

# Canadian Public Equity Strategy<sup>1</sup>

## Investment Policy Statement

Effective Date: December 1, 2023

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### 1. Scope and Purpose

This Investment Policy Statement (“IPS”) governs the investments associated with the Canadian Public Equity Strategy (the “Strategy”) created and managed by the Investment Management Corporation of Ontario (“IMCO”) for and on behalf of public sector and other eligible clients in Ontario that have entered into an investment management agreement (“IMA”) with IMCO. These investments may be managed on a segregated and/or pooled basis and this IPS may apply to multiple portfolios designated to be managed under this Strategy.

This IPS sets forth, among other things, the investment objectives, investment strategies, permitted investments and restrictions to be carried out by IMCO in respect of the Strategy. This IPS should be read in conjunction with the IMCO Investment Governing Policies and the IMCO Investment Beliefs (as amended from time to time).

### 2. Background

IMCO is responsible for managing Canadian public equities against guidelines and parameters approved in accordance with the applicable IMCO Investment Governing Policies and in accordance with this IPS. These guidelines and parameters are designed to, among other things, manage portfolio risk and set out the target returns for the Strategy over rolling five-year periods. IMCO monitors the Strategy against these guidelines and other factors, including, for example, investment management agreements. In carrying out these monitoring responsibilities, IMCO is also responsible to ensure that the Strategy is managed in line with the investment risk/return objectives and preferred characteristics set out herein.

### 3. Strategy Objectives

#### Investment Objective

The investment objective of the Strategy is to provide long-term growth through capital appreciation and dividend income by investing directly or indirectly in entities that are publicly traded in Canada.

#### Benchmark

The benchmark for the Strategy is the S&P/TSX Composite Total Return Index (the “Benchmark”)<sup>2</sup> in Canadian dollars.

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<sup>1</sup> This Investment Policy Statement will be used for the Canadian Public Equity Fund(s), when created, with appropriate modifications.

<sup>2</sup> The Benchmark may be subject to change by IMCO from time to time in accordance with the IMCO Benchmarking Policy.

### Return Objectives

The following investment return objectives will be measured over rolling 5-year annualized periods:

- Net Value-Added Target: Gross Total return – Benchmark Return – All Expenses<sup>3</sup> = +40 bps
- Net Risk-Adjusted Return Target: Sharpe Ratio greater than Benchmark

### Additional Objectives:

The following additional objectives will be measured:

- Ex-Ante Tracking Error Target: 2%
- Ex-Ante Total Risk Target: 100% of Benchmark volatility

## **4. Investment Approach**

The Strategy will be actively managed to provide clients with exposure to businesses mostly based in Canada. The Strategy will seek to provide exposures across the market capitalization spectrum, business sectors and investment styles.

Value add is expected to be mostly derived from stock selection, sector exposure and, to a lesser degree, factor exposure. IMCO believes that over the longer-term, positive exposures to certain factors – particularly Value, Quality, Momentum and Size – will add value over the standard Benchmark performance.

The investment mandates within the Strategy will seek to represent a diversity of investment management approaches/styles/niches where IMCO will seek to:

- Utilize active strategies that appear to have a competitive advantage to improve the return to risk profile:
  - 75% to 85% is targeted to be invested in actively managed strategies that are managed both internally and externally
  - Risk of over-diversification will be sought to be reduced by using a concentrated group of external managers, and by using research driven, and high engagement approaches to investing
- Utilize a liquidity sleeve, with a passive-mandate optimized to deliver on-market returns, in a cost-effective manner:
  - Anticipated to hold at an average of 20% of public equity assets
  - Provide liquidity for transactions across portfolio and facilitate redemptions and subscriptions
  - Managed to track benchmark / deliver on-market returns (on gross basis) through replication. It will not have active security selection

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<sup>3</sup> The Net Value-Added Target expectation is net of all expenses assigned to that product as defined in the Cost Allocation Policy and Guideline.

- iii. Utilize derivatives such as exchange-traded futures, and exchange-traded options to more efficiently manage the Strategy and adjust the Strategy's volatility and risk exposures.

## **5. Permitted Investments**

The Strategy may invest in the following permitted investments:

### Equities

- Public equity securities or equity equivalents including, without limitation, common shares, preferred shares, equity warrants, installment receipts, subscription receipts, convertible securities, Depositary Receipts (including American, Global and European)

### Cash and Cash Equivalents

- Securities permitted to be held by the IMCO Money Market Strategy

### Derivatives

Based on IMCO operational capabilities, the following derivatives may be traded internally by IMCO:

- Exchange traded equity futures
- Exchange traded equity options
- Currency forwards and exchange traded currency options
- Derivatives linked to equities (including OTC, both cleared and non-cleared)

The Strategy may invest in other derivatives that are not traded internally by IMCO.

## **6. Restrictions**

Investments by the Strategy will be made in accordance with applicable laws, including applicable tax and pension benefit laws, as well as in compliance with the IMCO Investment Policies. Additionally, the following specific investment restrictions will apply to the Strategy:

- Maximum Cash and Cash Equivalent Exposure: 5% of the Strategy net assets at market value. For calculation purposes, the Cash and Cash Equivalent exposure does not include cash and money market positions held as backing assets for derivatives
- Concentration Restriction: No more than 10% of the Strategy assets at market value may be invested in any one single company and its affiliates
- Manager Concentration Limit: No more than 25% of the Strategy assets at market value may be invested with a single manager. For clarity, this limit only applies to managers of active strategies and does not apply to passive managers tracking an index
- Aggregate non-Benchmark security exposure limited to 10% of the Strategy assets at market value. For calculation purposes, Cash and Cash Equivalents are considered Benchmark securities
- Maximum of 3% of Strategy assets at market value in private securities
- Ex-Ante Tracking Error Maximum: 4%
- Ex-Ante Total Risk Maximum: 110% of Benchmark volatility

### IMCO Derivatives Restrictions

The restrictions below apply to derivative transactions where IMCO has discretion. That is, they do not apply where IMCO has delegated investment discretion to a third-party manager.

- The derivative's underlying security must be transparent
- Written (sold) options are not permitted, unless they are continuously and fully covered by the underlying (in the case of written calls), backed by cash (in the case of written puts) or pre-approved by the Chief Risk Officer ("CRO"). Use of combinations of options needs pre-approval by the CRO
- Using derivatives with a maturity longer than 13-months is not permitted (except for interest rate swaps)
- Excluding foreign currency hedging and futures contracts fully backed by cash, the Relative VaR (99%, 1 year), as defined in the Leverage Guideline, of the derivatives used in the Strategy will be limited to 5% and the Strategy will ensure liquid resources are available to meet this requirement

Where applicable, counterparty restrictions must adhere to IMCO's Counterparty Guideline and liquidity restrictions must adhere to IMCO's Liquidity Guideline.

## **7. Balance Sheet Leverage**

No Balance Sheet Leverage, as defined in IMCO's Leverage Policy, will be permitted at the Strategy level. Balance Sheet Leverage is permitted in the individual assets/companies that are held by the Strategy.

## **8. Currency Hedging**

Developed<sup>4</sup> market foreign currency exposures are targeted to be unhedged.

## **9. Securities Lending**

Securities may be lent out as a means of generating incremental income in accordance with IMCO's Securities Lending Policy.

## **10. Compliance with IMCO Investment Policies**

The Strategy will be compliant with all applicable IMCO Investment Policies.

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<sup>4</sup> Developed market foreign currency means the currency of a member country of the MSCI World Index.