



**STATEMENT OF INVESTMENT POLICIES, STANDARDS AND PROCEDURES
FOR ASSETS MANAGED BY
THE PUBLIC SECTOR PENSION INVESTMENT BOARD**

As approved by the Board of Directors on April 1, 2010

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PUBLIC SECTOR PENSION INVESTMENT BOARD**

As approved by the Board of Directors on April 1, 2010

1. **Scope**

(a) Purpose

Public Sector Pension Investment Board (“PSP Investments”) is a Crown corporation created under the [Public Sector Pension Investment Board Act](#), S.C. 1999, c. 34, (the “Act”) to manage and invest amounts that are transferred to it under the applicable legislation of certain pension fund accounts (collectively, the “Funds”, each a “Fund”) of the pension plans established under each of (i) the [Public Service Superannuation Act](#), (ii) the [Canadian Forces Superannuation Act](#) and (iii) the [Royal Canadian Mounted Police Superannuation Act](#) (collectively, the “Initial Plans”) and (iv) by regulations under section 59.1 of the [Canadian Forces Superannuation Act](#) (the “Reserve Force Plan”). The Initial Plans and the Reserve Force Plan are collectively referred to as the “Plans”.

This statement of investment policies, standards and procedures (the “Statement”) for each of the Funds has been prepared in accordance with and is subject to the [Act](#) and the [Public Sector Pension Investment Board Regulations](#), SOR/2000-243 (the “Regulations”).

In accordance with the [Act](#), this Statement applies to the Board of Directors of PSP Investments, employees of PSP Investments, investment managers who are required to comply with this Statement and the actuary for the Plans.

(b) Overview of the Plans

This Statement applies to all Plans given they share a number of fundamental features in relation to the assets transferred by the federal government for the Funds to PSP Investments. Cash contribution inflows are high because (i) in relation to the Initial Plans, the Funds only support benefits payable out of the Initial Plans in respect of service on or after April 1, 2000 and (ii) in relation to the Reserve Force Plan the Fund only supports benefits payable for reserve force members who retire or otherwise cease to be members of the reserve force after March 1, 2007.

Factors which may affect the funding of the Plans and the Plans’ ability to meet their financial and pension obligations include: (i) rate of inflation; (ii) rate of increase of members’ pensionable earnings; (iii) rate of return on assets invested by PSP Investments; (iv) investment returns; (v) investment risk (market risk, credit risk, liquidity risk and valuation risk); and (vi) level of employee and employer contributions.

Benefits payable out of the Plans are charged to the respective Funds. Each month PSP Investments receives monies from each Plan and the net amounts available for investment are comprised of member and employer contributions, less: (i) amounts used to pay applicable

benefits under each Plan and (ii) administration costs relating to the administration of the relevant Plan.

The estimates of the Chief Actuary for the Government of Canada indicate that PSP Investments can expect a net positive contribution of cash (i.e., contributions net of benefit payments) for at least the next 10 years and therefore can adopt a long-term investment strategy.

2. Investment Objectives and Return Expectations

The mission of PSP Investments, as stated in section 4 of the [Act](#), is to manage the amounts entrusted to PSP Investments in the best interests of contributors and beneficiaries under applicable legislation and to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to (i) established funding or financing policies and requirements and (ii) their ability to meet their respective financial obligations. This Statement is based on the reasonable and prudent person portfolio approach to ensure the prudent investment and administration of the assets of the Funds within the parameters set out in the [Act](#).

Accordingly, the Board of Directors has established a Policy Portfolio, which has an expected real rate of return that is at least equal to the actuarial rate of return assumption for the Plans as used by the Chief Actuary of Canada in his valuation of each of the Plans.

All investments must be made in accordance with the [Act](#) and the [Regulations](#), PSP Investments' other internal policies and procedures and the [Code of Conduct for Members of a Pension Scheme Governing Body of the CFA Institute](#).

3. Annual Review

The Board of Directors reviews the Statement at least once every fiscal year.

4. Fund Governance and Investment Process

In fulfilling its duties, the Board of Directors may delegate responsibilities for the investment of the Funds to the President and Chief Executive Officer and provide him with the power to sub-delegate, under the [Terms of Reference](#) of the Board of Directors or any delegation of authority approved by the Board of Directors.

(a) Responsibility and Accountability for the Investment Process

The overall investment responsibilities are shared among the Board of Directors, the Investment Committee and the President and Chief Executive Officer of PSP Investments in accordance with the [Terms of Reference for the Board of Directors](#), the [Investment Committee](#) and the [President and Chief Executive Officer](#). Procedures segregating the duties of participants in the investment process are in place.

(b) Investment Decision Making Processes

The Investment Committee of the Board of Directors approves investment decisions based upon the recommendation of Management. When a delegation of authority exists, investment managers (both internal and external) must undertake individual investment decisions within the scope of their respective mandates. The President and Chief Executive Officer manages and

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directs the day-to-day affairs of PSP Investments and carries out the duties set forth in his [Terms of Reference](#).

(c) Performance Measurement

The primary purpose of the performance measurement exercise is to calculate: (a) the overall rate of return of PSP Investments' individual investment portfolios (internally and externally managed) and the individual rate of return of each PSP Investments' asset classes, and (b) the overall rate of return of PSP Investments' Policy Portfolio and the individual rate of return of each of the asset classes of PSP Investments. The value added by active management is measured by comparing the actual return of the total Fund against the the overall return of the Policy Portfolio.

The performance of individual asset classes and investment managers is measured against relevant benchmarks, which may be comprised of market indices, economic indicators or peer group data. The performance of the total Fund, individual asset classes and investment managers is reviewed over periods that are long enough to provide a fair and appropriate basis for evaluation in each case. In particular, the impact of Policy Portfolio decisions is evaluated over a relatively long time period (e.g. five to seven years), while the value added by the Active Management Policy is evaluated over a shorter period (e.g. four years).

(d) Review of Investment Performance

Management reviews the Fund's performance on an ongoing basis and presents the results to the Investment Committee on at least a quarterly basis.

5. Allocation of Assets under Policy Portfolio (Long Term Asset Mix)

The Policy Portfolio is a market exposure to benchmark returns of approved asset classes in the approved weightings. This market exposure is expected to be achieved using both internal and external managers, by investing in both physical and synthetic assets and by employing both active and index management strategies. The Board of Directors has adopted the long-term asset mix shown in the table below, with target weights and ranges as indicated ("Policy Portfolio").

The risk to the Funds is that the assets are insufficient to meet the pension obligations as calculated from time to time. Studies conducted on behalf of the Board of Directors suggest that this risk is addressed with the following Policy Portfolio holding a range of diversified asset classes and investment instruments. Over the long term, this asset mix is expected to generate, at a minimum, the required actuarial rate of return, within the approved levels of return volatility.

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Asset Class	Long-term Target Weight (%) ⁽¹⁾⁽²⁾	Long-term range ⁽¹⁾⁽²⁾	Benchmark
World Equity (Total)	62	40 - 70	
Canadian Equity	30	20 – 40	S&P/TSX Equity Index
Foreign Equity (Total)	22	10 – 42	
<ul style="list-style-type: none"> • US Large Cap Equity • EAFE Large Cap Equity • Small Cap Developed World Equity • Emerging Markets Equity 	5 5 5 7	0 – 10 0 – 10 0 – 10 0 – 12	S&P 500 Index MSCI EAFE Index 80% of S&P 600 Index plus 20% of MSCI EAFE Small Cap Index MSCI EMF Index
Private Equity	10	5 – 15	Undisclosed ⁽³⁾
Nominal Fixed Income (Total)	15	10 – 30	
Cash & Cash Equivalents	2	0 – 10	DEX 91 Day T-Bill Index
World Government Bonds	5	0 – 10	JP Morgan Government Bond Index Global
Canadian Fixed Income	8	5 – 15	DEX Universe Bond Index
Real Return Assets (Total)	23	20 - 40	
World Inflation-Linked Bonds	5	0 – 10	Barclays Global Inflation-Linked Bond Index
Real Estate	10	5 – 15	Undisclosed ⁽³⁾
Infrastructure	8	5 – 15	Undisclosed ⁽³⁾
Total	100		

Note ⁽¹⁾ The asset allocation to new asset classes may create discrepancies during the phase-in period. Existing Policy Portfolio weights will be adjusted to bring these asset classes to their respective long-term policy weights during the transition period. A phase-in will be completed when the targeted weight of an asset class will be achieved for a full fiscal year.

Note ⁽²⁾ Market Value basis.

Note ⁽³⁾ For competitive reasons these benchmarks are not disclosed.

Management may rebalance the assets within the ranges according to the then current Portfolio Rebalancing Policy approved by the Board of Directors. PSP Investments will not be considered to have breached or failed to comply with this Statement, and will not be required to cause any asset to be immediately disposed of, because of any significant change to the value of such asset or the Policy Portfolio as a whole due to extreme market volatility. In any such case, however, management will promptly notify the Board of Directors of such an event, and develop and implement a plan to deal with the situation in a manner which it deems to be prudent in the circumstances, recognizing, ultimately, the market exposure and asset mix goals set out in this Statement. The spirit of this Statement is to ensure compliance with the target asset allocation

percentages at a reasonable cost, recognizing that overly precise administration of the Policy Portfolio targets can result in transaction costs that are not economically justified.

(e) Return Expectations

The Policy Portfolio is expected to earn a real rate of return of at least 4.3% per annum over 10 years after all PSP Investments' expenses. However, in any one year the annual real return may be significantly above or below 4.3%. This return expectation is calculated on the basis of expected returns of the various asset classes and correlation factors. The approved Active Management Policy is outlined in Appendix "A".

6. Categories of Investments and Loans

Investments described below may be made directly (*e.g.*, by holding the relevant equity, bond or other instruments) or indirectly (*e.g.*, through exchange traded funds, pooled funds, trusts, limited partnerships, futures contracts (see paragraph (g) regarding derivative products), asset backed securities, mutual funds or segregated funds). Use of any new investment or financial instrument may only occur upon review by the New Product Committee and approval by Management. Management shall submit the aggregate list of approved financial instruments and products to the Investment Committee of the Board of Directors on an annual basis. To the extent that new investment or financial instruments or products are added or removed from such list, Management shall report any such changes to the Investment Committee at the next scheduled meeting of the Investment Committee.

(a) Cash and Cash Equivalents and Short Term Investments

Cash and Cash Equivalents consist of short term investments in the following instruments, provided these securities have a term to maturity of one year or less: Certificates of deposit, bankers' acceptances and other evidences of deposit at financial institutions, evidences of indebtedness of corporations, treasury bills, promissory notes and short term notes with coupon resets not exceeding 365 days. Cash and Cash Equivalents shall also include floating rate notes with coupon resets not exceeding 365 days and a final maturity date not exceeding three years. The Risk Steering Committee uses appropriate measures and controls to monitor the liquidity risk of Cash and Cash Equivalents in accordance with the [Investment Risk Management Policy](#) and related procedures.

(b) Fixed Income Securities and Real Return Bonds

Fixed income investments pay an amount of interest at a regular interval over a period of time. Real return bonds are fixed income securities that earn inflation adjusted returns. These investments include, but are not limited to, publicly traded debt, subordinated debt, convertible debt, private placement debt, debentures, bonds, floating rate notes, secured loans, mortgages, mortgage bonds, Canada Mortgage and Housing Corporation insured loans. Exposure to fixed income investments may also be obtained through the use of derivatives. Fixed income investments provide income as well as the return of the original capital at maturity and are generally less volatile than equity securities. Corporate bonds, debentures and other fixed income securities purchased must be rated by a recognized rating agency as prescribed by the [Investment Risk Management Policy](#) (calculated on the financial strength/soundness of the issuing party).

(c) Public Equities

PSP Investments may invest in direct and indirect interests in Public Market Equities using passive or active strategies.

(d) Private Equity

PSP Investments may invest in direct and indirect interests in Private Equity Investments.

(e) Real Estate

PSP Investments may invest in direct and indirect interests in private Real Estate and public Real Estate securities.

(f) Infrastructure

PSP Investments may invest in direct and indirect interests in long-term Infrastructure Investments including public securities.

(g) Derivatives

PSP Investments may use derivatives to achieve its investment and financial objectives, including without limitation, strategies to mitigate risk, reduce costs, increase expected returns, increase cash liquidity or diversify financing and investing alternatives available to it. PSP Investments may invest in the following derivative securities: swaps, forwards, futures and options for the purpose of managing its exposure to interest rates, currencies, securities and financial markets. Where the use of derivatives is authorized in specific investment management mandates, the mandate must also specify the acceptable instrument(s), limit the proportion of the portfolio that may be so allocated, and detail the purpose of their use and other criteria.

(h) Distressed Debt

PSP Investments may invest in direct or indirect investments in Distressed Debt.

7. Risk Management and Diversification

In the Policy Portfolio, investment risk (which includes market, credit, liquidity and valuation risk) is managed in accordance with the investment restrictions prescribed by the [Act](#) and [Regulations](#), as well as in the [Investment Risk Management Policy](#), Guidelines and Procedures. The [Investment Risk Management Policy](#) states that PSP Investments will use quantitative risk measurement models to assess investment risks for public and private markets. PSP Investments also recognizes the inherent limitations of quantitative risk measurement models and seeks to complement or temper these limitations with expert judgment and prudence.

8. Liquidity of Investments

PSP Investments' Treasury Department manages PSP Investments' liquidity requirements and is responsible for managing payment requests by investing cash inflows and providing liquidity for outflows to facilitate transaction settlements. Investments are undertaken with a view of providing sufficient liquidity to enable PSP Investments to meet all of its financial obligations as

they become due and payable and to ensure that assets are not liquidated unexpectedly and potentially at unfavourable prices. All investments undertaken by the Treasury Department are selected with due consideration given to their effect on liquidity risk within the context of the investment portfolio as well as the income to be derived. Such investments are made in accordance with (i) Treasury Department procedures approved by the Investment Management Committee and (ii) the PSP Investments' [Investment Risk Management Policy](#). The Treasury Department also manages PSP Investments' commercial paper program.

Given the long term investment horizon of the Funds, liquidity requirements for the Funds are expected to be minimal over the next 10 years. The liquidity of specific asset classes is considered in the development of the Policy Portfolio.

9. Short Selling of Securities

PSP Investments may short sell securities in public market assets (by way of borrowing securities or otherwise) to enhance expected returns or protect capital, provided however that short selling of securities will only be done after full consideration of the related risks. Risks relating to the short selling of securities will be identified, measured, managed and monitored.

When PSP Investments enters a short sale transaction the credit quality of the prime broker or lender, and (where relevant) the parent company of the prime broker or lender, is identified and monitored throughout the transaction. PSP Investments will provide the amount and type of collateral consistent with market requirements. Collateral is required to be held by the prime broker or lender in a manner designed to safeguard it, to the extent possible, from the interests of other creditors of the prime broker or lender. The short sale securities (loaned securities) and the collateral is marked-to-market daily so that exposures may be monitored.

10. Pledging and Permitted Borrowing of Assets and Leverage

- (a) PSP Investments or its subsidiaries (including, but not limited to trusts, partnerships, corporations and other special purpose vehicles) may borrow money as permitted under the [Act](#) ("Permitted Borrowings") to satisfy its cash flow needs to avoid the untimely sale of assets or to cover short sales of securities.
- (b) Subject to the limitations described in their respective [By-laws](#), PSP Investments or its subsidiaries may also guarantee the obligations of, or the performance of obligations by, entities in which PSP Investments or its subsidiaries have a direct or indirect equity interest, provided however that the liability under any such guarantee does not exceed a percentage of the obligations guaranteed which is equal to the direct or indirect percentage equity interest in the guaranteed entity. PSP Investments may pledge, charge or otherwise grant a security in assets or post margin as required to complete derivative transactions, to secure a Permitted Borrowing or guarantee, or to complete a short sale, in accordance with applicable law. When engaging in permitted pledging, guarantees, or borrowing PSP Investments gives consideration to the related risks.
- (c) PSP Investments believes that the prudent use of debt or leverage may enhance investment returns. The use of leverage in an investment context involves the use of borrowed assets to make additional purchases to boost the rate of return from investment activities. Leverage can also be achieved by short-selling securities and through the use

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of derivatives such as options, swaps and futures and other structured products. PSP Investments is authorized to utilize leverage to execute investment strategies provided that (i) due consideration is given to the related risks, (ii) appropriate risk control measures are established, and (iii) leverage activities are conducted in accordance with the [Corporate Leverage Policy](#) and procedures adopted by PSP Investments.

11. **Securities Lending or Borrowing**

PSP Investments' assets may be lent out under a securities lending agreement. Any such securities lending agreement must require collateral in cash or high quality debt instruments or shares securities with a market value equal to no less than 102% of the value of the securities lent for Canadian and U.S. securities, and, no less than 105% of the value of the securities lent for all other securities. A prospective borrower must have clear title to the collateral. Collateral will be marked-to-market on a daily basis, and any shortfall in the amount of collateral will be rectified immediately. Where PSP Investments invests through pooled funds, mutual funds or insurance contracts, it will conduct due diligence on the securities lending practices of such investment vehicles and ensure that the practices are sound, and sufficient risk management procedures are established. The Risk Management Group will establish a minimum rating for borrowers of securities and a procedure to review the creditworthiness of all borrowers when PSP Investments lends directly its securities to such borrowers. Currently, securities lending is conducted through PSP Investments' custodian. Counterparty risk is limited through a securities lending agreement.

Securities borrowing transactions are generally used in conjunction with short sales, securities fails (securities sold but not made available for delivery on the settlement date), and option and arbitrage positions. PSP Investments is also permitted to engage in securities borrowing for hedging purposes incidental to the activities of buying, selling, holding or exchanging investments as PSP Investments deems necessary or appropriate.

12. **Proxy Voting and Responsible Investment Policy**

PSP Investments exercises all voting rights acquired through the investment for all assets managed internally and externally according to PSP Investments' [Proxy Voting Guidelines](#), with the intent of fulfilling the investment objectives and policies of this Statement for the long term benefit of the Funds and consistent with the purposes of PSP Investments, as set out in section 4 of the [Act](#). PSP Investments may engage one or more proxy voting service providers to assist in discharging PSP Investments' voting responsibilities. Where it is not practical for PSP Investments to retain responsibility for proxy voting, PSP Investments may delegate voting rights to an external investment manager who must vote according to PSP Investments' then current proxy voting guidelines. In the case of pooled funds, the voting policies of the pooled fund manager are reviewed by PSP Investments to ensure consistency with PSP Investments' [Proxy Voting Guidelines](#).

As regards to PSP Investments' responsible investment practices, please refer to PSP Investments' [Responsible Investment Policy](#).

13. Valuation of Investments Not Regularly Traded

When ascertainable, PSP Investments values the investment assets and liabilities by using market values or other suitable methods of valuation. The frequency of valuation depends upon the nature of the investment asset or liability.

For over-the-counter derivatives and fixed income securities, PSP Investments uses quoted prices or valuation methodologies that are in line with best industry practices. Valuations are generated on a daily basis and are reviewed by PSP Investments' Valuation Committee.

For private market instruments, PSP Investments uses valuation methodologies that are governed by PSP Investments' Valuation Committee. Such private market valuations are generated on a quarterly basis.

Private assets, including Real Estate, Private Equity and Infrastructure investments are not valued on a daily basis. Where quoted market prices or audited fair value fund financial statements from general partners are not readily available, non-traded private assets are valued using acceptable industry valuation methods, such as discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics or other pricing models. Where appropriate, PSP Investments uses external appraisals to provide independent valuations or to verify the reasonableness of internal valuations. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value unless there is an indication of permanent impairment of value or unless there is a specific and objectively verifiable reason to change the value of an investment.

14. Related Party Transactions

PSP Investments may enter into a transaction with a Related Party (as defined under section 1 of the [Regulations](#)) only if the transaction:

- (a) is required for the operation or administration of PSP Investments and is made on market terms and conditions. For the purpose of this paragraph, "market terms and conditions", in respect of a transaction, means terms and conditions, including those relating to price, rent or interest rate, that would apply to a similar transaction in an open market under conditions requisite to a fair transaction between parties who are at arm's length and acting prudently, knowledgeably and willingly;
- (b) relates to securities of a related party acquired on a public exchange; or
- (c) is otherwise considered immaterial or nominal. In assessing whether the value of a transaction is immaterial or nominal, (i) two or more transactions with the same related party are considered a single transaction, and (ii) reference shall be made to relevant generally accepted accounting principles that provide guidance on materiality.

15. Soft Dollar and Commission Recapture

PSP Investments' approach is to pay the minimum commission necessary to achieve favorable order execution, considering all explicit and implicit trading costs. PSP Investments believes that soft-dollar payment practices are generally an inefficient means to defray investment expenses, and generally give rise to higher overall program costs. PSP Investments recognizes that the

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research provided by brokers can be of value to external investment managers. As a result, PSP Investments allows its external investment managers to utilize soft dollar arrangements as long as each respective external investment manager seeks to obtain “best execution” on its securities transactions and fully complies with guidance provided by the [CFA Institute Soft Dollar Standards](#) and any applicable securities regulatory requirements.

PSP Investments has established a program relating to the use of certain brokerage firms by the PSP Investments’ investment managers to execute trades on behalf of PSP Investments. The program seeks to “recapture” a portion of commissions paid by investment managers for rebate back to PSP Investments by encouraging those managers to direct a portion of their transactions on behalf of PSP Investments to brokerage firms accessible through the PSP Investments commission recapture agent. PSP Investments recognizes that commission costs are only one component of execution costs and that investment managers must follow a best execution strategy.

16. **Compliance**

The Risk Management and Compliance departments actively monitor investments to ensure compliance with this Statement. Any breaches of this Statement must be promptly reported by Management to the Audit and Conflicts Committee of the Board of Directors, along with an appropriate plan for resolution of the breach.

17. **Version Control**

This table records the versions and main changes made to the Statement.

Version Number	Date Approved – Nature of Amendments
1	November 12, 2009 – Annual Review
2	February 9, 2010 – Amendments to Policy Portfolio
3	April 1, 2010 – Amendments to the footnote no 1 in the Policy Portfolio

APPENDIX “A” - ACTIVE MANAGEMENT POLICY

As approved by the Board of Directors on April 1, 2010

1. Definition

Active risk refers to all investment risk arising from active management. Active management is defined as any deviations from the approved Policy Portfolio.

2. Objective

The Active Management Policy’s objective is to generate the approved amount of value added (returns in excess of those in the Policy Portfolio) using no more than the level of total Active Risk approved by the Board of Directors. These active strategies are undertaken by both internal and external managers, investing in asset classes from the underlying Policy Portfolio or asset classes unrelated to the Policy Portfolio (only after approval by the Board of Directors), and in either physical or synthetic assets.

One active strategy that Management may employ is short-term changes to the Policy Portfolio weights in each asset class (within the approved Policy Portfolio ranges) based on Management’s assessment of relative valuations of each asset class, supplementing re-balancing policies in place.

3. Process

PSP Investments seeks to minimize the correlation of returns between the active portfolio and the Policy Portfolio. The active portfolio is composed of a number of lowly correlated and widely diversified investment activities each expected to generate superior returns within their allocated risk parameters.

4. Target Return and Approved Risk

The annual active management return objective is set by the Board of Directors over the return of the Policy Portfolio, net of all expenses of PSP Investments. Although the objective is stated as annual, the emphasis will be on a four-year average return. The maximum approved level of total portfolio active risk is set by the Board of Directors. Management reports the active risk exposures to the Investment Committee at least quarterly or more frequently as required. Risk will be monitored at all levels of investment using a VaR based methodology. The risk limits set by the Board of Directors are not large enough to put PSP Investments’ assets at undue risk of loss relative to the performance of the Policy Portfolio.

5. Diversification

PSP Investments diversifies its active risk by:

- (a) Asset classes (e.g. equities, credit, real estate);
- (b) Geography; and
- (c) Style (e.g. fundamental, trending, quantitative).

The result will be a pool of investment activities having a low correlation of expected returns.

APPENDIX “B” - GLOSSARY OF TERMS

Active Investment - An investment process that involves a certain degree of active management as defined below. The objective of an active investment process is to outperform the broad market benchmark.

Active Management - An investing strategy that seeks to outperform the Policy Portfolio benchmark by creating a portfolio that is different from the Policy Portfolio benchmark. In equities, this is usually accomplished by overweighting and underweighting specific sectors or securities relative to the Policy Portfolio.

Active Portfolio - A portfolio that is comprised of all of the bets against the broad market benchmark. The objective of an active portfolio is to outperform the broad market benchmark.

Active Risk - The volatility of the returns of the active portfolio.

Debenture means a general debt obligation backed only by the integrity of the borrower and documented by an agreement called an indenture.

Distressed Debt provides equity-like returns. Investments include debt instruments of Canadian, US and international companies, which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments and bank loans.

Fixed Income Securities – Investment in Debt securities of government and corporate entities with fixed cash flow streams.

Infrastructure Investments include both direct investments in companies and indirect investments such as fund investments and co-investments with external infrastructure funds. Direct investments are comprised of equity, equity-like or debt instruments in private or listed companies, primarily engaged in the construction, management, ownership or operation of assets in power, energy, regulated businesses, transportation, telecom and social infrastructure sectors. These assets typically have low obsolescence risk and high capital costs but operating costs tend to be low, resulting in high operating margins. Investments in infrastructure are generally characterized by low volatility of returns, revenue predictability and sensitivity to inflation. Infrastructure investments can be realized in accordance with the [Corporate Leverage Policy](#).

Liquidity refers to a measure of the ability (i.e., efficiency and time required) to convert assets into cash or cash equivalents without significant loss.

Public Markets Equities include common shares, American depository receipts, global depository receipts, rights, participation notes, preferred shares, warrants, instalment receipts, Income Trust units, exchange traded funds, securities convertible into common shares of publicly listed issuers, and publicly traded futures of the index of any widely recognized stock market (see restrictions on use of derivative products).

Public Equities – Public Equities include, but are not limited to: securities such as common shares, preferred shares, private placements, rights, installment receipts, warrants, income trusts,

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securities convertible into equity securities, Private Investment in Public Equity (PIPEs), Specified Purpose Acquisition Company (SPACs) and limited partnerships interests.

Private Equity Investments consist primarily of investments in private companies and other entities but may also include publicly listed companies which may become privately held. The majority of PE investments are concentrated in equity positions (common or preferred). Other investments may include private or publicly traded debt of private companies (senior debt, mezzanine, bonds, and distressed debt), venture capital and secondaries. Private Equity investments include both direct investments in companies and indirect investments such as fund investments and co-investments with external private equity fund.

Private Placement means the private sale of shares, bonds or other investments directly to an institutional investor.

Real Estate Investments consist of investments in real estate properties and related assets. Real Estate properties generate stable, long term cash flow in the form of leasing income which can be increased over time using active property management. The Real Estate investments are primarily in the form of direct property ownership in partnership with an operating partner of office, multi-family, retirement, seniors, industrial, retail, hotel and mixed use properties. Real Estate investments also include real estate debt instruments as well as indirect investments in co-investments, co-mingled funds and club deals which are undertaken for strategic reasons.

Related Party means a person who is (a) a director, officer or employee of PSP Investments; (b) a person responsible for holding or investing the assets of PSP Investments, or any director, officer or employee of the person; (c) a contributor within the meaning of each of the Superannuation Acts; (d) a survivor within the meaning of the Superannuation Acts; (e) an association or union representing a person referred to in any of paragraphs (a) to (d), or a director, an officer or an employee of that association or union; (f) the spouse, common-law partner or child of any person referred to in any of paragraphs (a) to (e) or the spouse or common-law partner of that child; (g) a corporation that is directly or indirectly controlled by a person referred to in any of paragraphs (a) to (f); or (h) an entity in which a person referred to in any of paragraphs (a) to (f) has a substantial investment. It does not include Her Majesty in right of Canada or of a province, or an agency of either one, or a trust company or financial institution that holds the assets of PSP Investments.

Short Selling (or “selling short”) is a technique used by investors who try to profit from the falling price of a stock. If a short sale is successful, the profit is the difference between the price at which the stock was sold and the cost to buy it back, less transaction costs. The proceeds from the short sales are then used to fund the purchase of the additional 30% of the long positions.