

# STATEMENT OF INVESTMENT POLICIES AND PROCEDURES

The Group Retirement Savings Plan for McMaster University (the "Plan")

Approved by Board of Governors: June 8, 2023

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#### 1. Purpose and Scope

This Policy applies to the Plan. The primary goals of the Plan include to assist Members in the accumulation of retirement savings to supplement their private savings and any retirement income that may be provided to them by government programs such as the Canada Pension Plan (CPP) and Old Age Security (OAS).

The purpose of this Policy is to set out objectives, policies, and procedures for the prudent and effective management of the Plan. In developing this Policy, the University has considered the objectives of the Plan as well as applicable law. In the event of any inconsistency between this Policy and the requirements of applicable law, including the *Income Tax Act* (Canada), the latter will prevail.

## 2. Definitions

The following definitions have the meaning ascribed to them when used throughout the Policy. Definitions that appear in the singular include the plural, and vice versa, as applicable in the circumstances.

"**CAP Guidelines**" means the Guidelines for Capital Accumulation Plans issued by the Joint Forum of Financial Market Regulators, as amended from time to time.

"**Consultant**" means an advisor engaged by the University in relation to the Plan, including to review the Investment Options, Investment Managers and/or the Recordkeeper.

"Guaranteed Fund" means guaranteed investment certificates or an equivalent.

"Investment Option" means one of the various funds/investment options made available to Members.

"Investment Manager" means a manager of one or more Investment Options.

"Member" means a member of the Plan.

"**Plan**" means the Group Retirement Savings Plan for McMaster University. The Plan includes all sums of money and other property held by the Recordkeeper for the purposes of the Plan, which is comprised of all the Members' accounts, and all earnings and profits thereon, and the proceeds, investments and reinvestments thereof, less authorized payments made by the Recordkeeper from the Plan.

"Policy" means this Statement of Investment Policies and Procedures for the Plan.

"**Pooled Funds**" means commingled investment vehicles such as unit trusts, mutual funds, and segregated funds of an insurance company.

"**Recordkeeper**" means the person engaged by the University to administer the Plan. The Recordkeeper also means the custodian appointed by the University from time to time to receive and hold the assets of the Plan or any portion of the assets in the Plan pursuant to an agreement and in accordance with applicable legislation.

"**Target Date Fund**" means an investment fund where the weighting to applicable asset classes is adjusted by the fund's manager over time such that the fund's asset allocation gradually grows more conservative as the fund's target date nears and risk tolerance decreases.

"University" means McMaster University.

# 3. Allocation of Responsibilities

The University is responsible for oversight of the investment program established in relation to the Plan. To that end, the University will:

- (a) appoint a Recordkeeper to hold the assets of and to administer the Plan;
- (b) satisfy itself of the appropriateness of this Policy;
- (c) select, monitor and, as necessary, replace each Investment Option; and
- (d) satisfy itself of the appropriateness of the range of Investment Options available to Members from time to time.

Each Member is responsible for, among other things:

- (e) engaging such independent and qualified financial, investment and/or tax advisors as the Member deems necessary or desirable in his/her own personal circumstances;
- (f) reviewing the information regarding the Plan and the Investment Options available through various channels and, in consultation with such advisors, understanding the Plan terms and the nature of each Investment Option;
- (g) directing the investment of his/her account balance among the available Investment Options in accordance with his/her investment time horizon, investment risk tolerance and/or any other goals or objectives for achieving their desired retirement income; and
- (h) making decisions pertaining to their benefit options at termination of employment, retirement, or death.

#### Members bear the investment risk under the Plan.

Where a Member has not provided direction to the Recordkeeper with respect to investment of the his/her account, the Member's account will be invested in the default Investment Option. The default Investment Option is the BlackRock LifePath<sup>®</sup> Index Fund having a maturity date closest to the Member's 65th birthday.

Pooled Funds are governed in accordance with the investment policy of the Pooled Fund. Where a Pooled Fund is to be made available as an Investment Option, the University will satisfy itself

that the Pooled Fund investment policy is generally consistent with this Policy.

Subject to the governance framework established by the University for the Plan, the University may delegate responsibility for certain tasks relating to the Plan's investment program to such individuals, committees and third parties as it deems appropriate in the circumstances, provided that the University will prudently select and monitor its delegates.

The authority for exercising all voting rights with respect any portion of the Plan invested in Pooled Fund units is delegated to the Investment Manager of the Pooled Fund, to be exercised in accordance with the Pooled Fund's policies.

# **4. Investment Principles**

The Members are demographically diverse, possess varying levels of investment knowledge and experience, and have varying return expectations and risk tolerance. As such, a prudent menu of Investment Option includes:

- (a) for Members who feel that they do not have the time, knowledge, or desire to build, monitor and maintain their own portfolio of individual asset class funds, a suite of Target Date Funds that offer an easy-to-use investment solution; and
- (b) for Members who feel that they have the time, investment knowledge and desire to customize an investment portfolio that reflects their specific risk and return preferences, a range of individual asset class funds that covers the major asset classes across the risk/return spectrum.

Offering too few Investment Options may limit Members' ability to customize an investment portfolio that reflects their specific risk and return preferences. Offering too many Investment Options can potentially discourage Members from actively making investment choices, or potentially impede effective communication of the Investment Options to Members. Maintaining a menu of Investment Options consisting of anywhere up to 25 Options <sup>1</sup> provides a sufficient yet manageable number of investment choices to Members. The University will endeavor to ensure that the number of Investment Options falls within this range.

In determining whether actively or passively-managed funds should be offered in a given asset class, the University will take into consideration, among other factors, product availability.

The Investment Options must be valued frequently and sufficiently liquid.

The Investment Options may invest directly in derivatives, options, and futures if their policies permit.

If a fund is removed from the menu of Investment Options, and if a Member does not direct transfer of any assets he/she has invested in such Investment Option to an alternativeInvestment Option, such assets will be transferred to an Investment Option that has risk/return characteristics generally similar to the removed Investment Option. In the absence of a generally similar Investment Option, such assets will be transferred to the default Investment Option for the Plan.

<sup>&</sup>lt;sup>1</sup> For this purpose, a suite of Target Date Funds is considered to be a single Investment Option.

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### 5. Permitted Asset Classes

The following are permitted asset classes from which Investment Options can be selected:

- (a) Target Date Funds
- (b) Multi-asset class funds
- (c) Fixed income
  - i. Canadian fixed income
- (d) Public equities
  - i. Canadian equity
  - ii. U.S. equity
  - iii. International equity
  - iv. Global equity
- (e) Cash and cash equivalent
  - i. Money market
- (f) Guaranteed funds

Socially Responsible Investments (SRI) are not considered a separate asset class. Each Investment Manager may, in some fashion, consider environmental, social and/or governance (ESG) factors when managing a particular Investment Option.

#### 6. Performance Measurement

Members access market-based Investment Options by investing in funds offered through the Recordkeeper. In turn, these funds invest in units of underlying pooled funds. The fund performance for the recordkeeper version of the fund, which aims to closely track the performance of the pooled funds in which they invest, is calculated by the Recordkeeper and reported on a quarterly basis to Members.

For the purpose of monitoring and evaluating performance of the Investment Options, the Consultant (if one is retained by the University) reports the Investment Options' respective pooled fund performance to the University to support the *Selection and Monitoring of Investment Options* described in this Policy.

Performance of an Investment Option will be evaluated with respect to an appropriate market index or other benchmark. Passive or Index managers are expected to track the performance of the benchmark within a specific range. Active managers target to generate a return greater than

their Benchmark Index. The Investment Options available, and their applicable performance benchmarks, are outlined in Appendix 1.

In addition to the value-added target of generating a return in excess of its benchmark (as listed in Appendix 1), each actively-managed Investment Option will also have an aspirational target. The aim is for each actively-managed Investment Option to outperform the benchmark return after subtracting the fees for a passively managed fund in the same asset class.

For the purpose of measuring rates of return:

- (a) All returns will be measured before investment management fees, but after transaction costs, and over rolling four (4)-year periods.
- (b) All index returns will be total returns.
- (c) All foreign index returns will be Canadian dollar returns.
- (d) Investments in Pooled Funds will be valued according to the unit values published by the Investment Manager.

### 7. Selection and Monitoring of Investment Options

The University will review the Investment Options at least annually. The University may in its discretion add, remove, or substitute Investment Options from time to time.

The selection and monitoring of Investment Options involves consideration of both qualitative and quantitative factors.

Quantitative factors may include, but are not limited to:

- (a) Historical return performance relative to benchmarks and/or peer funds;
- (b) Meeting the selection and monitoring criteria listed in this Policy;
- (c) Competitiveness of fees and expenses;
- (d) Utilization of the Investment Options; and
- (e) The yield on Guaranteed Fund contracts.

Qualitative factors may include, but are not limited to:

- (a) Characteristics of the Investment Manager's firm/organization (e.g., stability, growth in assets under management, client retention/loss, financial strength
- (b) Depth, consistency, and experience of key investment personnel;
- (c) Adherence to a clear portfolio style and investment philosophy;

- (d) Well-defined investment processes;
- (e) Appropriate Pooled Fund investment policy;
- (f) Credit rating of Guaranteed Fund issuers; and
- (g) Ratings provided by third parties, including Consultants.

If there are concerns with respect to an Investment Manager's satisfaction of one or more qualitative or quantitative criteria, the University may consider whether further action is warranted with respect to such Investment Manager. Further action may include, but is not limited to:

- Engaging a Consultant to review the Investment Manager more closely, or to meet with the Investment Manager directly to discuss its performance;
- Placing the Investment Option(s) on a "watch list" for closer review; or
- Removing the Investment Option(s) from the menu of available investments.

On an approximately annual basis, the Consultant (if one is retained by the University), should update the University regarding any emerging trends in market practices and fund availability on the Recordkeeper's platform.

Approximately every five (5) years, the University will review the asset classes and the number of funds offered through the Plan (the "menu" of Investment Options), usage of the Investment Options, and other relevant considerations. Following such review, the University will either confirm that the current menu continues to meet Members' needs, or determine any changes that are necessary or desirable. Such review should be documented.

#### 8. Investment Information for Members

The Recordkeeper will provide information to Members with respect to the Investment Options. Members will through the Recordkeeper have access to the following information for each of the Investment Options:

- (a) Name of the Investment Option;
- (b) Name of the Investment Manager;
- (c) A brief description of the investment process or objective;
- (d) Investment reports which describe historical performance;
- (e) Information regarding fees and expenses;
- (f) Relative level of risk and/or volatility; and
- (g) Whether the Investment Option is considered foreign, domestic, or other.

Investment decision-making support is also provided to Members by the Recordkeeper, including the following:

- (a) Tools to assist with the asset mix decision;
- (b) Retirement planning tools that provide estimated retirement income; and
- (c) Education and information on the options available to Members for the payout phase, including communication on appropriate deadlines, actions required, and defaults if action is not taken by the Member.

From time-to-time, the Recordkeeper or University may supplement the above-mentioned information and decision-making tools with additional education and communication.

Each Member is responsible for engaging such independent and qualified financial, investment and/or tax advisors as the Member deems necessary or desirable in his/her own personal circumstances. Any information and tools provided by the Recordkeeper or University do not constitute investment advice to Members.

The University is responsible for ensuring that appropriate and timely information is provided by the Recordkeeper to Members.

#### 9. Fees and Expenses

All asset-based fees and expenses are paid by Members. These fees comprise investment management fees, pooled fund operating expenses, segregated fund operating expenses, recordkeeping fees, commissions, and portfolio management fees. Members are also responsible for paying transactional fees for various ad hoc service requests of the Recordkeeper.

There are generally no costs for transferring among Investment Options although short-term trading fees may apply. In addition, there may be book value and market value adjustments when Guaranteed Funds are redeemed.

The University will periodically monitor the fees and expenses paid by Members and evaluate the reasonableness of such fees and expenses. Such review should be documented.

#### 10. Conflict of Interest

University personnel engaged in the administration of the Plan, including performance of all tasks contemplated under this Policy, shall comply with the University's Conflict of Interest Policy for Employees, as amended from time to time.

The Recordkeeper and the Consultant engaged in relation to the Plan shall maintain and comply with standards of ethics and business practice consistent with legal and regulatory requirements and industry best practice.

#### 11. Review

This Policy may be reviewed and revised by the University at any time in accordance with the governance framework established by the University for the Plan. This Policy must be formally reviewed by the University at least annually.

Consistent with the CAP Guidelines and subject to the governance framework established by the University for the Plan, the University will periodically review the Recordkeeper, its performance, and its services, to ensure that the Recordkeeper's engagement continues to be reasonable and prudent in the circumstances. Such review should be documented.

Appendix 1- Investment Options - Benchmarks		
Investment Option	Benchmark Index	
BlackRock LifePath <sup>®</sup> Target Date Funds (Index)	Fund Specific <sup>2</sup>	
Fidelity Balanced	Fidelity Canadian Balanced Benchmark	
Jarislowsky Fraser Balanced	JF Balanced Benchmark	
BlackRock Universe Bond Index	FTSE Canada Universe Bond	
AlphaFixe Bond	FTSE Canada Universe Bond	
CC&L Canadian Equity	S&P/TSX Composite	
Fiera Canadian Equity	S&P/TSX Composite	
Jarislowsky Fraser Canadian Equity	S&P/TSX Composite	
BlackRock U.S. Equity Index	S&P 500 \$C	
BlackRock U.S. Equity Index (Hedged)	S&P 500 Hedged to \$C	
Mawer U.S. Equity	S&P 500 \$C	
Lazard International Equity	MSCI EAFE (Net) \$C	
Baillie Gifford International Equity	MSCI ACWI ex US (Net) \$C	
Fiera Capital Global Equity	MSCI World (Net) \$C)	
Desjardins Money Market Fund	FTSE Canada 91 Day T-Bill	
Guaranteed Investment Certificates (1-, 3- and 5-years)	N/A	
Temporary Fund	N/A	

<sup>&</sup>lt;sup>2</sup> The benchmark portfolios for Target Date Funds change over time. Longer dated funds will have greater equity allocations, which the manager reduces over time, as the fund approaches its maturity date. The benchmark asset mix includes exposure to any or all of the following asset classes: Canadian equities, U.S. equities, international developed market equities, Canadian Fixed Income, non-Canadian fixed income, real estate, alternative investments, cash & equivalents.