 percent of the EERB and PIB awards (as periodic payments are made). The accumulated funds together with accrued interest will be payable in periodic instalments (or as a lump sum) when the worker attains age 65.

Long-term Disability Liabilities comprise 69.5 percent of total benefit liabilities as at December 31, 1994.

5. Survivor Benefits (accidents prior to March 23, 1990)

Compensable injuries that result in the death of a worker entitle a surviving spouse to a monthly pension based on 75 percent of the gross average earnings of the deceased worker. This award is payable for the biological life of the surviving spouse. Monthly pensions are also payable on behalf of dependent children for a defined period of time based on age and educational requirements. Other dependants may be entitled to compensation in respect of the deceased worker as well. These pensions will be indexed (one-half of the annual change in CPI) commencing January 1, 2000.

A surviving spouse is also entitled to a death benefit. Burial expenses and transportation costs are also covered by compensation.

6. Survivor Benefits (accidents after March 23, 1990)

Compensable injuries that result in the death of a worker entitle a surviving spouse to a monthly pension based on 85 percent of the net average earnings of the deceased worker. This award is payable until the worker would have attained age 65 or until the surviving spouse attains age 65, whichever is later. A surviving spouse is also entitled to an annuity based on 5 percent of the survivor pension award (as periodic payments are made). Monthly pensions are also payable on behalf of dependent children for a defined period of time based on age and educational requirements. Other dependants may be entitled to compensation in respect of the deceased worker as well. These pensions will be indexed (one-half of the annual change in CPI) commencing January 1, 2000.

A surviving spouse is also entitled to a death benefit. Burial expenses and transportation cost are also covered by compensation.

Survivor Benefits represent 14.5 percent of total benefit liabilities as at December 31, 1994.

The average duration of payments of <u>existing</u> long-term disability and survivor benefit liabilities is estimated to be 14 years.

Short-Term Disability and Related Liabilities

1. **Short-Term Disability** -Temporary earnings replacement benefits are paid for loss of earnings capacity at 75 percent of the worker's loss of earnings for the first 26 weeks and 85 percent thereafter. Commencing January 1, 2000, injured workers who have received temporary earnings replacement benefits for more than 12 continuous months have these benefits indexed on January 1 following this anniversary. The indexation is based on that calculated above for long-term disability awards. Short-term disability benefits include income benefits during a rehabilitation period.

   This liability comprises 8.2 percent of total benefit liabilities as at December 31, 1994.

2. **Health Care** - This is the cost to the Workers' Compensation Board of medical services resulting from a compensable accident.

   Health Care represents 6.4 percent of total benefit liabilities as at December 31, 1994.

3. **Rehabilitation** - This relates to benefits for the rehabilitation of an injured worker, including vocational and psychological rehabilitation costs. This excludes income benefits to the injured worker during the rehabilitation period (included in short-term disability).

   This category represents 1.4 percent of total benefit liabilities as at December 31, 1994.

The average duration of payments of these existing liabilities is estimated to be two years.

Funding of Liabilities

The funding of long-term disability liabilities and survivor benefits is significantly different than that of the temporary earnings replacement liabilities and is a function of the nature of each type of liability. Pension/impairment liabilities are long-term annuity type payments with an average life of 14 years. This requires assets which are long-term in nature and which track inflation since pension payments will be indexed to the Consumer Price Index.

The temporary earnings replacement liabilities are much shorter in nature. Theoretically, to correctly match the duration of the assets purchased with the payout requirements of these liabilities, it would be appropriate to purchase one year investments in an amount equal to the liabilities coming due in one year, two year investments in amount equal to the liabilities coming due in two years and so on. Currently this is not required, since assessment premium income exceeds temporary earnings replacement payments in the year. The best asset vehicle to match the temporary earnings replacement liabilities is a debt investment which meets the income requirements and provides security of principal.

APPENDIX B

STATEMENT OF INVESTMENT BELIEFS

STATEMENT OF INVESTMENT BELIEFS

This document is to be distinct from but should be read in conjunction with the fund's Statement of Investment Policies and Objectives (the "SIP&O").

The purpose of this Statement of Investment Beliefs (the "SIB") is to enunciate a set of investment principles that:

- Reflects the views and beliefs of the Finance & Investment Committee (the "Committee").
- Governs the manner in which the fund's assets (the "Fund") are invested.
- Forms the basis for the formulation of the investment strategy, and the SIP&O and its periodic amendment.
- Provides a documented framework to assess at a later date the rationale for the current investment approach.

Background

WCB's financial objectives (rewards, risks and related tolerance) are as follow:

- Meet the funding requirement of the Workers' Compensation Act; and
- Bring the workers' compensation system to a full funding, ensuring that assets are sufficient to meet liabilities.

Funding valuations are currently based on long term actuarial assumptions which are relatively stable over time. From an accounting stand point, the proposed IFRS rules make discount rate and liabilities more bond market-related.

In managing risk, the Committee believes that the Fund should be diversified across a broad range of financial assets and will review from time to time the risk and return characteristics of specific asset classes, to determine an appropriate debt/equity allocation for the fund and its impact on specific financial metrics. Policies and guidelines for the management of the Fund will be developed with oversight and monitoring procedures to ensure that the Fund is managed in compliance with these policies and procedures. The WCB's investment approach and risk tolerance should remain relatively close compared to other WCB's and like organizations in Canada.

STATEMENT OF INVESTMENT BELIEFS	
Topic	**Comments**
Asset Mix	▪ The target asset mix is considered to be the most important determining factor in the return/risk profile of the WCB's Fund. Achieving the WCB's financial objectives will require exposure to asset classes with some risk i.e. asset classes that deliver a return premium.
Traditional Asset classes	▪ Nominal bonds are generally less volatile than stocks. They provide steady income as well as the return of the original capital at maturity. Importantly, they can be viewed as a type of risk minimizing asset class in the sense that they are better suited than other assets in matching the behavior of the Fund's liabilities, if market-related. A manager structure review of the Fund's bond component may be performed from time to time to reconsider the FIC's position on managing bonds using a 100% passive approach. ▪ Real return bonds (long term bonds whose coupon payments are adjusted for changes in the rate of inflation) are appealing because they provide a good inflation hedge. However, their supply is very limited and they are more appropriate to hedge market-related indexed liabilities. ▪ High yield bonds carry high credit risk and are not effective in hedging liabilities but may be considered to diversify equities. ▪ Cash is the most liquid investment, but is not viewed as an appropriate strategic investment because of its low yields, very short term nature and risk in terms of its mismatch characteristics relative to the market-related liabilities. ▪ Public equities, while potentially quite volatile in the short term, are expected to produce better returns than bonds over the long term and are expected to reduce the long term costs of managing the Fund.

STATEMENT OF INVESTMENT BELIEFS	
Topic	**Comments**
Alternative Asset Classes	In general, alternative asset classes will be evaluated based on a set of criteria including their liquidity and the management time needed to monitor the investment. ▪ Real estate: Income producing properties have attractive risk reduction characteristics in that they have a low correlation with equity securities, lower volatility of returns versus equities and can provide some protection against inflation. Despite their illiquid nature, real estate tends to deliver good long term returns that rank between bonds and equities. ▪ Infrastructure assets: Historical performance data for direct infrastructure is limited and not readily available, but such assets, although illiquid in nature, can deliver stable and superior long term returns that are fairly uncorrelated with traditional asset classes and are an excellent hedge against inflation. This asset class could eventually be considered in the policy asset allocation upon significant recovery of equity markets, i.e. once funded status has improved, to reduce risk. ▪ Commodities: This asset class displays high volatility and is priced in U.S. dollars, hence adding currency risk. Since the Canadian equity market is already largely exposed to commodity-related sectors, the Fund's assets should not be invested directly in commodities. ▪ Private equities and hedge funds are not permitted due to internal resource constraints, illiquidity and relatively low performance after fees.
Preferred Risk Measure	▪ The focus should be as much as possible on absolute risk (standard deviation of absolute returns) rather than relative risk (tracking error) at the Fund level. However, at the managers' level, there is currently a combination of benchmark agnostic and benchmark-driven managers in place. By benchmark agnostic, we mean that market indices (benchmarks) do not serve as a starting point for portfolio construction and that a manager that abides to such approach is comfortable taking decisive positions away from the benchmark.

STATEMENT OF INVESTMENT BELIEFS	
Topic	**Comments**
	Benchmark-driven managers do the exact opposite.
Diversification	■ Diversification offers the opportunity to reduce risk and improve risk-adjusted returns. Real estate and bonds are viewed as good diversifiers by the WCB given their low correlation with equities.
Balanced versus Specialty Managers	A specialty investment manager structure is more advantageous than a balanced approach in managing the Fund's assets as: ■ Balanced managers have not historically demonstrated an ability to add value through asset mix shifts. ■ There are a great number of successful specialty investment firms focusing on a single asset class (e.g., equities) that cannot be considered in a selection process if a balanced structure is utilized. ■ It is difficult to find active managers in Canada that are good at managing all asset classes.
Active versus Passive Investing	Active managers, in some cases, can, over long periods, outperform passive indices. In some cases the size of added value net of fees may not be significant, in which case passive management may be more appropriate. Investment through passive strategies may be more appropriate in more efficient markets. The more efficient the market is, the harder it will be to outperform over the long term. The active vs. passive decision is based on the fee differential, the added value opportunities in the market, the value placed on the "risk management" activities of active managers, the resources available for monitoring and the WCB's confidence in selecting well performing active managers. As a result: ■ Bonds and currency hedging strategy will be managed using a passive approach. However, the FIC may want to perform a manager structure review of the Fund's bond component from time to time to reassess its position on managing bonds using a 100% passive approach.

STATEMENT OF INVESTMENT BELIEFS	
Topic	**Comments**
	▪ All equity asset classes and alternative investments will be managed actively.
Investment Styles	▪ The WCB favors a level of absolute return volatility at the Fund level that will be at or below that of the Fund's benchmark. Selected managers are more likely to be value, core and G.A.R.P. equity managers although a few mandates displaying a major style bias may be envisaged e.g. global equity ACWI mandate.

STATEMENT OF INVESTMENT BELIEFS	
Topic	**Comments**
Market Capitalization Coverage	■ Mid cap and small cap stocks have historically outperformed large cap stocks over long periods, although it also recognizes that history does not necessarily repeat itself. ■ Exposure to small/mid cap sizes can be achieved through all cap mandates where managers can tactically adjust exposure to these areas.
Fundamental vs. Quantitative Managers	■ In turbulent market conditions (e.g. 2008-2009), fundamental strategies will tend to outperform pure quantitative managers. As a result, the use of pure quantitative managers should be balanced with that of fundamental managers.
Number of Managers	It is prudent to utilize more than one investment management firm to manage the Fund's assets: ■ It is questionable whether a single manager can be among the best in each asset class or category. ■ Using different managers/firms can reduce the concentration risk and the potential impact on the Fund of underperformance by a single manager whose style may be out of favour or simply due to organizational issues which could affect the performance of all products of that firm. The WCB favors mandates of reasonable size, lower number of relationships to monitor and related fees. As a result, the WCB believes that a multi-manager structure composed of a minimum of 4 equity managers (minimum of 3 foreign equity managers) to manage the Fund's assets is best suitable. In determining the appropriate number of investment managers, consideration should be given to the amount of assets under management, targeted risk level, cost efficiency, the administrative economies of scale and the nature of the mandates. Given this belief, the Fund, effective October 1, 2012, will not allocate more than 10% target allocation to any new

STATEMENT OF INVESTMENT BELIEFS	
Topic	**Comments**
	active mandates on a go forward basis.
Segregated vs. Pooled Funds	▪ The WCB believes that portfolio segregation is appropriate but, for certain asset classes such as international and global equities, pooled funds are more efficient from an implementation perspective.

STATEMENT OF INVESTMENT BELIEFS	
Topic	**Comments**
Canadian versus Foreign Equities	It is prudent to maintain an allocation to Canadian equities given that the Fund’s liabilities are denominated in Canadian dollars. The WCB recognizes that: ■ The Canadian equity market generally lacks liquidity and represents only a small component (about 5%) of the global equity market capitalization. ■ Concentration risk in the Canadian equity market continues to be a problem with resource and financial stocks representing almost 80% of the S&P/TSX Composite Index. ■ There is a greater opportunity set to select from in the international and U.S. equity markets allowing the Fund to be diversified among a greater number of securities and economic sectors. Therefore, it is also appropriate to maintain a material allocation to foreign equities.
Global Equities vs. Separate U.S. and International Equity Mandates	■ Global equity managers have a broader opportunity set for adding value than each U.S. and international equity manager individually. However, investing in separate U.S. and international equity mandates provides a larger combined universe of managers to choose from and permits access to boutique U.S. only equity managers and U.S. all cap mandates. ■ As a result, the use of a combination of global/U.S./international equity mandates is viewed as optimal.

STATEMENT OF INVESTMENT BELIEFS	
Topic	**Comments**
Emerging Markets vs. Developed Markets Equities	▪ The demographics and relative economic growth will continue to be an important factor driving equity returns in the future, suggesting that the returns in the current developed countries should lag those of the emerging countries over long periods. ▪ As a result, emerging markets exposure in equities can be achieved through broader international and/or global equity mandates i.e. no specialized mandate, where managers can tactically adjust exposure to these areas.
Foreign Currencies	▪ Given that the Fund's liabilities are in Canadian dollars and given that the short term volatility of currency rates together with the meaningful exposure of the portfolio to major currencies (i.e. U.S. dollar, Yen, Euro and British Pound), it is appropriate to reduce the effect of such currency exposure by implementing a 50% currency hedge overlay strategy with respect to those major currencies through the use of currency forward contracts. Currencies do not add nor detract value.
Asset Mix Rebalancing	▪ Market behavior, among other things, can cause asset classes to drift from their respective policy weights. A disciplined and pre-determined rebalancing program (which is formalized in a Rebalancing Policy), outside of a tolerance band in each asset class is value additive and more importantly can reduce risk over the long term.
Performance-Based Fees	▪ Performance-based fees (base fee plus an incentive fee for value added) should be used as much as possible for active equity mandates, provided that the arrangement is fair for the WCB.
Reasons for Hiring Managers	▪ Need to complete the structure of the Fund. ▪ Compatibility with the investment style/philosophy of the Fund with respect to the manager's investment process/style. ▪ Solid, long-serving investment team dedicated to the

STATEMENT OF INVESTMENT BELIEFS	
Topic	**Comments**
	strategy in question. ▪ Critical mass of assets under management at the firm level but more importantly in the asset class in question i.e. no hiring of small and growing boutique firms. ▪ Strong confidence that the manager can outperform for any reasonable period related to the stated benchmark.
Reasons for Firing Managers	▪ Changes in investment style/philosophy which are sufficiently significant to alter the role for which the investment manager was hired. ▪ Changes in key personnel, the decision-making process or ownership. ▪ Changes in the Fund's investment structure such that the investment manager's services are no longer required. ▪ Change in the amount of assets managed by the manager beyond a level that may not be appropriate given the investment manager's investment style or personnel. ▪ Reduced confidence that the manager can outperform for any reasonable period related to the stated benchmark. ▪ Existence of a criminal charge, securities' law violation or question regarding the firm's or its employees' ethics or integrity.