

PUBLIC SECTOR PENSION INVESTMENT BOARD

TERMS OF REFERENCE FOR THE BOARD OF DIRECTORS

INTRODUCTION

1. The Board of Directors (the “Board”) of the Public Sector Pension Investment Board (“PSP Investments”) is responsible for managing or supervising the management of the business and affairs of PSP Investments in accordance with the *Public Sector Pension Investment Board Act* (the “Act”) and the regulations adopted thereunder (the “Regulations”).
2. The objects of PSP Investments are:
 - (a) to manage amounts that are transferred to it under the *Canadian Forces Superannuation Act*, the *Public Service Superannuation Act* and the *Royal Canadian Mounted Police Superannuation Act* (collectively, the “Superannuation Acts”) in the best interests of the contributors and beneficiaries under the Superannuation Acts; and
 - (b) to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the pension plans established under the Superannuation Acts and the ability of those plans to meet their financial obligations.

DUTIES AND RESPONSIBILITIES

Policy and Strategy Setting

3. Organizational Planning

The Board will approve:

- (a)
 - (i) the long term vision of PSP Investments; and
 - (ii) the organizational structure of PSP Investments.
- (b) a planning policy describing the general planning processes to be undertaken by PSP Investments with regard to such matters as strategic planning, financial planning and budgeting, as appropriate.
- (c) based on the recommendations of the Chief Executive Officer,
 - (i) a three-year strategic plan;
 - (ii) a three-year financial plan, updated annually; and
 - (iii) an annual operating budget.

4. **Governance Policy**

The Board will approve:

- (a) the adoption, amendment or repeal of the by-laws governing the conduct and management of the Board and PSP Investments;
- (b) the terms of reference, and any amendments thereto, for:
 - (i) the Board;
 - (ii) the Chairperson;
 - (iii) the Committees of the Board; and
 - (iv) the Chief Executive Officer;
- (c) other governance-related policies and procedures including, but not limited to:
 - (i) procedures for directors for the identification of real or potential conflicts of interest and procedures to resolve those conflicts (the “Conflict of Interest Procedures for Directors”);
 - (ii) a code of conduct for officers and employees of PSP Investments (the “Code of Conduct for Officers and Employees”);
 - (iii) a directors’ education and development policy;
 - (iv) a directors’ travel policy;
 - (v) a performance evaluation policy for the Chief Executive Officer;
 - (vi) a director compensation policy, which will be reviewed every two years; and
 - (vii) procedures for assessing the Board’s performance.

5. **Investment Policy and Strategy**

- (a) In accordance with the Act, the Board is responsible for approving on an annual basis a written statement of investment policies, standards and procedures (the “SIP&P”) for each fund that PSP Investments manages. The SIP&P must include guidelines covering:
 - (i) categories of investments and their characteristics;

- (ii) the use of options, futures and other derivatives;
- (iii) diversification of the investment portfolio;
- (iv) asset mix and rate of return expectations;
- (v) policies for the management of credit, market and other financial risks;
- (vi) liquidity of investments;
- (vii) the lending of cash or securities;
- (viii) the retention or delegation of voting rights acquired through investments;
- (ix) the method of, and basis for, the valuation of investments that are not regularly traded on a public exchange;
- (x) related party transactions permitted under the Act and the criteria used to establish whether the value of a transaction is nominal;
- (xi) a description of all factors that may affect the funding of the pension plans established under the Superannuation Acts, the ability of the pension plans to meet their financial obligations and the relationship of those factors to the policies, standards and procedures of PSP Investments; and
- (xii) other issues not specifically required by the Act and Regulations including, but not limited to:
 - (A) investment objectives;
 - (B) investment performance benchmarks for the total fund and for each asset category;
 - (C) a portfolio re-balancing policy;
 - (D) strategic and tactical asset allocation guidelines;
 - (E) ineligible investments; and
 - (F) a description of the investment philosophy of PSP Investments.

(b) The Board will approve:

- (i) a responsible investment policy; and

- (ii) a policy on the engagement and termination of investment managers empowered with discretionary authority to invest the assets of PSP Investments.
- (c) The Board will delegate to the Investment Committee the authority to approve all investment proposals, related borrowings and execution of instruments in relation thereto, except as otherwise provided under the Act and PSP Investments' Delegation of Authority.

6. **Financial and Accounting Policy**

- (a) The Board will ensure that appropriate accounting policies and internal controls are in place to safeguard the assets of PSP Investments.
- (b) The Board will review and approve the annual report of PSP Investments.
- (c) The Board will review and approve financial statements for each fund on a quarterly and annual basis.
- (d) The Board will review and approve the quarterly and annual consolidated financial statements of PSP Investments and any other financial statements issued by PSP Investments.
- (e) The Board will ensure that internal audits are conducted in respect of PSP Investments and its subsidiaries to assess compliance with the Act and the *Financial Administration Act* (the "FAA") and to address other issues as deemed necessary.
- (f) The Board will ensure that an annual auditor's report is prepared, in respect of PSP Investments, on its financial statements; any revised financial statements, and the record of investments, in accordance with the FAA; and in respect of each fund.
- (g) The Board will ensure that copies of PSP Investments' quarterly financial statements, prepared in accordance with the Act, be provided to the President of the Treasury Board, the Minister of National Defence and the Minister of Public Safety and Emergency Preparedness within 45 days after the end of the three-month period to which they relate.

7. **Human Resources Policy**

The Board will approve:

- (a) a human resources policy for PSP Investments which sets out the general human resources-related principles that will guide the management of PSP Investments' human capital;

- (b) periodically, a compensation policy for PSP Investments which sets out the compensation philosophy of PSP Investments including its goals and objectives, relevant comparison groups and target compensation levels;
- (c) the appropriate succession plans to ensure the continuity of service of the Officers and other critical positions within PSP Investments; and
- (d) the establishment, amendment or termination of pension plans for the employees of PSP Investments, except the Board may delegate to the Human Resources and Compensation Committee the power to approve amendments to such pension plans where the amendments do not increase the liabilities of such plans by more than 5% for a given year, or where such amendments relate to benefits provided to employees without addressing Officers other than on a commensurate basis.

8. Risk Management Policy

The Board will ensure that an effective operational risk management system is in place, including appropriate risk management policies.

Establishment of Committees and Key Appointments

9. The Board will:
- (a) establish an audit committee and an investment committee and may establish such other committees as it considers necessary;
 - (b) appoint directors to, and fill vacancies on, committees of the Board;
 - (c) select, appoint and, when necessary, replace the Chief Executive Officer and delegate to that individual the authority required to manage and direct the day-to-day affairs of PSP Investments;
 - (d) if applicable, appoint annually an independent auditor of PSP Investments; and
 - (e) designate the offices of PSP Investments, appoint the Officers and approve their duties and remuneration.
10. The Board will appoint one or more custodian(s) of the assets of PSP Investments, which may not include prime brokers whose custodial responsibilities are incidental to their principal responsibilities.
11. The Board will appoint service providers in cases when Management has a conflict of interest in the hiring of a particular service provider.
12. The Board will appoint other service providers necessary to enable it to fulfil the duties of the Board set out herein and in the Act.

Board Meetings and Materials

13. The Chairperson, in consultation with the Chief Executive Officer, will develop the agenda for each Board meeting.
14. Meeting materials will be provided to the directors before each Board meeting in sufficient time to ensure that there is an adequate opportunity for review. It is recognized that under some circumstances, due to the confidential nature of matters to be discussed at a meeting, it would not be prudent or appropriate to distribute written materials in advance.
15. The Chief Executive Officer will, with the concurrence of the Chairperson, invite certain members of Management to attend Board meetings to provide information and their views to assist the directors in their deliberations. Management attendees will be excused for any agenda items that are reserved for discussion by directors only.
16. The directors will hold regularly scheduled meetings at which members of Management are not present.

Stakeholder Communications

17. In accordance with the Act, the Board will:
 - (a) ensure that PSP Investments meets once a year with the members of the three advisory committees established under the Superannuation Acts; and
 - (b) ensure that an annual report on the operations of PSP Investments in that year, containing the information specified in the Act, is provided to the appropriate ministers within 90 days after the end of each financial year and made available to contributors under the Superannuation Acts as soon as it is feasible to do so after it is provided to the ministers.
18. The Board will approve a corporate communications policy designed to help ensure effective communications by PSP Investments with its stakeholders. Such a policy should also set out measures for receiving feedback from stakeholders.

Advice and Counsel

19. The Board and individual directors must be available to provide advice and counsel to the Chief Executive Officer, as required.

Reporting and Monitoring

20. The Board will ensure that the necessary reporting and monitoring practices are established to provide the Board with the information it requires to effectively oversee the operations of PSP Investments and meet the requirements of the Act and Regulations.
21. The Board will:
 - (a) designate one or more committees of the Board to monitor the application of the Conflict of Interest Procedures for Directors and the Code of Conduct for Officers and Employees;
 - (b) ensure compliance with the SIP&P approved by the Board;
 - (c) evaluate the performance of the Chief Executive Officer;
 - (d) review the investment performance of PSP Investments;
 - (e) review the investment policies of PSP Investments;
 - (f) review all other policies of the Board, including those pertaining to governance, human resources, finance and accounting, organizational planning and corporate communications on a regular and appropriate basis;
 - (g) review and assess the performance of the Board on an annual basis;
 - (h) ensure that monitoring mechanisms are in place to make certain that PSP Investments operates within applicable laws and regulations; and
 - (i) review periodically the Terms of Reference for the Board of Directors.

DEFINITIONS

22. “Management” refers to the Officers and the other members of the senior management team of PSP Investments as may be determined from time-to-time by the Chief Executive Officer and communicated to the Board.
23. “Officers” refers to those employees who are appointed as officers by the Board in accordance with By-Law No. 1.

These Terms of Reference were most recently reviewed and amended by the Board on April 2nd, 2009.