



Statement of Investment Policies and Procedures for the Public Service Pension Plan

Approved by OPB's Board of Directors on
December 19, 2024



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SECTION 1 – PURPOSE

- 1.1 The Ontario Pension Board (“OPB”) administers a pension fund whose prime goal is to secure the pension promise to beneficiaries of the Public Service Pension Plan (“Plan”). This Statement of Investment Policies and Procedures (“SIP&P”) identifies investment objectives, performance expectations, policies and procedures for the management of the Public Service Pension Fund (“Fund”).
- 1.2 The SIP&P has been adopted by OPB after evaluating the current financial status of the Plan, the future financial needs of the Plan, the risk tolerance of the Plan having regard to its obligations and the advice of the Investment Committee of OPB.

SECTION 2 – PLAN SUMMARY

- 2.1 OPB is the Administrator of the Plan and Fund in accordance with the *Public Service Pension Act* (Ontario), R.S.O. 1990, Chapter P.48, the *Pension Benefits Act* (Ontario), R.S.O. 1990, Chapter P.8 (“PBA”), and the *Income Tax Act* (Canada), R.S.C., 1985, c. 1 (5th Supp.) (“ITA”). Members are non-OPSEU employees of the Province of Ontario and its agencies, boards and commissions (“Province”).
- 2.2 The Plan provides an annual pension equal to 2% of a member's average annual salary over the member's best consecutive 60 months of salary times the number of years of credit the member has in the Plan. The pension is reduced at age 65 for integration with the Canada Pension Plan. Members contribute 7.4% of salary up to the Year's Maximum Pensionable Earnings (“YMPE”) plus 10.5% of salary above the YMPE. The Province contributes matching amounts. Ontario Provincial Police uniformed officers are required to contribute an additional 2.3% of salary and Ontario Provincial Police civilian employees contribute an additional 0.375% of salary. Both are matched by the Province. Benefits of deferred and retired members are inflation protected. Contributions to and benefits payable from the Plan are subject to the limits under the ITA.
- 2.3 As at December 31, 2023 (per the funding valuation), the Plan had assets of \$33.88 billion, accrued liabilities of \$35.78 billion, a provision for adverse

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deviation of \$2.18 billion and a prior year credit balance of \$0.41 billion resulting in a going concern shortfall of \$4.49 billion. The Government of Ontario (the “Plan Sponsor”) will make going concern special payments of \$293.6 million in 2024. The Plan Sponsor is also making additional current service contributions beyond the matching contributions for 2024.

- 2.4 As Plan Administrator, OPB is responsible for the management of the Fund and the policies that govern the Fund. Board Members and OPB staff must act in the best interests of the beneficiaries of the Plan and exercise a high standard of care to protect the Fund.
- 2.5 OPB, subject to its duty to carry out such supervision as is prudent and reasonable, has delegated the investment of substantially all of the Fund to the Investment Management Corporation of Ontario (“IMCO”), which may further sub-delegate to other investment managers and service providers. IMCO must act in accordance with any written directions of OPB and all applicable IMCO policies. In investing the assets of the Fund, IMCO must comply with the SIP&P and all relevant laws and regulations.

SECTION 3 – INVESTMENT BELIEFS

- 3.1 OPB has developed its investment strategy based on thoughtful analysis as well as a set of investment beliefs, provided below. These complement the investment beliefs of IMCO (which are available separately).

- **Asset Allocation**

OPB believes that the Fund’s Strategic Asset Allocation (the “SAA”), discussed below in section 4 is the most important investment decision with respect to generating returns and managing risk. We also believe that OPB’s Board and Senior Management share the responsibility for developing the SAA.

We also believe that effective active management of the Fund’s asset allocation, within prescribed limits, can improve capital preservation and enhance risk-adjusted returns.

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- **Risk Management**

OPB believes that the investment strategy of the Fund should be designed first and foremost to minimize the principal risk to the Plan's stakeholders, which is the development of a deep, long-term funding shortfall. Secondarily, it should be designed to avoid the risk of unacceptable short and medium term volatility in the Plan's funded status, particularly as recorded in the Plan's actuarial valuations.

We believe that diversification is one of the most important ways to manage risk and is especially important during periods of market stress.

We also believe that investment governance is an important contributor to generating good long-term returns and managing risk.

- **Opportunistic Investing**

OPB believes that an effective way to add return at acceptable risk is to have the ability and willingness to invest a portion of the Investment Portfolio "opportunistically" in unique and attractively valued assets.

- **Environmental, Social and Governance Issues**

OPB believes that corporations which effectively address environmental, social and governance ("ESG") issues are more likely to improve shareholder value over the longer term. Furthermore, failure to identify and mitigate such ESG issues may impede the long-term performance of OPB's investment in a security or asset.

Integration of ESG factors into the evaluation of an individual security/asset or an external investment manager should be comprehensive. The objectives for ESG integration are to (1) improve longer-term shareholder value, (2) reduce risk, thereby (3) ensuring alignment with OPB's investment beliefs.

Evaluating ESG factors must also be complemented by active ownership. OPB expects IMCO to influence investee companies through engagement

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and shareholder voting to improve corporate practices. OPB also expects IMCO to avoid investments that contravene IMCO's Sustainability Screening Guidelines and to consider divesting from investments where insufficient action is taken to address those issues.

In addition, OPB believes that climate change poses a material and increasing risk to, as well as significant opportunities for, a range of assets it may invest in and that comprehensive consideration of the risks and opportunities is necessary to fully evaluate expected returns from investments. Where consistent with its risk and return objectives, OPB supports the consideration of investments which would have a positive effect on reducing Greenhouse Gas Emissions and slowing the rise in global temperatures.

Furthermore, OPB believes diversity, equity and inclusion is an important ESG factor and should be integrated by IMCO into its investment process and that it should pursue improved practices at investee companies.

OPB has delegated responsibility to IMCO for the consideration of all ESG factors in the Fund's investments, including considerations involving climate change. To ensure this activity is carried out effectively, OPB will actively monitor IMCO's execution.

- **Investment Management Costs**

OPB believes that the costs associated with investment management have a material impact on Plan performance and need to be considered when setting investment strategy in order to optimize net-of-fee returns.

- **Leverage**

Leverage, used prudently, can enhance investment returns. OPB believes that leverage may be utilized in defined and controlled circumstances as permitted by Applicable Law, as outlined in the SAA shown below, and as defined in IMCO's Leverage Policy.

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- **Active Management**

OPB believes that active management of portfolios can play an important role in achieving higher returns and/or mitigating risk. The benefits of active management should be evaluated, where possible, against investable benchmarks on a net-of-fee basis.

- **Liquidity**

OPB believes that the nature (i.e., timing and size) of the Plan's liabilities permit it to invest a portion of the Fund in illiquid investments. In addition, OPB expects that it will accrue a premium for being willing to accept illiquidity when making such investments.

- **Capital Markets**

OPB believes that over long periods of time and in normal market conditions, equity securities with higher levels of volatility will generate higher returns than fixed income or money market instruments that exhibit lower levels of volatility.

SECTION 4 – FUND OBJECTIVES AND STRATEGIC ASSET ALLOCATION

- 4.1. The objectives of the Fund are to provide security for the promised benefits, invest in a portfolio which has an acceptable level of risk, and allow for stable and reasonable contribution rates. It is recognized that in certain periods these objectives may be in conflict. The task of OPB is to establish policies that represent a sensible trade-off among them and with a view to meeting all the objectives, over time. The most recent Plan valuation as of December 31, 2023 had a nominal discount rate of 6.2%. This is the expected rate of return that is applied to discount future expected cash flows, the sum of which is the accrued liability.
- 4.2. After completion of an Asset Liability Study in 2024, OPB adopted a revised SAA. The table below outlines OPB's long-term SAA expressed as the Fund's target allocations to asset classes and ranges for the expected minimum and maximum allocation to each asset class. In establishing the

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SAA, OPB considered the Fund objectives, the Plan's liquidity requirements and the economic assumptions employed in the Plan's actuarial valuation

Strategic Asset Allocation

| Asset Class | Minimum | Target | Maximum |
|--------------------------|----------------|---------------|----------------|
| Money Market | 0.0% | 1.0% | 11.0% |
| Long Government Bonds | 3.0% | 8.0% | 13.0% |
| Long U.S. Treasury Bonds | 3.0% | 8.0% | 13.0% |
| Inflation-linked Bonds | 6.0% | 11.0% | 16.0% |
| Global Credit | 7.5% | 12.5% | 17.5% |
| Public Equities (ACWI) | 22.0% | 27.0% | 32.0% |
| Real Estate | 7.5% | 12.5% | 17.5% |
| Infrastructure | 10.0% | 15.0% | 20.0% |
| Private Equity | 10.0% | 15.0% | 20.0% |
| Total | | 110.0% | |
| Portfolio Leverage | -5.0% | -10.0% | -15.0% |
| Total Net of Leverage | | 100.0% | |

Note: the above target allocations reflect the employment of total portfolio leverage

Based on long-term capital market assumptions at the time of the Asset Liability Study conducted in 2024, the SAA has an expected average annualized rate of return of approximately 7.0%.

Due to the illiquid nature of assets such as Real Estate, Infrastructure, and Private Equity, actual allocations may be outside the tolerable range of allocations shown above. Actual allocations may also be outside of the tolerable range during transition periods (such as following a change to the Policy Asset Mix). Should actual allocations be outside of their tolerable ranges for either of these reasons, it will not be considered a breach of compliance with this SIP&P. In the event one or more allocations deviate from the minimum and maximum ranges shown above, reasonable efforts will be made by IMCO to return the asset mix to be consistent with these ranges within an appropriate period of time.

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IMCO embraces a risk management process and an investment discipline that permits the management of fund volatility which is especially important during periods of market stress. The risk management discipline also ensures that under most conditions the Plan's investment portfolio risk will not materially deviate from the volatility implied by the Plan's Strategic Asset Mix. Volatility will also be impacted by leverage which may be used in certain strategies.

- 4.3. OPB shall re-examine the SAA periodically, in light of significant changes in any of the following:
 - the ratio of Plan assets to Plan liabilities;
 - the design of the Plan's benefits and pension eligibility requirements;
 - the respective proportions of active and inactive members in the Plan;
 - long-term capital market prospects;
 - cash flow requirements;
 - the risk tolerance of the Plan having regard to its liabilities; and
 - any other factors considered relevant by OPB.
- 4.4. Investments are undertaken with a view to providing sufficient liquidity to enable the Plan to meet all of its obligations as they become payable.

SECTION 5 – PERFORMANCE MEASUREMENT

- 5.1 OPB has established an SAA which has a projected return that is believed to be sufficient to meet its objectives for funding the Plan, while not incurring undue or unacceptable levels of risk. OPB measures investment performance against a benchmark which is consistent with the SAA target allocation to certain asset classes and has a primary objective of outperformance against that benchmark over rolling five-year periods.
- 5.2 The performance of the Fund will be measured over various rolling time periods using applicable benchmarks and benchmark weights. The following table indicates the current asset class benchmarks. The weights in the Fund benchmark return calculation are based on IMCO's "Benchmark SAA" where benchmark weights are gradually transitioned towards the long-term SAA during asset mix transition periods and are adjusted monthly to reflect actual private market positions and reallocated to public assets.

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| Asset Class | Benchmark |
|-------------------------------------|---|
| Cash | FTSE Canada 91 Day T-Bill Index |
| Canadian Government Long Term Bonds | FTSE Canada Long Term Government Bond Index |
| U.S. Government Long Term Bonds | Bloomberg U.S. Treasury Long Index in U.S. dollars unhedged |
| Global Inflation-Linked Bonds | ICE BofAML U.S. Inflation-Linked Treasury Index (hedged back to Canadian dollars) |
| Global Credit | 40% Morningstar LSTA U.S. Leveraged Loan Index and 60% ICE BofAML Global High Yield Index (hedged) |
| Public Equities | MSCI ACWI Net TR Index (C\$) |
| Direct Real Estate | MSCI Canada Property Index (40%), MSCI U.S. ACOE Property Fund Index (50%), MSCI European Property Index (5%) and the S&P Global REIT Index (5%) adjusted for leverage, asset management fees and the FX impact of hedging the portfolio per the IMCO IPS |
| Direct Infrastructure | Dow Jones Brookfield Global Infrastructure Index (custom hedged) |
| Private Equity | MSCI World Small Cap Net TR Index (C\$) |

Note: Asset class benchmarks listed above are current as of the date of this SIP&P but may have changed over time. Legacy benchmarks and weights apply to prior periods.

SECTION 6 – PERMITTED INVESTMENTS

6.1 Permitted investments in the Fund will be subject to those included in the applicable IMCO Investment Policy Statements. These normally include the following securities:

- **Cash** – Short-term investments including cash, deposits with banks or trust companies, Treasury Bills, Commercial Paper and Bankers' Acceptances;
- **Fixed Income** – Debt securities, including private placements of such securities denominated in Canadian or non-Canadian currencies, real return bonds, mortgages (including index-linked mortgages), real estate debt and asset-backed securities;

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- **Public Equity** – Common stocks or warrants, preferred shares, depository receipts or rights, securities convertible into equity, over-the-counter stocks and private placements of such securities, REITs and exchange-traded funds;
- **Alternative Assets** – Including Real Estate, Private Debt, Mezzanine Debt, Private Equity, Venture Capital, Hedge Funds, Infrastructure, Farmland and Timber; and
- **Derivatives** – futures contracts, forward contracts, options, and swaps for purposes of risk management and efficiency in implementing investment strategies.

6.2 Investments must be structured to comply with the provisions of the ITA and regulations thereunder, the PBA and regulations thereunder (which incorporate by reference Schedule III of the *Pension Benefits Standards Regulations, 1985* (Canada) (the “Federal Investment Rules”), and any other Canadian federal or provincial legislation, as may from time to time apply to the investment of the Fund (“Applicable Law”).

6.3 To reduce risk, the Fund shall not lend to, or invest in the securities of, any one person or entity, associated persons or entities or affiliated corporations, all within the meaning of the Federal Investment Rules (collectively, a “Related Group”), if either (a) 10% or more of the total market value of the Fund’s assets as set out in OPB’s Annual Report for the preceding year (the “Plan’s Market Value”) has already been loaned to or invested in such Related Group, or (b) 10% or more of the Plan’s Market Value would be loaned to or invested in such Related Group as a result of the loan or investment, in each case unless the securities are direct obligations of, or guaranteed by the Government of Canada or a provincial government or are otherwise permitted under the Federal Investment Rules, the PBA or the regulations under the PBA. For greater certainty, this threshold test shall be made at the time of the loan or investment and not on an ongoing basis.

6.4 On behalf of the Fund, IMCO may lend any of its investments if the loans are secured by readily marketable securities having a market value at least 102% of the outstanding market value of the loaned investments.

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- 6.5 The Fund shall not make any investment or loan that is prohibited under Applicable Law and regulations.
- 6.6 While the Fund may issue debt, subject to compliance with applicable laws and regulations, the Fund shall not permit its recourse and non-recourse debt (excluding non-recourse debt in fund investments where the Fund's liability is limited to its capital commitment) to exceed at any time an amount equal to 10% of the Plan's Market Value. For greater certainty, this debt does not include total portfolio leverage (e.g. repos).
- 6.7 The Fund shall be permitted to make investments through mutual funds, exchange traded funds, pooled funds and segregated fund structures.

SECTION 7 – SHAREHOLDER RIGHTS AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES

- 7.1 Unless otherwise determined by the Board of Directors of OPB, responsibility for voting all securities owned by OPB is delegated to IMCO.
- 7.2 The overriding criterion for voting securities is the best interests of the Plan. IMCO has engaged a third-party proxy voting service provider to assist with shareholder voting responsibilities. In addition, IMCO has also established a Sustainable Investing Policy and Proxy Voting Guidelines that guides the exercising of voting rights and IMCO will exercise voting rights in accordance with the Policy and Guidelines.

OPB has engaged firms to provide securities class action lawsuit (each, a "Class Action") monitoring services. Upon receipt of notice of a Class Action in which OPB may have an interest, OPB will consider several factors to determine whether participation in the Class Action is prudent and in the best interests of Plan members, including the size of OPB's potential losses and the potential reputational impact.

- 7.3 The overriding objectives of the Fund are to provide security for the promised benefits, invest within an acceptable level of risk, and allow for stable and reasonable contribution rates. In general, OPB believes that supporting ESG initiatives will improve corporate transparency and

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disclosure practices and will enable long-term investors to better evaluate investment return-risk tradeoffs and ultimately support OPB's efforts to achieve the Plan's objectives.

OPB has delegated responsibility to IMCO for the consideration of ESG factors in accordance with this SIP&P and applicable IMCO policies and procedures, where relevant, across asset classes.

IMCO recognizes the importance of considering ESG related risks and opportunities in the investment management process. OPB also expects IMCO to employ a range of processes to address ESG issues including a robust screening framework and active corporate engagement to align investments with OPB's investment beliefs.

OPB and IMCO have adopted a pragmatic approach to integrating ESG considerations into applicable investment policies and procedures via:

- a) **Collective Engagement** – OPB and IMCO are signatories to the United Nations supported *Principles for Responsible Investment*, an important forum for collective engagement with companies and for working with other investment organizations globally. IMCO, on OPB's behalf, will engage collaboratively with companies along with other institutional investors. Collaborative engagement leverages internal resources and encourages improved disclosure practices and performance of ESG factors across the investment portfolio.
- b) **Proxy Voting** – IMCO will incorporate ESG factors, among other relevant factors, into its voting of publicly traded securities. OPB views proxy voting as an important tool to encourage companies and other enterprises to provide adequate disclosure to shareholders relating to ESG factors, policies and initiatives. As noted in Section 7.2 above, IMCO will exercise voting rights in accordance with its Proxy Voting Guidelines and Sustainable Investing Policy.
- c) **IMCO's Evaluation and Selection of External Investment Managers** – When evaluating and selecting external investment managers for specific mandates IMCO, on behalf of OPB and where

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appropriate, will consider the manager's ESG practices as one factor and take these into account when selecting the manager. These external managers execute investment decisions that are based on evaluating the overall trade-offs between risks and returns. ESG practices and performance are also a consideration in the ongoing monitoring and evaluation of external investment managers.

- d) **IMCO's Internal Mandates** – IMCO's internal asset management capabilities varies across all asset classes and ESG considerations also vary with each strategy. However, in general IMCO seeks to robustly integrate relevant ESG considerations into the management of its internal mandates.
- e) **Private Market Assets** – For OPB's investment in private market assets, including real estate, infrastructure, global credit and private equity, ESG factors are considered, by IMCO in the due diligence process of the selection of general partners, limited partnership investments and direct investment into assets. These considerations are monitored over the life of the investments. In the future, it is expected that IMCO will consider whether and how to pragmatically increase integration of ESG considerations into management of these strategies or asset classes.

IMCO will regularly report to OPB on the consideration of ESG factors in accordance with applicable IMCO and OPB policies and procedures as well as proxy voting results.

OPB has fiduciary responsibilities to act in the best interests of Plan beneficiaries and for the long-term sustainability of the Fund and therefore it is important that factors such as ESG are incorporated in a manner that support, and do not take precedence over, OPB's overriding fiduciary responsibilities.

SECTION 8 – CONFLICTS OF INTEREST AND RELATED PARTY TRANSACTIONS

- 8.1 Except as permitted by law, no OPB member, officer, employee, actuary, adviser, auditor, expert, lawyer, portfolio (i.e. segregated account) manager or other person appointed to carry out duties and responsibilities on behalf of OPB (an "OPB Agent") shall knowingly permit his or her interest to conflict with his or her duties and powers in respect of the Plan or the Fund. For purposes of this definition, OPB Agent shall include directors, officers, employees and agents of IMCO.
- 8.2 Related party transactions, including transactions required for the operation or administration of the Plan, are only permitted if they are permitted under Schedule III of the Pension Benefits Standards Regulations, 1985 (Canada) or such other applicable legislation, as amended from time to time. For this purpose:
 - a) A "related party" and a "transaction" in respect of the Plan have the meanings given to such terms in Schedule III of the Pension Benefits Standards Regulations, 1985 (Canada) or such other applicable legislation, as amended from time to time;
 - b) A transaction shall be considered nominal or immaterial if, together with other transactions with the same related party during a calendar year, it is for an amount that is less than 0.5% of the market value of the Fund.
- 8.3 For greater certainty, permitted related party transactions include transactions required for the operation or administration of the Plan where:
 - (i) the terms and conditions of the transaction are no less favourable than market terms and conditions at the time of the transaction, and;
 - (ii) the transaction does not involve the making of loans to, or investments in, the related party.
- 8.4 Any related party transactions must be fully disclosed to, and approved by, the Investment Committee of OPB in advance of completion. In addition, entities in which OPB or the Fund has a direct or indirect interest shall not be considered related parties as addressed by section 8.2 or 8.3.

SECTION 9 – VALUATION OF INFREQUENTLY TRADED ASSETS

- 9.1 All public investments that are not actively traded will be valued as outlined in the current version of IMCO's Investments Valuation Policy.
- 9.2 All private investments, represented by investments held directly by OPB (or indirectly through subsidiaries and other entities which OPB controls), co-investments and fund investments in real estate, private equity, infrastructure and private debt, shall be valued in accordance with the IMCO Investments Valuation Policy. OPB will monitor the application of the Policy to ensure it is satisfactory.

SECTION 10 – OTHER

10.1. Review

The Investment Committee shall review and recommend this SIP&P to the Board of Directors for approval annually or earlier if the need arises, to ensure that it remains relevant and current.

10.2. Approval

This SIP&P was last reviewed and approved by OPB's Board of Directors on December 19, 2024 with effect as of the same date.

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Appendix A

The following table has been prepared to provide the disclosure required by subsection 78(7) of Regulation 909 under the PBA and indicate the Plan's target asset allocation against prescribed investment categories.

| Investment Category | Target Allocation |
|--|-------------------|
| 1. Insured contracts | 0% |
| 2. Mutual or pooled funds or segregated funds | 0% |
| 3. Demand deposits and cash on hand | 0% |
| 4. Short-term notes and treasury bills | -9.0% |
| 5. Term deposits and guaranteed investment certificates | 0% |
| 6. Mortgage loans | 0% |
| 7. Real estate | 12.5% |
| 8. Real estate debentures | 0% |
| 9. Resource properties | 0% |
| 10. Venture capital | 0% |
| 11. Corporations referred to in subsection 11(2) of Schedule III to the federal investment regulations | 0% |
| 12. Employer issued securities | 0% |
| 13. Canadian stocks other than investments referred to in rows 1 to 12 | 0.8% |
| 14. Non-Canadian stocks other than investments referred to in rows 1 to 12 | 41.2%* |
| 15. Canadian bonds and debentures other than investments referred to in rows 1 to 12 | 8.0% |
| 16. Non-Canadian bonds and debentures other than investments referred to in rows 1 to 12 | 31.5%** |
| 17. Investments other than investments referred to in rows 1 to 16 | 15.0%*** |
| Total | 100% |

* includes allocation to Private Equity

** assumes all of the allocation to Global Credit is invested in bonds issued outside of Canada

*** allocation to Infrastructure

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As of the date of this SIP&P, the proportion of the target allocation to investment categories 4, 15 and 16 which must meet the minimum ratings stated on the following page is 100%, 100% and 64%, respectively.

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The following information is provided in accordance with section 11.2 of Regulation 909, which provides that the target asset allocation for fixed income investments falling within categories 4, 15 and 16 in the table above can only be included in those categories in calculating the provision for adverse deviations ("PfAD") where the statement of investment policies and procedures for a plan sets out a minimum rating for these investments. Only the portion of investments in those categories that meet the minimum rating may be included in those categories for the purposes of calculating the PfAD.

The minimum ratings that apply are set out in the table below.

| Credit rating agency | Rating - bond market securities | Rating - money market securities |
|-----------------------------|--|---|
| DBRS | BBB | R-2 (middle) |
| Fitch Ratings | BBB- | F-3 |
| Moody's Investors Service | Baa3 | P-3 |
| Standard & Poor's | BBB- | A-3 |

In the alternative, the minimum rating in respect of any such investment shall be equivalent to the rating described above and shall be given by another credit rating agency recognized by a competent authority.