University of Victoria Combination and Money Purchase Pension Plans
Board of Pension Trustees

STATEMENT OF INVESTMENT BELIEFS

1. INTRODUCTION

The trust agreements for the University of Victoria Combination and Money Purchase Pension Plans establish a Board of Trustees (the Board) which is the "Administrator" of the Plans for the purposes of applicable laws and regulations. The appointment and membership of the Board is set out in Article IV of each of the respective trust agreements and the main features of the governance of the Plans are set out in the Governance Policy.

2. OBJECTIVES OF THE FUNDS

The purpose of investing the Funds is to grow the asset base and together with contributions to generate cash flow to satisfy the Plans' current and future payment obligations. In setting asset mix, risk management relative to the Plans' liabilities is a key consideration. As such, understanding the nature and variability of the Plans' liabilities is critical to devising appropriate investment strategies, and the asset mix decision will be influenced by the nature of the obligations being funded, the time horizon, and the current funded status of the Plans.

3. GENERAL AND LONG-TERM MANAGEMENT

a) **Time Horizon**

The Plans have a long-term horizon for both investments and liabilities and the Funds are managed accordingly.

b) **Legal Framework**

Under BC law the Board has a fiduciary duty to manage the Plans in the best financial interests of all members and beneficiaries.

c) **Equity & Debt**

Whilst it is extremely difficult to forecast short-term investment returns, capital markets are more predictable over the long term and investors should receive additional compensation for taking investment risks. Therefore, it is expected that, over the long term, equities and alternatives -- including public equities, real estate, private equity and infrastructure -- will outperform debt instruments

d) **Currency Hedging**

Currency risk is introduced to the portfolio by owning foreign assets that can positively or negatively affect the portfolio in the short term; however, there is not an expected return difference in the long term. The current practice of evaluating managers holistically, including their ability to manage foreign asset currency decisions, will be continued. The cost savings and diversification benefits of not hedging currency positions outweigh the transaction costs and currency certainty of passively hedging. In extenuating circumstances strategic currency hedging may be considered at the portfolio level to mitigate overall portfolio volatility from foreign currency denominated investments. This belief will be revisited if our foreign currency exposure changes significantly.

e) **Responsible Investing**
Responsible investing, taking environmental, social and governance (ESG) factors into consideration, can have a positive effect on long term financial performance and investment returns. The Board will apply the following measures, consistent with the United Nations Principles for Responsible Investment (UNPRI):

i. In evaluating current and prospective investment managers, the Board will consider how ESG issues are incorporated into the investment decision making process;
ii. In evaluating investment managers, the Board will consider how investment managers engage with corporations to improve ESG practices;
iii. Existing equity investment managers are requested to provide proxy voting reports and to highlight exceptions to their proxy voting policy; and
iv. Existing investment managers are requested to provide annual disclosure regarding the processes by which ESG factors are incorporated into the investment decision making process.

f) **Climate Change**
Climate change represents a long-term material systemic risk to the Plans. Actions to reduce greenhouse gas emissions and mitigate other climate change drivers through (i) investor engagement, (ii) the selection of assets, and (iii) advocating for appropriate public disclosures and policies related to climate change directly and indirectly benefit the Plans. The Board will engage on an ongoing basis with our investment managers and consultants on climate change issues. To assist the Board in making fully informed responsible investment decisions, investment managers and consultants will be instructed to undertake assessments of the companies in which the Plans are invested to obtain full disclosure and consistent reporting on climate change issues and related risks to the Plans as well as alternative energy options.

4. **PORTFOLIO MANAGEMENT**

a) **Active versus Passive Investment Management**. The Board believes that active management will add value over and above the fund benchmark and that investing passively through market indexes cannot, with confidence, generate superior risk-adjusted returns. The Board also recognizes that passive management may sometimes be appropriate within specific asset classes to gain market exposure or where there are limited opportunities for active management to add value, net of fees.

b) **Specialist versus balanced mandates**
The Board is in the best position to determine the asset allocation and select investment managers to implement each mandate. In the long run, evidence has shown that specialist investment managers for each asset class is best practice and that balanced fund investment managers cannot consistently add value though tactical asset allocation. Therefore, the Board believes that it should use mainly investment managers with specialist mandates. However, if an asset pool is too small for effective sub-division between specialist managers then a balanced fund manager may be used.

c) **Number of mandates within an asset class**
The number of mandates within an asset class should be dictated by the size of the mandate, the size of the investable universe and the ability to achieve the diversification benefits within an asset class with multiple managers.

d) **Asset allocation and diversification**
Asset allocation is the main determinant of portfolio return and risk. Diversification improves portfolio return and risk characteristics. The portfolio rate of return and volatility are significantly influenced by the asset classes in which the fund is invested and their correlation with one another. Diversification across investment factors such as asset class, time horizon, geographic and industry sector allocation is generally thought to improve risk adjusted returns. Alternative investments, in particular real assets such as real estate and infrastructure, are expected to earn a liquidity premium over the long term investment horizon and improve the portfolio's risk-adjusted return. An allocation to real assets must be managed to ensure portfolio liquidity is sufficient to meet distributions.

e) **Portfolio rebalancing**
The rebalancing guidelines are intended to assist in managing the asset mix. Rebalancing will not be used as a method to reward or punish investment performance results.

Approved on April 3, 2020

To be reviewed at the time of the next Triennial Valuation of the Combination and Money Purchase Plans