



Investment Risk Limits Guideline

Effective: January 1, 2024

A. Introduction

Scope

IMCO monitors risk limits that are set out in:

1. Client Strategic Asset Allocations (SAAs),
2. IMCO/Client Investment Management Agreements (IMAs),
3. IMCO/Client Investment Policies (SIPPs),
4. IMCO Investment Policy Statements (IPS),
5. IMCO Investment Governing Policies (IGPs),
6. IMCO Investment Guidelines (IGs), and
7. External manager mandates.

These risk limits and any other investment risk limits that the IMCO Investment Risk department monitors are collectively referred to as “Risk Limits” in this document. Monitoring of these Risk Limits is done to help ensure that IMCO, either directly or indirectly through external managers, is managing client assets in accordance with these Risk Limits. Risk Limits does not include other limits which may be monitored using Risk data on behalf of other departments, but which are subject to definition and ownership outside of Investment Risk (e.g compliance limits).

The monitored Risk Limits are not meant to capture all risks inherent in IMCO’s investments activities (for example, there are risks with new investments that are not captured by the Risk Limits). The scope of Risk Limits monitored by the IMCO Investment Risk team only concern limits or thresholds that must not be crossed, as opposed to those that are targets or aspirational in nature.

All IMCO Covered Persons are required to be familiar with and seek to ensure this guideline is adhered to where it applies to their responsibilities at IMCO.

While this guideline sets out a framework for how the IMCO Investment Risk team will monitor and flag Risk Limit breaches, the IMCO Investment teams are still expected to manage their portfolios within these Risk Limits and the Internal Audit team will be expected to conduct Risk Limit internal audits.

Capitalized terms used herein but not otherwise defined have the meaning ascribed to them in the Glossary to this guideline. Any references herein to "\$" or dollars will mean Canadian dollars.

B. Types of Risk Limits

There are two types of Risk Limits – Quantitative and Qualitative – and two tiers of Risk Limits – Hard and Soft.

Quantitative Risk Limits, such as an *ex-ante tracking error*, are limits set on numeric metrics. Qualitative Risk Limits, such as *the underlying security of a derivative must be transparent*, are limits set on categorical metrics. Both will be monitored by the IMCO Investment Risk team.

Hard limits are limits which require compulsory remediation, breach escalation and notification. Soft limits do not require compulsory remediation but are aimed at focusing attention on potential Hard Limit breaches and being better prepared for preventing or remediating actual Hard Limit breaches. There might be specific governance actions required for soft limit breaches.

Quantitative Risk Limits are defined as Hard Limits. In some cases, such as limits related to Liquidity Coverage Ratio (LCR), Soft Limits may be set at another level in consideration of the frequency of monitoring and nature of the metric. Qualitative Risk Limits are defined as Hard Limits but are not subject to any Soft Limits.

C. Status Report

As soon as reasonably practical on each trading day and based on the prior day's portfolios at market close, the IMCO Investment Risk team will produce a Risk Limit status report (Status Report). As some Risk Limits are not measured daily, the Status Report will make it clear on which dates the Risk Limits were measured. Some Risk Limits may be monitored and reported in other reports depending on the audience and nature of the metric (e.g. Security lending limits).

The Status Report will be made available by the IMCO Investment Risk team to the Management Investment Committee as well as the CEO, COO and CFO at least weekly. The IMCO Investment Risk team will also make some or all of the Status Report available to applicable IMCO Investment team members and such other individuals at IMCO as the CEO, CIO, CRO and/or GC may deem appropriate from time to time.

The IMCO Investment Risk team will be responsible for maintaining a historical database of all Status Reports produced, for amongst other things, audit/compliance purposes.

D. Risk Limit Breaches

Risk Limit breaches will be colour coded on the Status Report as follows:

Colour	Meaning
Green	No Risk Limit Breach <ul style="list-style-type: none">Risk Limit determined to be under the Soft Limit in relation to the Quantitative Risk Limit and under the Hard Limit in relation to the Qualitative Risk Limit
Amber	Soft Limit Breach <ul style="list-style-type: none">Risk Limit determined to be over the Soft Limit and under the Hard Limit (each relating to the Quantitative Risk Limit)
Red	Hard Limit Breach <ul style="list-style-type: none">Risk Limit determined to be over the Hard Limit in relation to either the Quantitative or Qualitative Risk Limit

Breach Actions

Hard Limits

If a Hard Limit (Red) is breached, the IMCO Investment Risk team will investigate the breach source as soon as reasonably practical and, in any event, no later than two business days from discovery. If it is not practical to complete the investigation before the Status Report is to be made available, the IMCO Investment Risk team will note the Risk Limit as being Red and that it is under further investigation.

If after investigation it is determined that the Risk Limit breach did not occur, then if applicable, the Status Report will be amended and made available to the applicable individuals noted above under Section C. If after investigation it is determined that the Risk Limit breach is valid, the IMCO Investment Risk team will determine the cause of the breach and will advise the CIO, CRO, GC or their delegate(s) as well as the CEO, COO and CFO.

As soon as reasonably practical and generally not later than five business days from being notified of the Hard Limit (Red) breach, the lead IMCO Investment Management portfolio manager who is overseeing the portfolio subject to the breach will prepare and distribute a remediation plan to the CIO and CRO for their timely review and approval. After CIO and CRO approval of the remediation plan, the plan will be shared with the Management Investment Committee and CEO for ratification by the Management Investment Committee.

Any material revisions or material deviations to the remediation plan will need to be approved by the CIO and CRO, shared with the Management Investment Committee and CEO and ultimately ratified by the Management Investment Committee.

A summary of Hard Limit breaches will be reported to the Management Investment Committee by the IMCO Investment Risk team at every Management Investment Committee meeting. The CIO or CRO or their designate(s) will provide status updates regarding a breach remediation plan to the Management Investment Committee and will be responsible for providing the Management Investment Committee with a final close out report, once the breach has been remedied, which report should include information on how to avoid the breach in future situations, if applicable.

A summary regarding Hard Limit breaches and breach remediation plans/actions will be reported by the IMCO Investment Risk team to the IMCO Finance and Audit Committee no less than quarterly or on such other timeframes, as determined by the Management Investment Committee in consultation with the IMCO Finance and Audit Committee.

The IMCO Investment Risk team will work with the IMCO Client Services team and the IMCO Legal/Compliance team to determine, in accordance with any client agreement, the extent and frequency of reporting to clients on any Risk Limit breaches and how such breaches are to be reported as part of ongoing client compliance reporting.

Soft Limits

If a Soft Limit (Amber) is noted in the Status Report, generally no further action will be required, apart from a meeting between the relevant IMCO Investment team members and the relevant Investment Risk team members to ensure that the exposure can be managed within the Hard Limit.

E. Guideline Governance

Guideline Review and Approval

The IMCO Document Owner of this Guideline for purposes of ensuring that it gets issued, reviewed, and updated on a regular basis will be the Chief Risk Officer (CRO) (or such other individual that may be designated from time

to time by the CEO) or his/her designate. The Drafter and Document Monitor of this guideline will be VP, Investment Risk Research & Analytics, who will monitor compliance with this Guideline on an ongoing basis to determine whether the objectives of this governing document are being met.

The Document Owner is also responsible for ensuring the IMCO senior executive team members (the “Applicable SET”) have been given a reasonable opportunity to review and comment on this guideline prior to it being approved by the MIC (the “Approver”).

This Guideline should be reviewed by the Document Owner and approved by the Approver at least once every three years.

Non-Material and Material Revisions

For greater certainty, any non-material revisions to this Guideline (either resulting from the Document Owner’s reviews or otherwise) can be approved by the Document Owner at any time following a review of the changes by the Chief General Counsel or his or her designate and notice to the SET. Such non-material revisions may include edits to:

- i. cure any ambiguity, clerical or typographical errors;
- ii. clarify, correct or supplement any provisions which might be defective; or
- iii. satisfy any legal or regulatory requirement applicable to IMCO.

Any material revisions to this Guideline must be approved by the MIC.

Exceptions

Any request for a non-material exception to this Guideline must be approved by the Document Owner and the Chief General Counsel. Any request for a material exception to this policy must be approved by the MIC.

Glossary

"Authorized Delegates" for the purpose of the Management Investment Committee, generally means senior IMCO investment staff holding a position of a Director level or above.

"IMCO Covered Persons" means IMCO's executive officers, Full-Time Employees, Part-Time Employees and Contract Employees, and others who are defined as Covered Persons under the terms of their employment, and **"IMCO Covered Person"** means any one of them.

"Contract Employees" means any employee hired for a period of 12 months or less or for a specific task or project who:

- (a) can work up to 40 hours per week or more;
- (b) does not maintain continuous regular employment status;
- (c) does not participate in IMCO's benefit plan; and
- (d) will be paid vacation pay on wages and accrue unpaid vacation time in accordance with the relevant employment standards legislation.

"Full-Time Employee" means any permanent position regularly requiring more than 24 hours of work per week, or 48 hours of work per bi-weekly period, who:

- (a) maintains continuous regular employment status;
- (b) has completed the probationary period;
- (c) participates in IMCO's benefit plan; and
- (d) accrues vacation time and pay.

"Management Investment Committee" means a committee comprised of the CIO, the CRO, the CGC, (or their Authorized Delegates in their absence) and each direct business reports of the CIO **[and the CRO,]** and such other members that are appointed by the CEO, from time to time.

"Part-Time Employee" means any permanent position that does not regularly work at least 24 hours per week who:

- (a) maintains continuous regular employment status;