

## **INVESTMENT POLICY STATEMENT**

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**Investment Management Division  
United Nations Joint Staff Pension Fund**

July 2016

Approved by:



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Carolyn Boykin  
*Representative of the Secretary-General  
for the Investment of the Assets of the UNJSPF*

18 July 2016

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Date

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**Preface to the July 2016 Edition**

This edition of the Investment Policy is a living document and will be continuously updated, amended and enhanced.

I wish to express my gratitude to the valuable advice of the Investments Committee, the Committee of Actuaries, the Pension Board and the Asset and Liability Monitoring Committee as well as my appreciation to IMD staff members who have contributed their time and effort to its successful completion.



**Carolyn Boykin**  
*Representative of the Secretary-General  
for the Investment of the Assets of the UNJSPF*

New York, 18 July 2016

<b>TABLE OF ACRONYMS</b>	
<b>ACABQ</b>	Advisory Committee on Administrative and Budgetary Questions
<b>ADR</b>	American Depositary Receipt
<b>ALM</b>	Asset Liability Management
<b>BCP</b>	Business Continuity Planning
<b>BoA</b>	United Nations Board of Auditors
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>COSO</b>	Committee of Sponsoring Organizations
<b>ERM</b>	Enterprise Risk Management
<b>ETF</b>	Exchange Traded Funds
<b>GICS</b>	Global Industry Classification Standard
<b>GIPS</b>	Global Investment Performance Standards
<b>GDR</b>	Global Depositary Receipt
<b>IC</b>	United Nations Investments Committee
<b>IMD</b>	Investment Management Division
<b>IPS</b>	Investment Policy Statement
<b>ISS</b>	Information Systems Section
<b>MRK</b>	Master Record Keeper
<b>NT</b>	Northern Trust
<b>OIOS</b>	United Nations Office of Internal Oversight Services
<b>REITs</b>	Real Estate Investment Trust
<b>RSG</b>	Representative of the Secretary-General
<b>SAA</b>	Strategic Asset Allocation
<b>SLA</b>	Service-level Agreement
<b>SWIFT</b>	Society for Worldwide Interbank Financial Telecommunication
<b>TAA</b>	Tactical Asset Allocation
<b>UN</b>	United Nations
<b>UNJSPB</b>	United Nations Joint Staff Pension Board
<b>UNJSPF</b>	United Nations Joint Staff Pension Fund or The Fund
<b>VaR</b>	Value at Risk

## Introduction

1. The Regulations of the United Nations Joint Staff Pension Fund (UNJSPF or the Fund) provide that the investment of the assets of the Fund will be decided upon by the Secretary-General. The Secretary-General has delegated the responsibility for overseeing this task to a senior United Nations official, designated as the Representative of the Secretary-General for the Investment of the Assets of the United Nations Joint Staff Pension Fund (RSG). The Secretary-General's representative is assisted by the Investment Management Division (IMD).
2. The Investment Policy was formulated within the framework of the Regulations of the UNJSPF including the Terms of Reference of the Investments Committee as adopted by the Pension Board and reflected in the relevant part of General Assembly Resolution 59/269. The original investment policy and procedures of IMD were published in January 1990 and amended periodically. In 2002-2003, a major review was undertaken to reflect the changes in the procedures that have taken place over the years. Additional updates were carried out in January 2006, December 2009, and March 2014. The current Investment Policy was restructured in July 2016 for purposes of clarity and organization.
3. In the 2014 version, the Investment Policy was expanded and presented as a document itself, while the investment procedures were separated into a manual mirroring the updated risk manual. This Investment Policy provides an overview of strategies to be followed in the management of investments. The Investment Procedures and the Risk Manual documents reflect the procedures and controls that are intended to be the basic reference for all those engaged in the investment process.
4. The Director of IMD is responsible for implementing amendments to the Investment Policy, Investment Procedures and Risk Manual, as approved by the Representative of the Secretary-General. Amendments may be proposed at any time as necessary.
5. The staff members of IMD perform important and sensitive work in the management of the assets of the United Nations Joint Staff Pension Fund. Adherence to the policies, procedures and practices contained in this Policy as well as in the Investment Procedures and Risk Manual will help to ensure that the investment goals and objectives set out in the applicable regulations and policies established for the Fund are met.
6. Under the authority of the Secretary-General, the Investment Management Division (IMD) of the United Nations Joint Staff Pension Fund (UNJSPF) has a fiduciary obligation to manage the investment of the assets of the Fund in the best interest of the participants and beneficiaries. The "Fund's Investment Goal" is to earn the highest possible investment return consistent with the Fund's risk appetite so as to deliver an investment return that at least meets over the long-term the Fund's assumed real rate of return objective. The Fund's assumed real rate of return is determined by the Pension Board in consultation with the Fund's Committee of Actuaries and the Consulting Actuary, by adjusting the Fund's assumed nominal rate of return for inflation, as measured by the US Consumer Price Index. As part of an international organization committed to social progress, better living standards and human rights and as a founding signatory to the United Nations supported Principles for Responsible Investment (PRI) Initiative and in association with the United Nations Global Compact (UNGC) and the UNEP Finance Initiative (UNEP FI) - IMD acknowledges its responsibility to society.

## A. INVESTMENT POLICY

7. The purpose of this Policy is to set forth the principles which shall guide the Representative of the Secretary-General for the Investment of the Assets of the UNJSPF and the Investment Management Division, in accordance with their respective roles in the management of the investments of the UNJSPF. These principles shall describe both the risk parameters and the return objectives which form the basis of the Fund's investment policy. This statement should be reviewed and approved by the RSG on a periodic basis considering the advice of the Investments Committee, in light of the observations and suggestions provided by the Pension Board, and considering the results of the ALM studies.

**B. PURPOSE OF THE FUND**

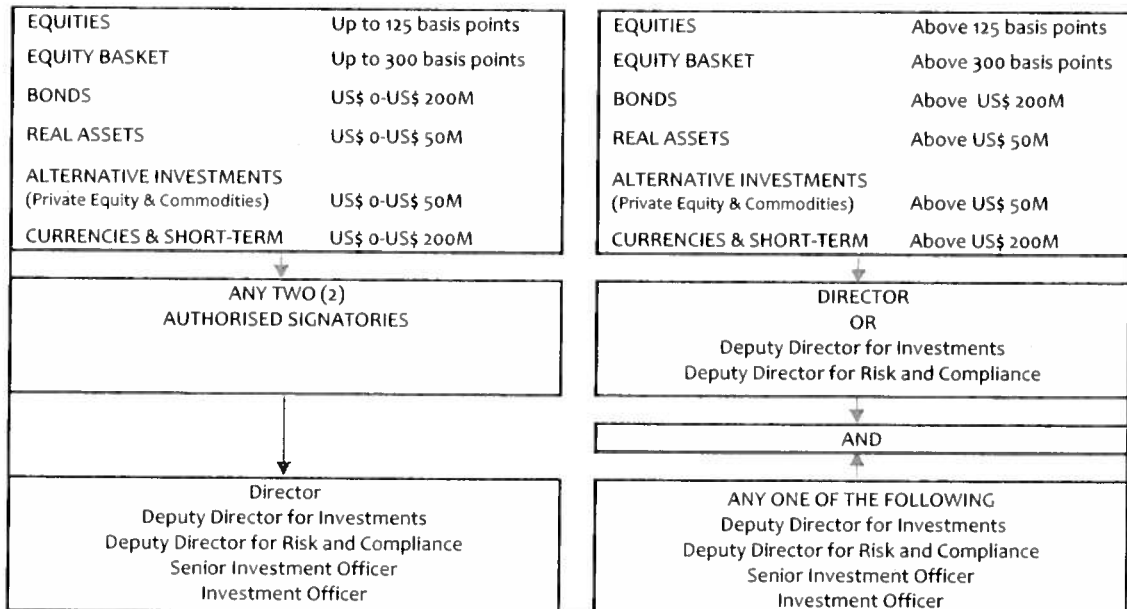
8. Pursuant to the Regulations of the United Nations Joint Staff Pension Fund, the UNJSPF is a fund established by the General Assembly of the United Nations to provide retirement, death, disability and related benefits for the staff of the United Nations and the other organizations admitted to membership in the Fund.
9. Under the authority of the Pension Board, the Fund is entrusted to provide retirement, death, disability and other benefits and related services to its participants, retirees and beneficiaries. To meet its long-term commitments, the Fund must ensure an adequate level of investment return on its assets while mindful of the approved risk tolerance philosophy and the requirements posed by its liabilities. It must also ensure that all of its activities reflect the best conditions of security, accountability, social responsibility and sustainable development while operating in full compliance with the highest standards of quality, efficiency, competence, and integrity.

**C. INVESTMENT GOALS**

10. The "Fund's Investment Goal" is to earn the highest possible investment return consistent with the Fund's risk appetite so as to deliver an investment return that at least meets over the long-term the Fund's assumed real rate of return objective.

**D. INVESTMENT AUTHORITY**

11. General authority for managing the investments of the Fund has been delegated to the RSG for the Investment of the Assets of the Fund and his/her agents, the Director and Investment Officers of IMD. The Director for Investments may sign any and all investment transactions for equities, fixed income and short-term instruments, as authorization for such transactions are delegated by the RSG. Approved list of Real Assets investments shall remain under the authorization of the RSG. In the absence of the Director, the Deputy Director for Investments or the Deputy Director for Risk and Compliance or the Officer-in-Charge at IMD may sign on his/her behalf for the investment transactions.
12. For all purchases and sales of securities, including equities, fixed income, real assets, alternative investments, commodities, currencies, and short-term investments, the following authorization level applies:



## I. GOVERNING BODIES

### I.1 General Assembly

13. The General Assembly, at its first session in 1946, adopted a resolution whereby the fiduciary responsibility for the investment of the assets of the Fund was entrusted to the Secretary-General of the United Nations. This fiduciary responsibility was further confirmed in 1948 when the General Assembly approved and adopted the Rules and Regulations of the UNJSPF.
14. The General Assembly may from time to time adopt resolutions on general investment policy as long as these resolutions are not conflicting with the fiduciary responsibility of the Secretary-General. These resolutions for example have established that the investments of the Fund should abide with criteria of **safety, profitability, liquidity** and **convertibility**. All past General Assembly resolutions have confirmed the Secretary-General's fiduciary responsibility which requires that all investment decisions taken must be in the best interests of the Fund.

### I.2 Secretary-General

15. According to article 19 of the Regulations of the UNJSPF, the investment of the assets of the Fund shall be decided upon by the Secretary-General after consultation with an Investments Committee and in the light of observations and suggestions made from time to time by the Board on the investments policy.
16. The Secretary-General shall arrange for the maintenance of detailed accounts of all investments and other transactions relating to the Fund, which shall be open to examination by the Board.

### I.3 Representative of the Secretary-General

17. The Secretary-General has delegated the fiduciary responsibility for the investment of the Fund to a senior United Nations official who acts as the Representative of the Secretary-General (RSG) for the investments of the UNJSPF.
18. The RSG has the overall responsibility for the oversight of the investment of the assets of the Fund and is also responsible for the approval of investment policy, strategic and tactical asset allocations and the appropriate investment strategy after consultation with the Investments Committee (IC). The RSG oversees the implementation of investments decisions and ensures that the approved investment policy and asset allocation are followed. He/she is responsible for reporting to the United Nations Joint Staff Pension Board (UNJSPB), the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the General Assembly on the performance of the Fund's investments.

### I.4 United Nations Joint Staff Pension Board

19. In accordance with Regulations adopted by the General Assembly, the Fund is administered by the UNJSPB, a staff pension committee for each member organization and a secretariat to the Board and to each such committee. The Chief Executive Officer and a Deputy are appointed by the Secretary-General on the recommendation of the Pension Board. The CEO administers the Fund under the authority of the Pension Board certifying all benefit payments.
20. The UNJSPB may from time to time make observations and suggestions on the investment policy.
21. The Pension Board shall review the investments of the Fund at its regular sessions with a view to rendering advice to the Secretary-General on investment policy as to its adequacy and consistency with the Fund's mission, goals and objectives.

### I.5 Investments Committee

The United Nations Investments Committee (IC) provides advice to the Secretary-General on investment strategy and reviews the investments of the Fund at its quarterly meetings. The IC advises on long-term investment policy, asset allocation and strategy, diversification by type of investment, currencies and economic sector, and other matters, which in the view of the Committee, should be brought to the attention of the Secretary-General or on which the latter may deem the advice of the Committee desirable. As per article 20 of the regulations of the UNJSPF, the IC shall consist of nine



members appointed by the Secretary-General after consultation with the Board and the ACABQ, subject to confirmation by the General Assembly.

#### **I.6 Investment Management Division**

22. The staff of IMD is responsible for the day to day management of the Fund's investments. They implement the approved investment policy and ensure that the portfolio conforms to the approved asset allocation, analyzes the financial markets, make sales and purchase recommendations of securities and evaluates the returns achieved within the allocated risk budget. IMD formulates investment policy for a long-term investment horizon and makes certain that the investments of the Fund conform to the approved policy and the Rules and Regulations of the Fund. IMD ensures that performance and portfolio risk analyses reports are accurate and up-to-date and arranges for the maintenance of appropriate and accurate accounts on the Fund's investments.

## **II. GOVERNING REGULATIONS**

23. The following regulations of the UNJSPF shall govern the management of the assets and investments of the Fund:

#### **II.1 Article 17 - Assets of the Fund**

24. The assets of the Fund shall be derived from:
- (a) The contributions of the participants;
  - (b) The contributions of the member organizations;
  - (c) The yield from the investments of the Fund;
  - (d) Deficiency payments, if any, under article 26; and
  - (e) Receipts from any other source.

#### **II.2 Article 18 - Property in the Assets**

25. The assets shall be the property of the Fund and shall be acquired, deposited and held in the name of the United Nations, separately from the assets of the United Nations, on behalf of the participants and beneficiaries of the Fund.

#### **II.3 Article 19 - Investment of the Assets**

26. The investment of the assets of the Fund shall be decided upon by the Secretary-General after consultation with an Investments Committee and in light of observations and suggestions made from time to time by the Pension Board on the investments policy.
27. The Secretary-General shall arrange for the maintenance of detailed accounts of all investments and other transactions relating to the Fund, which shall be open to examination by the Board.

#### **II.4 Article 20 - Investments Committee**

28. The Investments Committee shall consist of nine members appointed by the Secretary-General after consultation with the Board and the ACABQ, subject to confirmation by the General Assembly.

## **III. INVESTMENT MANAGEMENT**

#### **III.1 Investment Philosophy**

29. In pertinent part, the Fund's approved risk appetite states that "The Fund has very low appetite for the risk of losing its long-term sustainability and not being able to meet its long-term financial commitments." The Fund aims to take adequate risk, commensurate with its long-term sustainability objective. The strategic asset

allocation will be the major determinant of investment performance. The Fund's Strategic Asset Allocation is determined by the Representative of the Secretary-General in order to achieve the Fund's Investment Goal.

30. The Strategic Asset Allocation (SAA) is determined by the Representative of the Secretary General considering the Fund's Mission, long-term liabilities, and approved risk appetite and tolerance, with input from Asset and Liability Management (ALM) studies and the guidance of the Investments Committee. A full ALM study is done every four years unless the Pension Board considers it necessary to conduct an ALM study more frequently.
31. The "Fund's Investment Goal" is to earn the highest possible investment return consistent with the Fund's risk appetite so as to deliver an investment return that at least meets over the long-term the Fund's assumed real rate of return objective. The Fund's assumed real rate of return (see Investment Goal Annex) is determined by the Pension Board in consultation with the Fund's Committee of Actuaries, by adjusting the Fund's assumed nominal rate of return for inflation, as measured by the US Consumer Price Index. Investment Objectives take into account observations and suggestions made by the General Assembly and the Pension Board, as reviewed and interpreted by the Investments Committee are as follows:
32. *Safety* is achieved by ensuring adequate asset class, geographic, currency, sector and industry diversification, by carefully researching and documenting investment recommendations and constantly reviewing the portfolio in order to take advantage of the unsynchronized economic cycles, market and currency movements. Asset classes are all subject to market risk; security is a relative term.
33. *Profitability* requires that each investment at the time of purchase be expected to earn a positive total return, taking into account potential risk, particularly market risk which is common to all securities of the same general class and commonly can be mitigated but not eliminated by diversification.
34. *Convertibility* is the ability to readily convert investments into liquid currencies. Convertibility facilitates payments in local currencies. The fiduciary responsibility to the Fund's participants mandates that due to the U.S. dollar-based market valuation of the Fund, and the U.S. dollar based appraisal of its actuarial soundness, all investments should be readily and fully convertible into U.S. dollars.
35. *Liquidity* is the ready marketability of the assets in recognized sound, stable and competitive exchanges or markets. Liquidity is required to ensure that the portfolio can be restructured in the shortest possible time in order to enhance total return and/or to minimize potential losses.
36. In establishing liquidity requirements, IMD will take the following factors into consideration:
  - (a) the need for liquidity to meet payroll requirements in an array of currencies
  - (b) the need for funds to take advantage of investment opportunities as they arise
  - (c) the need for funds required for projected cash flows
37. The emphasis on liquidity shall be an investment consideration based on the expected changes in the funding of short-term liabilities. Managing liquidity to meet the Fund's requirements will be met by structuring the investment portfolio to maintain a sufficient allocation of funds in highly liquid securities. IMD will consider an acceptable range of illiquidity to generate a higher return from the approved asset classes.
38. It is noted that there may be attractive investment opportunities which require long-term commitments from the Fund. The Fund may invest in longer-term asset classes, such as alternative investments with the concurrence of the RSG.

### III.2 Investment Time Horizon

39. The Strategic Asset Allocation (SAA) is to achieve the Fund's Investment Goal. Therefore, strategic investment decisions for the Fund shall be made based on the long-term horizon. A Tactical Asset Allocation strategy, as described in paragraph 43 of this IPS, will also be adopted in order to implement the SAA on a near-term basis.

### III.3 Modeling Assumptions and Process

40. In order to establish risk and liquidity parameters for the management of UNJSPF, appropriate financial models should be used by IMD to estimate and calculate risk levels. In performing stress tests for the UNJSPF, IMD will not always assume that normal market conditions will prevail. Periodically, IMD will model extreme or “left tail” scenarios to establish the risk parameters which will guide the management of the Fund.

### III.4 Portfolio Constraints

#### III.4.a Strategic and Tactical Asset Allocation

41. The strategic asset allocation shall be designed to meet the long-term return objective subject to the risk constraints. The asset classes and related benchmarks for the Strategic Asset Allocation (SAA) are shown in the table below, and the related targets and ranges for each asset class are shown in the Strategic Asset Allocation Policy Annex.

Asset Classes and Benchmarks	
Asset Classes	Benchmarks
Global Equities <sup>1</sup>	MSCI ACWI
Real Assets <sup>2</sup>	NCREIF ODCE +100 bps
Alternative Investments <sup>3</sup>	MSCI ACWI + 200 bps
Global Fixed Income	Barclays Global Aggregate Index
Cash & Equivalents	50% 90-day U.S. T-bill and 50% 0-1-year Euro
Total	

42. The long-term strategic allocation should form the core of the actual portfolio but the Investments Committee recognizes that market movements will cause deviations from target allocations to occur, that opportunities will arise from time to time for the Investments Committee and IMD to over and underweight certain asset classes based on fundamental evaluation, and that rebalancing should occur when and if the UNJSPF actual asset allocation has moved outside the target ranges; this will ensure that the Fund does not incur additional risks as a result of having deviated from the long-term strategic asset allocation. It is noted that transaction costs should be assessed by IMD to ensure that such costs do not outweigh the benefits of disciplined rebalancing.
43. The Tactical Asset Allocation (TAA) ranges are reviewed at least on a quarterly basis. The TAA ranges are ranges for each asset class, which are narrower than the SAA ranges. The TAA ranges are reviewed by IMD prior to the Investments Committee meeting. Based upon such consultations, the RSG finalizes the TAA ranges for the next period. The TAA ranges are then shared with the Master Record Keeper for performance and reporting purposes.

#### III.4.b Special Constraints

44. Pursuant to General Assembly Resolutions 31/197 in 1976 and 32/73 B in 1977, the General Assembly requests the Secretary-General to redouble his efforts in consultation with the Investments Committee, to ensure that, subject to careful observance of the requirements of safety, profitability, liquidity and convertibility, and in strict conformity with the Regulations of the UNJSPF, a larger proportion of the investment of the resources of the Fund is made in developing countries.

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<sup>1</sup> Global Equities includes Public Equity (including REITS), Minimum Volatility strategy, and Green Equity.

<sup>2</sup> Real Assets includes Real Estate, Infrastructure, and Timberland.

<sup>3</sup> Alternative Investments includes Private Equity and Commodities.

#### III.4.c Restricted/Prohibited Industries

- Investments in the tobacco industry:
  45. Investments in companies that derive any revenue from the production of tobacco and that primarily deal with manufacturing and distribution of tobacco and tobacco related products are prohibited.
- Investments in armaments or other military equipments:
  46. The Fund shall not invest in securities of companies that derive any revenue from the production of military weapons, weapons systems or weapons of mass destruction, including nuclear, chemical or biological weapons, or derive more than 10 per cent of their revenue from the production of customized components for purposes of the production of military weapons, weapons systems or weapons of mass destruction.

#### III.5 Risk Objectives

47. The Risk objective is to follow the approved UNJSPF Risk Appetite and the Risk Tolerance for investments. In defining and applying, Risk Appetite & Risk Tolerance, IMD follows the COSO EWRM framework, which makes the following distinction between Risk Appetite and Risk Tolerance: "Risk appetite is a broad-based description of the desired level of risk that an entity will take in pursuit of its mission. Risk tolerance reflects the acceptable variation in outcomes related to specific performance measures linked to objectives the entity seeks to achieve."
48. Risk Appetite is the willingness of an entity to take on investment risks in order to achieve the necessary rate of return.
49. The Risk Tolerance reflects the acceptable variation in outcomes related to specific performance measures linked to objectives the entity seeks to achieve.

#### III.6 Disclosure Objectives

50. All service providers which provide performance evaluation reports shall be GIPS compliant and use GIPS compliant performance methodologies.
51. Information about the actual and proposed investments in any company country, currency or geography shall be disclosed on a need to know basis, subject to proper clearance from the Director and the RSG. IMD has to balance the need of being transparent about its investments and maintain confidentiality about its investments to market impact. Any request for investment information from any external entity (other than the RSG, UNJSPF CEO, Auditors, IC members, Pension Board and the ALM Committee) should be vetted by the IMD internal Legal Officer, Risk Group and the Director, obtaining the final approval of the RSG before making the disclosure.
52. Any performance report distributed outside of IMD shall be disseminated in a secure PDF or otherwise inalterable format.
53. Any investment performance of IMD being presented by any other agency other than IMD staff shall be cleared with the Director and the RSG
54. All requests for reports to be distributed outside of IMD shall be directed to the Director and shall be disseminated after the Director's review.

#### IV. RISK MANAGEMENT

55. The Risk Appetite is the willingness of an entity to take on investment risks in order to achieve the necessary rate of return. In practice, the level of risk will vary according to market conditions. The UNJSPF Risk Appetite statement, as approved by the Pension Board, is as follows: "The Fund recognizes the very long-term scope of its operations, its insurance-like nature which pools resources and risks to provide retirement, death, disability and other defined benefits and related services to its participants, retirees and beneficiaries as well as the importance of ensuring the continuing viability of its operations and finances. The Fund has very low appetite for the risk of

losing its long-term sustainability and not being able to meet its long-term financial commitments.” In defining Risk Tolerance, IMD follows the UNJSPF Risk Appetite. The IMD risk tolerance, a reflection of the acceptable variation in outcomes, is captured in the IMD Risk Budget.

56. Among the objectives of an ALM study is to present various hypothetical SAA’s and offer a choice of very different risk profiles. Once the SAA has been selected by the RSG with the advice from the Investments Committee, IMD will manage the portfolio in accordance to the long-term SAA and the Risk Tolerance limits. To maintain proper portfolio risk levels within the SAA, the RSG defines risk based on the following three indicators:
57. Total Portfolio Risk – IMD will monitor and report the total portfolio Value at Risk (VaR), which will express the Fund’s exposure to market risk resulting from changes in market prices and realized gains and losses. The RSG approves the specific targets of VaR and will review them periodically by consultation with the Investments Committee.
58. Active Risk - Additionally, for monitoring purposes, IMD will measure and report the acceptable level of active risk expressed as the variation of the Fund investment performance from the Benchmark performance (Tracking Error for Active Risk). IMD will monitor and report risk tolerances (risk corridors) in the form of tracking risk for each component of the total portfolio. The overall risk tolerance of the portfolio has been quantified as 205 bps. This is, in effect, one standard deviation of the difference between the return of the portfolio and the return of the policy benchmark, which is based upon the SAA. Higher tracking risk would mean that portfolio returns could deviate significantly from the expected SAA returns. IMD will update the risk tolerance annually to ensure that current market conditions are incorporated. The performance of the portfolios will be compared with risk corridors, to facilitate monitoring at each quarterly meeting of the Investments Committee. IMD will also determine and monitor Risk Budgets, the objective of which is to allocate risk among asset classes and portfolios, and conduct Risk Monitoring, the objective of which is to ensure realized risk is within the risk tolerance and risk appetite. IMD conducts a comprehensive Asset Liability Study periodically to determine its strategic asset allocation consistent with the Fund’s Risk Appetite and Risk Tolerance. The Fund’s Risk Budget is contained in the Risk Budget Annex.
59. Standard Deviation - IMD will monitor the standard deviation (the dispersion of returns around the mean return) of the Fund and its individual portfolios.

#### **IV.1 Risk Monitoring**

60. IMD monitors risk tolerances for the portfolios and reports to the Investments Committee quarterly.
61. Due to market conditions, and statistical properties of tracking risk, sometimes returns can exceed the risk corridors. IMD has established yellow and red zones for risk corridors. If the portfolio risk strays into the red zone for a sustained period, IMD takes immediate action by adjusting the portfolio. IMD, in conjunction with the Investments Committee, reviews the tactical asset allocation ranges at least four times per year.

#### **IV.2 ALM Study**

62. A full ALM study is performed every four years unless the Pension Board considers it necessary to conduct an ALM study more frequently. The purpose of the ALM study is to examine the funded status of the Fund, examine the return targets and propose a Strategic Asset Allocation consistent with the Fund’s Risk Appetite and Risk Tolerance.

#### **IV.3 Liquidity Risk**

63. The IMD shall determine the liquidity risk of the strategic asset allocation subject to stress testing in periods of market stress.

## V. PERFORMANCE EVALUATION

64. Policy Benchmark - While it is appropriate that the Investments Committee review the shorter-term performance of the actual portfolio of the UNJSPF against its policy benchmark on a yearly basis, the main emphasis should be on the long-term realized real return. As noted above, the UNJSPF has a very long time horizon consistent with its very long term liabilities and performance of the portfolio should be shown over similarly long term periods. Returns are available for up to fifty years and can be split into shorter periods of ten years. Reviewing rolling ten year performance can give the Investments Committee a good sense of medium term trends when assessing the performance results. The Fund's Policy Benchmark is contained in the Policy Benchmark Annex.

## VI. ASSET MIX

### VI.1 Global Equities

65. Global Equities comprising of mid to large capitalization securities
- (a) Common or preferred shares of corporations listed or traded on nationally recognized exchanges or over-the-counter markets
  - (b) Convertible Bonds, debentures or preferred shares which are convertible into Corporate Stock
  - (c) Exchange traded funds
  - (d) ADR/GDRs
66. Externally managed Global Equity separate accounts comprising of small capitalization securities.
- (a) North American Small Cap Portfolio
  - (b) Europe Small Cap Portfolio
  - (c) Japan Small Cap Portfolio
67. Externally managed Emerging Markets equity funds

### VI.2 Global Fixed Income

- (a) Sovereign and Supranational Notes, Bonds and Strips
- (b) Government Agencies and Instruments (Discount Notes, Debentures, Mortgage-Backed Securities)
- (c) Corporate Bonds, Notes, Debentures, Asset-Backed Securities, 144A Bonds
- (d) Yankee and Euro Dollar Bonds, Notes, 144A Bonds
- (e) U.S. Non-Agency Mortgage-Backed Securities
- (f) Private Placements
- (g) Externally managed specialty bond funds

Only bonds that have an investment grade credit rating by at least one recognized rating service may be purchased in the portfolio.

The long term fixed income portfolio's allocation to the BBB credit rating band must not exceed the BBB allocation within the prevailing fixed income benchmark by an amount of more than 300 basis points.

Bonds which are downgraded below investment grade by one or more recognized credit rating agency must be sold immediately, subject to orderly execution which is typically within 30 days of the downgrade.

### VI.3 Global Real Assets

- (a) Private Commingled Real Assets Funds
- (b) Private Commingled Funds investing in timberland, agriculture, infrastructure and power generation
- (c) Publicly traded REITs
- (d) Publicly traded Non-REIT Real Assets Securities

- (e) Infrastructure
- (f) Timberland and Farmland

#### VI.4 Cash and Short Term Investments

- (a) For investments in short term securities, securities with a minimum quality rating of A3/P3/F3 and above should be purchased in the portfolio. These ratings are equivalent to the minimum investment grade long term investment rating.

##### FX and Deposits

For investment limits on counterparties for FX and deposits it is proposed that the schedule in the proposal be employed whereby investments limits are based on credit ratings.

Limit Rating	Base Limit	O/N	up to 3 months	3 - 6 months	6 - 9 months	9 - 12 months	FX
	X	2X	X	0.50X	1/3X	0.25X	2X
AAA	150	300	150	75	50	38	300
AAA-	140	280	140	70	47	35	280
AA+	130	260	130	65	43	33	260
AA	120	240	120	60	40	30	240
AA-	110	220	110	55	37	28	220
A+	100	200	100	50	33	25	200
A	80	160	80	40	27	20	160
A-	60	120	60	30	20	15	120
BBB+	40	80	40	0	0	0	80
BBB	20	40	20	0	0	0	40
BBB-	10	20	10	0	0	0	20

#### VI.5 Alternative Investments

- (a) Private equity (including buyouts, growth capital, special situations, and secondaries)
- (b) Commodities Funds

## STRATEGIC ASSET ALLOCATION POLICY ANNEX

Strategic Asset Allocation Policy <sup>4</sup>				
Asset Class	Benchmark	Minimum	SAA Target	Maximum
Global Equities <sup>5</sup>	MSCI ACWI	50%	58.0%	69%
Real Assets <sup>6</sup>	NCREIF ODCE +100 bps	3%	9.0%	10%
Alternative Investments <sup>7</sup>	MSCI ACWI + 200 bps	0%	5.0	10%
Global Fixed Income	Barclays Global Aggregate Index	19%	26.5%	37%
Cash & Equivalents	50% 90-day U.S. T- bill and 50% 0-1-year Euro	0%	1.5%	6%
Total			100%	

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<sup>4</sup> Strategic Asset Allocation (“SAA”) represents long-term asset allocation targets, effective 1 August 2015.

<sup>5</sup> Global Equities includes Public Equity (including REITS), Minimum Volatility strategy, and Green Equity.

<sup>6</sup> Real Assets includes Real Estate, Infrastructure, and Timberland.

<sup>7</sup> Alternative Investments includes Private Equity and Commodities.



**RISK BUDGET ANNEX**

<b>Ex-Ante Risk Budget / Risk Tolerance*</b>		
<b>Portfolios</b>	<b>Risk Tolerance One Standard Deviation (yellow zone)</b>	<b>Risk Tolerance Two Standard Deviations (red zone)</b>
Total Equities	135	177
North America	146	187
Europe	185	227
Total Asia Pacific	179	221
Asia Pacific Ex Japan	170	211
Japan	216	258
Emerging Markets	408	450
Fixed Income	173	184
Total Fund	205	345
* Relative performance (actual vs. benchmark performance) of the Fund and the asset classes should fall within the risk tolerance limits.		

**POLICY BENCHMARK ANNEX**

<b>Policy Benchmark Construction</b>				
<b>Asset Class</b>	<b>Benchmark</b>	<b>A</b>	<b>B</b>	<b>C</b>
		<b>Performance of Benchmark</b>	<b>SAA Target</b>	<b>AxB</b>
Global Equities	MSCI ACWI		58%	
Real Assets	NCREIF ODCE + 100 bps		9.0%	
Alternative Investments	MSCI ACWI + 200 bps		5.0%	
Global Fixed Income	Barclays Global Aggregate Index		26.5%	
Cash & Equivalents	50% 90-day U.S. T- bill and 50% 0-1-year Euro		1.5%	
Total			100%	Policy Benchmark Performance

## **INVESTMENT GOAL ANNEX**

The “Fund’s Investment Goal” is to earn the highest possible investment return consistent with the Fund’s risk appetite so as to deliver an investment return that at least meets over the long-term the Fund’s assumed real rate of return objective. The Fund’s assumed real rate of return is determined by the Pension Board in consultation with the Fund’s Committee of Actuaries, by adjusting the Fund’s assumed nominal rate of return for inflation, as measured by the US Consumer Price Index.

The assumed real rate of return for the Fund is currently 3.5 percent.