

Inflation Linked Bond Strategy¹

Investment Policy Statement

Effective: June 1, 2024

1. Scope and Purpose

This Investment Policy Statement (“IPS”) governs the investments associated with the Inflation Linked Bond 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 this Strategy 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 manager agreements. In carrying out these monitoring responsibilities, IMCO is also responsible for ensuring adherence to 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 an exposure to inflation linked securities primarily in the US, with a focus on capital preservation and liquidity.

Benchmark

The benchmark for the Strategy is ICE BofAML US Inflation-Linked Treasury Index (hedged back to Canadian dollars) (the “Benchmark”)^{2,3}.

¹ This Investment Policy Statement will be used for the Inflation Linked Bond Fund, when created, with appropriate modifications.

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

³ Until Canadian Real-Return Bonds are transferred from this Strategy into the Inflation Linked Bond Legacy RRB Strategy, the benchmark for the Canadian portion of the Strategy will continue to be ICE BofAML Canada Inflation-Linked Government Index for the Canadian portion of the Strategy and ICE BofAML US Inflation-Linked Treasury Index (hedged

Return Objective

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

- Net Value-Added Target: Gross Total Return – Benchmark Return – All Expenses⁴ = 0 bps
- Net Risk-Adjusted Return Target: Sharpe Ratio greater than Benchmark

Additional Objective

The following additional objectives will be measured:

- Ex-Ante Tracking Error Target: 0.50%

4. Investment Approach

To recover the costs of trading and expenses, the portfolio is expected to use a combination of fundamental analysis, technical analysis and analysis of primary/secondary trade flow that supports the anticipation of:

- Changes in the yield curve
- Changes in spreads between Investment Grade Sovereign inflation linked bonds
- Changes in expected US inflation
- Individual security selection through a relative value analysis versus various interest rate curves

IMCO recognizes that clients' fixed income assets may be a source of liquidity in times of market-stress. The Strategy will be managed in a manner that seeks to ensure that IMCO, on behalf of its clients, is able to raise cash from the sale of assets being managed pursuant to this Strategy in both normal and stressed market conditions.

5. Permitted Investments

The Strategy may invest in the following permitted investments:

Fixed Income

- Fixed income securities which are issued or guaranteed by the Governments of Canada, US, and, provided that they are rated A or above from DBRS or equivalent agency: UK, Germany, France, and Australia
- Exchange traded funds ("ETFs") which are similar to the Benchmark

Cash and Cash Equivalents

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

back to Canadian dollars) for the US portion of the Strategy, with the relative weights between the Canadian and US portions in the benchmark based on the actual weights of the Canadian and US portions of the portfolio.

⁴ The Net Value-Added Target expectation is net of all expenses assigned to that product as defined in the Cost Allocation Policy & Guideline.

Derivatives

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

- Exchange traded futures on money market instruments and bonds
- Interest rate swaps
- Inflation swaps
- Bond forwards

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

Derivatives are to be used to manage liquidity in stressed periods and to reduce risk as defined by duration relative to the benchmark.

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:

- Duration Limit: +/- 0.5 Year of Benchmark duration
- Maximum Aggregate Non-US Issuer deviation⁵: +/- 5% of Benchmark DV01
- Minimum Credit Quality: A or higher for non-federal US issuers
- No corporate credit risk is to be accepted - with the exception of counterparty risk, which is allowed within limits specified within the IMCO Counterparty Guideline and corporate credit as permitted with cash and cash equivalents (i.e. direct obligations of banks)
- Ex-Ante Tracking Error Maximum: 1.0%

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 one year is not permitted (except for interest rate swaps and inflation swaps)

⁵ This restriction will not apply to Canadian issued bonds until Canadian Real-Return Bonds are transferred from this Strategy into the Inflation Linked Bond Legacy RRB Strategy.

- 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 0%

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

Balance Sheet Leverage, as defined in IMCO's Leverage Policy, will be permitted at the Strategy level, solely as a source of total portfolio leverage for clients who choose to employ it as part of their strategic asset allocation. In that case, Balance Sheet Leverage sourced from this Strategy may not exceed 3x the unencumbered asset class investment strategy assets⁶. Balance Sheet Leverage must comply with the Leverage Policy and Leverage Guideline.

8. Currency Hedging

Developed⁷ market foreign currency exposures are targeted to be fully hedged.

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.

⁶ For clarity, if the strategy has \$100 in unencumbered assets, leverage can be used to generate an additional \$300 in assets for a total exposure of \$400.

⁷ Developed market foreign currency means the currency of a member country of the MSCI World Index.