

Workers' Compensation Board of Nova Scotia

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES

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STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES

1. INTRODUCTION AND GOVERNANCE

The Workers' Compensation Board is an independent board 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 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. 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.

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, and 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 has 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 Workers' 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 defines 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 Investment Committee, Fund Managers, and other parties having direct responsibility. This document will commit to writing the objectives and policies established by the 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 (for example, 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 long-term bonds, equity, real assets and other alternatives for long-term indexed liabilities).
- 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 Investment Committee

The Investment Committee (the “Committee”) is a standing committee, advisory to the Board of Directors. The Committee is comprised of three full members and four 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; Executive Corporate Secretary and the Director Financial Services 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 “SIPO”). The Board of Directors shall retain the authority to approve the SIPO (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 Fund Managers
The Board of Directors shall retain the authority to approve the appointment or termination of investment consultants and managers directly contracted by the WCB.

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

- Investment consultant’s mandates.
- Investment mandates for managers directly contracted by the WCB including the 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 Committee will be responsible for an annual review of the custodial and manager of investment managers arrangements.

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. Meetings will be at the call of the Committee Chair, or as directed by the Board of Directors.

Workers' Compensation Board Staff are responsible for executing arrangements with appointed Fund Managers as necessary to achieve the asset allocation targets prescribed in the SIPO.

B Fund Managers

1) Manager of Investment Managers

The Committee has retained the services of a Manager of Investment Managers (the "Manager") to provide advice and recommendations to assist it in fulfilling its responsibilities in furtherance of the Fund's goals and objectives.

Services provided by the Manager include (but are not limited to) the following:

- Appoint and terminate investment management firms within any multi-manager funds of the Manager utilized.
- Measure, evaluate and report in writing on any multi-manager funds of the Manager funds held within the Fund including reporting underlying investment managers versus appropriate benchmarks.
- Meet with the Committee, as required.
- Submit quarterly certificates attesting to their compliance with the SIPO, and notify the Committee if at any time an underlying investment does not comply with the SIPO.
- Perform responsibilities outlined in the contract with WCB.

2) Investment Managers

Investment Managers will be retained by the WCB and the Manager to invest the Fund in accordance with the objectives stated in the SIPO. Investment Managers retained by WCB shall be referred to as the "Fund Manager", and Investment Managers retained by the Manager within its multi-manager structure shall be referred to as the "Underlying Manager" thereafter.

The Fund Manager and the Underlying Managers' responsibilities include:

- Manage Fund assets in accordance with its contract with WCB, or the Manager, where applicable.
- Exercise discretion and authority for implementation of security selection and timing within the guidelines of their individual mandates.
- Comply with all legislation and regulations that pertain to the Underlying Manager's duties, functions and responsibilities.
- Act in compliance with the Code of Ethics and Standards of Professional Conduct of the CFA Institute.
- Vote the proxies on the securities in accordance with the Underlying Manager's own guidelines and in the best interest of all investors, and provide a copy of their voting policy and a record of their votes to the Manager, or WCB, where applicable.
- Advise WCB, or the Manager, where applicable, promptly of any event that is likely to adversely and/or materially impact the management, professionalism, integrity or financial position of the Underlying Manager in respect of the Underlying Manager's ability to manage the assets allocated to it by WCB or the Manager.
- Meet with the Committee, as required.
- Perform responsibilities outlined in the contract with WCB or the Manager, where applicable.

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, quarterly and annual reports detailing asset holdings and transactions during the period.

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 SIPO, manager searches, provision of research and empirical information, etc.

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

4. CHARACTERISTICS OF THE LIABILITIES OF THE ACCIDENT FUND

The most significant characteristics of the liabilities of the Fund are listed below. On an annual basis an independent actuary performs a valuation on the total benefits liabilities of the WCB.

Long-Term Disability Liabilities: These liabilities are long term in nature and depending on the accident date are payable for biological life or age 65.

Annuities based on permanent impairment benefits (PIB) and extended earnings replacement benefits (EERB) will be payable at this time. Pensions, PIB's, and EERB's are indexed at one half of the annual change in CPI.

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. 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 at one-half of the annual change in CPI.

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.

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: These are short-term, non-income payments intended to assist the beneficiary's return to employment. The liability will increase in line with increase in prices of these services.

The significant investment implications relating to the WCB's 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, whenever an unfunded liability exists, 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.

5. INVESTMENT OBJECTIVES

The Fund's 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 by the target asset mix.

The Workers' Compensation Board's investment policies must be responsive to the mandate to pay benefits. Two important considerations 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 can have 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 generally facilitated by the operational cash flows of the Workers' Compensation Board. As a result, the fund has an above average tolerance for illiquidity.

6. ASSET MIX POLICY & INVESTMENT CONSTRAINTS

A Asset Mix

In setting the Fund's long-term Target Asset Allocation consideration was given to various factors in the context of general economic conditions; these included the Fund's liabilities, the effect of inflation, the expected total return of the Mix, the characteristics of the different asset classes plus their relationship to each other, and their risk/return characteristics.

The following long term Target Asset Allocation has been approved by the Board of Directors:

Asset Class	Minimum %	Target	Maximum %
Universe Bonds	2.0	4.0	6.0
Synthetic Mid-Term Bonds (3x)	2.5	4.5	6.5
Real Return Bonds	5.5	7.5	9.5
Synthetic Real Return Bonds (3x)	2.0	4.0	6.0
Liability Matching Bonds	15.0	20.0	25.0
Canadian Equity	3.0	5.0	7.0
Global Equity	9.0	11.0	13.0
Global Small Cap Equity	2.0	4.0	6.0
Emerging Markets Equity	3.0	5.0	7.0
Global Low Vol Equity	3.0	5.0	7.0
Total Public Equity	20.0	30.0	40.0
Canadian Real Estate	4.5	6.5	12.0
Global Real Estate Private Placements	1.0	6.5	10.0
Hedge Funds	4.0	6.0	8.0
Opportunistic Fixed Income	3.0	5.0	7.0
Private Debt Private Placements	1.0	6.0	9.0
Infrastructure Private Placements	5.0	10.0	15.0
Private Equity Private Placements	5.0	10.0	15.0
Alternatives	23.5	50.0	60.0

The Target Asset Allocation has evolved considerably through recent reviews, which has necessitated the implementation of a prudent and efficient transition plan. Appendix C shows

the difference between the current allocation and the new Target Asset Allocation. Appendix C also describes the process for modifying the new Target Asset Allocation. During the transition process, the asset mix may be outside the asset mix ranges shown above. The Committee may also authorize temporary asset mix positions outside those ranges to accommodate a Fund restructuring, a Manager restructuring, or a Fund Manager, or the Manager of Investment Managers request submitted in writing and providing the rationale for the request. The detailed rebalancing approach for the Fund is outlined in Section 15 of the SIPO.

The investments in Alternatives are expected to take a few years to reach a fully invested position. During these periods, the Fund may exceed the maximum allocation to the Liability-Matching Bonds and Public Equity asset classes.

The composition of the Liability-Matching Bond portfolio is intended to provide the Fund with an interest rate sensitivity (*i.e.*, duration) that is equal to approximately 60% of the interest rate sensitivity of Fund liabilities as well as an approximately equal sensitivity to inflation. The Liability-Matching Bond portfolio will be reviewed subsequent to each actuarial valuation to ensure alignment with this objective in light of changes in: the funded position; the characteristics of Fund liabilities; and, expected interest rate sensitivity of the Liability-Matching Bond portfolio components.

B Investment Constraints

The Fund's investments may be made either directly, through pooled/commingled or mutual funds, or through insurance contracts.

1) Fund Constraints

The Fund shall not borrow funds to acquire securities or otherwise deal in margin trading or short sales.

All investments shall be made in accordance with the Code of Ethics and Standards of Practice of the Chartered Financial Analyst (CFA) Institute.

2) Fund Managers' Constraints

To the extent the Fund invests directly or indirectly (in the case of investing through a Manager of Investment Managers structure) in a Fund Managers' pooled/commingled funds, the Fund Managers shall be governed by the Fund Managers' own investment policy for the pooled/commingled funds, as amended from time to time, which shall be provided to the Committee by the Fund Managers. To the extent that the Board of Directors decides to invest in Fund assets via one or more segregated accounts, it will ensure that a detailed investment mandate setting out investment constraints for the Fund Manager(s) of such segregated account(s) is prepared and agreed to by the Fund Manager(s).

3) Derivatives Constraints

Outside of the Fund's allocation to Hedge Fund strategies, futures contracts, swaps, forwards, options and any other derivatives may only be used to:

- Create an asset mix position that does not leverage the Fund unless done so as part of a risk reduction or hedging strategy.
- Hedge or replicate the performance of interest rates or a capital market index, either alone or in combination with actual securities.
- Hedge foreign currency exposure or actively manage currency exposure within limits established by and agreed upon by the Board of Directors.
- Reduce risk as part of a hedging strategy.

Futures contracts, swaps, forwards, options, and other derivatives, may not be used to create asset mix positions contrary to the asset mix ranges set out in the SIPO.

The Fund shall at all times hold sufficient cash, cash equivalents, or synthetic cash equivalent securities in the amount which, together with the margin funds, shall not be less than the underlying market exposure of the futures contracts, forwards and options.

The Fund Managers shall be responsible for assessing all counterparty risk associated with derivative instruments, with regards to credit rating, and total exposure limits for each derivatives and futures securities dealer and bank.

C 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 Fund Manager and the 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.

D 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 Manager and the Underlying Managers, 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 and the 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 and the 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.

Commingled vehicles may enter into securities lending agreements if permitted under their policies.

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 the SIPO 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 the SIPO 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 Underlying Managers are delegated the responsibility of exercising all voting rights acquired through the Fund's investments. The Underlying Managers shall vote in the best interests of all clients invested in their pooled fund. All Underlying Managers should have clear policy guidelines on how they will vote on all routine and non-routine matters. Reasonable efforts must be undertaken, and be evidenced to have been undertaken, by the Underlying Managers to acquire information sufficient to allow an informed vote.

Each Underlying Manager shall maintain a record of how the voting rights relating to the investments in the pooled funds have been exercised, and shall provide a copy of such record to the Manager upon request.

10. ANNUAL REVIEW

This policy is open to review at any time, but should be reviewed annually. A comprehensive review will also be conducted following each asset-liability study.

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.

Investments that are not regularly traded shall be valued in accordance to the Fund Manager and Underlying Managers' valuation policy.

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 target asset mix (before investment management fees, and after transaction costs). The rate of return for the target asset mix will be calculated based on the following parameters:

Asset Class	Target (%)	Benchmark Index
Universe Bonds	4.0	FTSE Canada Universe Bond Index
Synthetic Mid-Term Bonds (3x)	4.5	<i>Custom benchmark¹</i>
Real Return Bonds	7.5	FTSE Canada Real Return Bond Index
Synthetic Real Return Bonds (3x)	4.0	<i>Custom benchmark²</i>
Canadian Equity	5.0	S&P/TSX Composite Index
Global Equity	11.0	MSCI World Net Index (\$Cdn)
Global Small Cap Equity	4.0	MSCI World Small Cap Net Index (\$Cdn)
Emerging Markets Equity	5.0	MSCI Emerging Market Net Index (\$Cdn)
Global Low Vol Equity	5.0	MSCI World Net Index (\$Cdn)
Canadian Real Estate	6.5	85% MSCI/REALPAC Canada Property Index + 15% FTSE Canada 91 Day T-Bill Index
Global Real Estate Private Placements	6.5	FTSE EPRA/NAREIT Developed Net Index (\$Cdn)
Hedge Funds	6.0	HFRI Fund of Funds Composite (\$USD)
Opportunistic Fixed Income	5.0	35% Bloomberg Barclays Global Aggregate Corporate Index (\$USD Hedged) + 17.5% Bloomberg Barclays Global High Yield (\$USD Hedged) + 10.5% JP Morgan Corporate Emerging Markets Bond Index Broad Diversified (\$USD) +

1 The custom benchmark for the Synthetic Mid-Term Bonds (3x) is: 3 x FTSE Canada Provincial Mid-Term Bond Index *minus* financing costs.

2 The custom benchmark for Synthetic Real Return Bonds (3x) is: 3 x FTSE Canada Real Return Bond Index *plus_3 x (FTSE Canada Provincial Long-Term Bond Index minus FTSE Canada Long-Term Canada Non-Agency Bond Index)* *minus* financing costs.

		7% Standard & Poor's/LSTA Leveraged Loan (\$USD) + 30% JP Morgan Government Bond Index Emerging Markets Global Diversified Index (\$Cdn)
Private Debt Private Placements	6.0	40% BofAML US High Yield Index (\$Cdn) + 60% BofAML Euro High Yield Index (\$Cdn)
Infrastructure Private Placements	10.0	S&P Global Infrastructure Index (\$Cdn)
Private Equity Private Placements	10.0	MSCI World Net Index (\$Cdn)

13. DISMISSAL OF MANAGER

Reasons for terminating the service of the 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, which might adversely affect the potential return and/or risk level of the portfolio.
- A desire to change the investment management structure.
- Uncompetitive investment management fees.
- 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

Divergent market performance among different asset classes may, from time to time, cause the asset allocation to deviate from the target asset allocation. Periodically, the Manager may consider appropriate action to address any movement of the allocation to an individual asset class off the target asset allocation, but within the allowable rebalancing range. Examples include (but are not limited to) allocation of withdrawals/contributions and transfer of cash from an overweighted asset class to an underweighted asset class, etc. Allowable rebalancing ranges relative to the Target Asset Allocation are $\pm 2\%$ for asset classes with a target allocation of less than 20%, and $\pm 4\%$ for asset classes with a target allocation equal to or greater than 20%. These ranges are applicable to the long term Target Asset Allocation or any target asset allocation that is implemented prior to the long term Target Asset Allocation being met.

From time to time (e.g., as a result of major market fluctuations or major capital expenditures, etc.), the allocation may move outside of its allowable rebalancing range. If the asset allocation moves outside of the allowable rebalancing range, the Manager will be responsible for initiating action to rebalance the portfolio back within the allowable range within 60 days, in a manner which controls transaction costs. 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.

If the asset allocation moves outsides of the allowable policy range, as defined in the asset class minimums and maximums in Section 6.A, the Manager will be responsible for initiating rebalancing action to rebalance the portfolio back within the allowable policy range as soon as

liquidity considerations allow.

The Manager monitors the actual allocation of Fund assets relative to the target allocation and permitted ranges on a daily basis.

The allowable rebalancing ranges are not applicable to Private Placements. Rather, a program of ongoing capital commitments is necessary to achieve and maintain the Fund's target allocations to Infrastructure, Private Equity, Global Real Estate, and Private Debt private placements. The Workers' Compensation Board Staff, with the assistance of the Consultant, shall determine the appropriate schedule of capital commitments consistent with the long term Target Asset Allocation. The Workers' Compensation Board Staff will report to the Committee when new capital commitments are made. The Consultant will report to the Committee annually on the anticipated capital commitment pacing schedule required to achieve, and subsequently maintain, the long term Target Asset Allocation.

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, 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 Term

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

F 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 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

<u>Investment Amount</u>	<u>Duration</u>	<u>Authorized By</u>
0 - \$20,000,000	1 - 30 Days	Treasury Accountant and Director Financial Services
0 - \$50,000,000	1 - 365 Days	Chief Financial Officer
\$50,000,000+	1 - 365 Days	Chief Executive Officer

APPENDIX A
HISTORY OF REVISIONS

HISTORY OF REVISIONS

<u>DATE</u>	<u>REFERENCE</u>
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, 12 and 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
October 1, 2015	Sections 2,3, 4,6,7,11,12,15, Appendixes B and C
April 1, 2016	Rewrite of the Policy – section references changes, sections updated and reflecting industry standards. Removed the appendix describing detailed benefits liabilities and created new appendix which captures past revision dates and sections.
October 1, 2017	Section 3A, 3C, Appendixes B and C
October 1, 2018	Sections 3A, 6A, 12, 15, and Appendix C
October 1, 2019	Sections 3A, 4, 5, Appendixes B and C
October 1, 2020	Sections 6A, 6B, 12, 15, Appendixes B and C
October 1, 2021	Sections 4, 6A, 12, 15 and Appendix C
October 1, 2022	Sections 6A, 12, Appendixes B and C

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 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 SIPO 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 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 revised standards under IFRS 17, with an effective date of January 1, 2023 will make the 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 (bonds, public equities and alternatives) as well as within categories of financial assets (geographies, sectors, issuers, etc.) and will review from time to time the risk and return characteristics of specific asset classes, to determine an appropriate asset 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.

*Full funding is yet to be defined.

STATEMENT OF INVESTMENT BELIEFS	
Topic	Comments
Asset Mix	<ul style="list-style-type: none"> ■ The target asset mix is considered to be the most important determining factor in the return/risk profile of the WCB's Fund and, in turn, achieving the Fund's financial objectives. The target asset mix comprises three broad asset categories: liability matching bonds, public equity, and alternatives. The liability matching bond component of the target asset mix is intended to manage the risks inherent in the liabilities (<i>i.e.</i>, interest rate and inflation risk). The public equity and alternatives components are intended to enhance long term returns of the Fund in a prudent and risk controlled manner. Achieving the WCB's financial objectives will require the Fund to maintain a focus on generating higher levels of return and to accept the increase in return volatility relative to a low-risk investment approach.

STATEMENT OF INVESTMENT BELIEFS

Topic	Comments
Traditional Asset classes	<ul style="list-style-type: none"> ■ Nominal bonds, such as Universe Bonds and Mid-Term 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. 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. ■ The use of leverage (or synthetic exposure) within a liability-matching bond portfolio can be effective in managing the interest risk of the Fund vis-à-vis WCB's liabilities, while also enabling additional flexibility in the overall target asset allocation. ■ Opportunistic fixed income investments (corporate bonds, high yield bonds, emerging markets debt, bank loans) carry higher levels of credit risk and varying levels of interest rate sensitivity and are not effective in hedging liabilities but are 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	<p>In general, alternative asset classes will be evaluated based on a set of criteria including their ability to enhance returns, diversify relative to other asset classes, and provide sensitivity to inflation. In addition, consideration will be given to liquidity and the management time needed to monitor the investment.</p> <p>The WCB believes that illiquid alternative investments offer the opportunity to earn additional return over the long term through an illiquidity premium.</p> <ul style="list-style-type: none"> ■ 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 (unlisted) 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 provide a strong long-term hedge against inflation. Investing in <u>listed</u> infrastructure means that the investments can be easily acquired and disposed of, however, the diversification benefits are reduced as its correlation to the Fund's other asset classes such as public equities can be meaningfully higher. The Committee has discussed the preference to avoid PPP projects; however, to the extent that the Fund is invested in pooled vehicles, the pooled fund guidelines shall apply. The Manager shall inform the Committee of investments in PPP projects on an annual basis . ■ Commodities: This asset class displays high volatility. Since the Canadian equity market is already largely exposed to commodity-related sectors, the Fund's assets should not be invested directly in commodities. ■ Hedge funds: When constructed using a reasonable amount of leverage and overall risk, they can provide strong diversification benefits to the Fund by

STATEMENT OF INVESTMENT BELIEFS	
Topic	Comments
	<p>delivering a moderate level of more steady absolute returns and less downside than equities in periods of market stress.</p> <ul style="list-style-type: none"> ■ Private equity: Investments in private equity are viewed to be primarily return enhancing in nature and are expected to display higher levels of volatility. The benefits of private equity investments in terms of diversification relative to other asset classes and inflation sensitivity are expected to be limited. ■ Private debt: Investments in private debt are expected to provide return enhancement relative to traditional fixed income investments at a level of risk lower than that of equities. Due to their illiquid nature, higher levels of credit risk and varying sensitivity to interest rates, private debt investments are not viewed to be appropriate for the purpose of the liability matching bond component of the target asset mix.
Key Risks	<p>The key investment-related risks to the WCB are identified as being interest rate risk, inflation risk and market risk.</p> <ul style="list-style-type: none"> ■ Interest rate risk arises from changes in the value of the WCB's liabilities with changes in market interest rates given the impact that market interest rates have on the liability discount rate over time. Interest rate risk is mitigated through the Fund's liability matching bonds. ■ Inflation risk arises from changes in the value of the WCB's liabilities with changes in the level of inflation. Direct mitigation of inflation risk is best mitigated through the Fund's liability matching bonds. Over longer time periods, real assets such as real estate and infrastructure are expected to also provide a level of inflation protection and therefore mitigate inflation risk. ■ Market risk relates to the portion of the Fund's assets not invested in liability matching bonds and arises from the value of these assets moving independently of the value of the WCB's liabilities. The impact of market risk on the Fund is controlled through the

STATEMENT OF INVESTMENT BELIEFS	
Topic	Comments
	proportion of the Fund's assets allocated to public equity and alternatives and is mitigated through appropriate diversification of the Fund's public equity and alternatives investments.
Preferred Risk Measure	<ul style="list-style-type: none"> ■ 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.
Diversification	<ul style="list-style-type: none"> ■ Diversification offers the opportunity to reduce risk and improve risk-adjusted returns. Fixed Income and Alternatives are viewed as good diversifiers by the WCB given their low correlation with equities.
Balanced versus Specialty Managers	<p>A specialty investment manager structure is more advantageous than a balanced approach in managing the Fund's assets as:</p> <ul style="list-style-type: none"> ■ 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	<p>Active managers can, over long periods, outperform or reduce risk relative to passive indices. As a result, the WCB has a general preference for active management across asset classes though a passive approach may be considered on an asset class-by-asset class basis.</p> <p>It is noted that real return bonds and synthetic bonds can only be implemented through a passive approach and therefore those asset classes shall be passively managed.</p>
Investment Styles	<ul style="list-style-type: none"> ■ 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. Investment Manager selection in the majority of asset classes has been outsourced to the Manager of Investment Managers.

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Topic	Comments
Market Capitalization Coverage	<ul style="list-style-type: none"> ■ 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 as well as specialty mandates within the Global Small Cap equities space.
Fundamental vs. Quantitative Managers	<ul style="list-style-type: none"> ■ In turbulent market conditions, 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.
Segregated vs. Pooled Funds	<ul style="list-style-type: none"> ■ Pooled funds are more efficient from an implementation perspective because they allow investors to share operating expenses. Utilization of a Manager of Investment Managers allows for the access to all asset classes through pooled/commingled funds.

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Topic	Comments
Canadian versus Foreign Equities	<p>The WCB recognizes that:</p> <ul style="list-style-type: none"> ■ The Canadian equity market generally lacks liquidity relative to global peers and represents only a small component (about 3%) 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 2/3rds of the S&P/TSX Composite Index. ■ There is a greater opportunity set to select from foreign markets allowing the Fund to be diversified among a greater number of securities, economic sectors and countries. <p>Therefore, it is appropriate to maintain a material allocation to foreign equities.</p>
Global Equities vs. Separate U.S. and International Equity Mandates	<ul style="list-style-type: none"> ■ Global equity managers have a broader opportunity set for adding value than each U.S. and international equity manager individually. ■ As a result, the use of global equity mandates is viewed as optimal.

STATEMENT OF INVESTMENT BELIEFS	
Topic	Comments
Emerging Markets vs. Developed Markets Equities	<ul style="list-style-type: none"> ■ 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, a specialist emerging markets mandate will be considered for investment by the Fund.
Foreign Currencies	<ul style="list-style-type: none"> ■ There are compelling analyses that support an unhedged currency policy over the long term, given that for Canadian investors, having exposure to major foreign currencies such as the USD provides some measure of tail protection. In many cases, hedging certain currencies have, in fact, increased volatility for Canadian investors.
Asset Mix Rebalancing	<ul style="list-style-type: none"> ■ 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.
Tactical Asset Allocation	<ul style="list-style-type: none"> ■ Short term market movements are difficult to time and predict and attempting to do so may increase risk to the Fund with little or no expected reward. As such, the WCB will not engage in tactical asset allocation of the Fund.
Performance-Based Fees	<ul style="list-style-type: none"> ■ Performance-based fees (base fee plus an incentive fee for value added) may be used where appropriate or where market norms dictate (<i>e.g.</i>, alternative investments), provided that the arrangement is fair for the WCB.
Environmental, Social and Governance Factors	<ul style="list-style-type: none"> ■ The Committee is cognizant that environmental, social and governance (“ESG”) issues can affect investment performance, and may therefore be considered where relevant and material to the assessment of investment value and mitigation of investment risk. The Committee has delegated the implementation of the Fund’s investment strategy to the Manager of

STATEMENT OF INVESTMENT BELIEFS	
Topic	Comments
	<p>Investment Managers, including full discretion in evaluating ESG risks and opportunities, alongside other considerations, in regards to the Fund's investments. As such, when selecting and monitoring Investment Managers, the Manager of Investment Managers may consider, where relevant and material to the specific investment mandate under consideration, the extent to which the Investment Managers analyze and integrate ESG risks and opportunities into their investment process.</p>

APPENDIX C
ASSET MIX TRANSITION

Asset Mix Changes

The target allocation changes will take place over an extended period of time.

Asset Classes	Current Target Allocation (as at June 30, 2022) (%)	Long-Term Target Allocation (%)
Universe Bonds (active)	0.8	4.0
Synthetic Mid-Term Bonds (3x)	1.8	4.5
Real Return Bonds	1.8	7.5
Synthetic Real Return Bonds (3x)	0.9	4.0
Long Bonds (active)	18.6	-
Total Liability Matching Bonds	23.9	20.0
Canadian Equity	5.5	5.0
Global Equity	12.3	11.0
Global small cap equity	4.3	4.0
EM equity	5.5	5.0
Global low vol equity	5.5	5.0
Total Public Equity	33.1	30.0
Canadian Real Estate	8.6	6.5
Global Real Estate	2.0	6.5
Hedge Funds	8.0	6.0
Opportunistic Fixed Income	7.0	5.0
Private Debt	1.0	6.0

Infrastructure	6.0	10.0
Private Equity	10.0	10.0
Total Alternatives	42.6	50.0
Money Market	0.4	0.0
Total Cash & Equivalents	0.4	0.0

Transition Implementation Details

- The funding of Private Placements (Global Real Estate, Private Debt, Infrastructure, and Private Equity) will take place over an extended period of time as capital calls are made. As such, interim allocations to public markets asset classes will be required through the funding period. It is anticipated that the target allocations to Private Placements will not be met prior to 2026.
- The long-term target allocations of the Liability Matching Bonds will be phased in gradually over a defined period of time. The first phase of the implementation occurred in late 2021 with the final long-term allocations achieved by the end of 2023.

APPENDIX D
CURRENCY HEDGING GLIDEPATH

Currency hedging glidepath

Given that the Committee has approved the policy of not hedging the Fund's foreign currency exposure over the long term, the following glidepath will be implemented as a prudent way to gradually remove the existing currency overlay in place.

