

Statement of Investment Policies and Goals

Revised Date: November 14, 2017

1. Introduction

The Statement of Investment Policies and Goals (the “Policy”) provides the framework for the management of the investments of the Nova Scotia Teachers’ Pension Fund (the “Fund”). The Fund was established by an act of the Legislative Assembly in 1949 and has continued under successor acts.

The trustee for the Fund as defined in the 2005 Agreement between the Province of Nova Scotia and the Nova Scotia Teachers’ Union is the Teachers’ Pension Plan Trustee Inc. (the “TPPTI”). In accordance with the terms of the Joint Trust Agreement the TPPTI is responsible for the investment of the Fund.

2. Rationale

The purpose of the Policy is to serve as a guide to those given responsibilities for Fund management including the Administrator, external investment managers and others who may be retained to provide supplemental service. This document will commit to writing the objectives and policies established by the TPPTI, to ensure all parties in the management of the Fund clearly understand the policies, goals and direction of the Fund and to facilitate the delegation of investment management responsibilities.

3. Investment Beliefs

It is recognized by the TPPTI that there is value in committing to writing a set of investment beliefs which allows the TPPTI to present these beliefs clearly and for all those with a vested interest in the Teachers’ Pension Plan (the “Plan”) to gain a better understanding of the Fund investments and how they are shaped. The investment beliefs will form the basis for investment policies, help guide the management and administration of pension assets and allow the beliefs of the TPPTI to be implemented in a consistent manner throughout the Fund. The core investment beliefs, in bold, do not change over time while the beliefs that follow each core belief, the working beliefs, may change.

1) An effective governance structure is necessary for achieving the objectives of the Fund.

- Strong governance increases the likelihood that the Fund will perform well from a risk and return perspective over the long term.
- Consistently applying investment beliefs across the Fund will enhance alignment of interests between the Trustee and the Administrator (or decision makers) and will assist in providing efficient management of the Fund.

2) The funded status of the Plan and the nature of its liabilities should heavily influence the Fund's policy asset mix.

- Given the long term nature of Plan liabilities, the Fund has a long term investment horizon and assets are managed with a long term view.
- Given that the Fund has negative net cash flows resulting from pension obligations and inflation sensitive liabilities, assets that generate cash and are linked to inflation are a benefit when included in the policy asset mix.
- Reducing equities minimizes the volatility of Fund returns and should help to achieve a stable, targeted funded ratio.

3) The management and investment of the Fund should be consistent with its long term investment horizon and the Fund's sustainable investment philosophy.

- A long term investment horizon is an advantage that should be exploited. As such, the long term return of the Fund is a key measure of success.
- Consistent with its sustainable investment philosophy, the Fund considers the impact of actions on future members and the importance of adapting the Fund to changing investment and economic environments.
- Implementation of investment strategies that create long term sustainable value as well as the hiring of external service providers that consider the long term impact of their actions is a key part of the Fund's sustainable investment policy.
- Benchmarks and reporting should align with the long term investment horizon.

4) The most significant influence on the long term investment performance of the Fund is the policy asset mix

- The policy asset mix reflects the Trustee's current risk and return appetite for the Fund.
- The policy asset mix provides a well-diversified and balanced portfolio of betas to assist in both managing Fund volatility and meeting return requirements.

5) Implementation of the policy asset mix should target reducing volatility and adding value to the benchmark.

- Investment strategies and asset classes that provide downside protection will benefit the Fund's long term performance.
- Dynamic asset allocation within the Fund through rebalancing of active asset class weights can add value versus the benchmark.
- Generally, active management in public markets can add value to the benchmark but in markets where conviction is low, there can be a benefit to utilizing passive mandates.

- Permitting opportunistic investments can add value relative to the Fund's benchmark.

6) Risk is required to generate the returns needed to meet long term pension obligations but will only be taken when rewarded. Unrewarded risks will be eliminated or sufficiently mitigated.

- Investment strategies that produce downside protection in declining markets and negative tracking error in strong up markets will be preferred for the long term benefits that they have on Fund performance.
- Reducing the volatility of Fund returns is a fundamental part of reducing funded ratio volatility.
- Exposure to foreign currencies is a product of holding non Canadian investments and exposes the Fund to currency risk. To benefit from the diversification properties of certain currencies, a currency overlay program will be maintained within the Fund.
- Management of qualitative risk, such as operational risk, is as important as managing quantitative risks such as investment return volatility.

7) Costs matter to the performance of the Fund and need to be effectively managed.

- Given the impact on net returns, managing costs is an important part of the implementation of the policy asset mix and underlying investment strategies.
- When choosing and evaluating investment managers and investment strategies, striking a balance between cost, the ability to generate consistent and strong returns and reduced volatility is important.

4. Policy Statement

The primary goal of the Fund is to satisfy pension obligations as required and to maintain their on-going solvency. Thus the Fund is managed on an on-going basis with a long-term investment horizon.

5. Policy Objectives

The Fund must operate solely in the best long-term interest of the beneficiaries. The basic goal is to ensure that the assets of the Fund, together with the expected contributions, shall be invested in a prudent manner so as to meet the liabilities of the Plan and reduce the surplus risk.

The primary objective of the Fund is to maximize returns on both an absolute and relative basis, within acceptable levels of volatility and risk. The absolute return is measured with respect to the actuarial assumed rate of return. The two elements of the actuarial rate of return are the inflation assumption and the actuarial assumed real rate of return.

The relative return of the portfolio will be measured against an appropriate benchmark as designated in Section 9.

6. Roles and Responsibilities

The roles and responsibilities of the various groups involved in the investment and administering of the Fund has been established to ensure effective and efficient management of the Fund with appropriate oversight and controls in place.

6.1 TPPTI

The trustee for the Fund is the TPPTI. The TPPTI is responsible for the Fund and its management and as such approves policies associated with the Fund. The TPPTI may delegate certain functions and receive recommendations from other entities.

6.2 Investment Committee

The TPPTI has created an Investment Committee to perform the following functions: monitor the investments of the Fund and make recommendations as required; review Fund and investment manager performance; make recommendations on the hiring and termination of investment managers; and review investment policies and recommend changes as necessary. The Investment Committee shall make recommendations to the TPPTI.

6.3 Administrator

As directed by the TPPTI, the Administrator is responsible for the management, day-to-day operations and liquidity of the Fund including adherence to policies and guidelines as approved by the TPPTI. The terms upon which the TPPTI has delegated authority to the Administrator will be contained in the Administrative Services and Investment Management Agreement.

6.4 Investment Managers

The Fund uses a multi-strategy platform to invest the assets of the Fund, executed through both Administrator staff as well as a multi-manager structure of external investment managers. The responsibilities of both are delegated by the TPPTI through the approval of investment policies and mandates.

6.5 Fund Custodian

The Fund's custodian will fulfill the regular duties required by law of a custodian and their duties as outlined in the custodial agreement.

7. Risk Management

The primary risk to the Plan is surplus or funding risk. This is the long-term risk that the Fund does not have sufficient assets to meet the Plan's future pension obligations. Secondary risks associated with the investment and management of the Fund include,

but are not limited to, market, credit, counter party, liquidity and operational risk. The following risk management tools are employed by the Fund to mitigate risk.

Asset Liability and Asset Allocation Studies

On an annual basis, the Administrator shall undertake a review of the policy asset mix. Every five years, or as conditions or circumstances warrant it, an asset liability or asset allocation study shall be conducted by an external consultant. Such studies will assist the TPPTI in determining the appropriate long-term asset mix in light of the Fund's future pension obligations and will minimize the funding risk to an acceptable level.

Long-Term Asset Mix

The long-term asset mix will determine the long-term performance and risk profile of the Fund. A well-diversified portfolio by asset class, geography, industry and investment style will greatly reduce the risk of the Fund and as such is the best tool that the Fund has to control risk. The asset mix is determined by a number of factors, one of which is the goal of a well-diversified portfolio.

Policies

To manage secondary risks such as market, credit, counterparty and liquidity risks, specific policies shall be developed and maintained to address these issues. The respective policies are listed in Appendix 2 and are reviewed on an annual basis.

Internal Controls

To address operational risk, the Administrator shall maintain and annually review a comprehensive set of internal procedures and policies to ensure that internal controls remain at an appropriate standard. The Director, Enterprise Risk & Compliance of the Administrator shall monitor compliance to the Fund's policies and guidelines as well as the Administrator's internal procedures and policies.

Liquidity

The Administrator shall manage the day-to-day liquidity of the Fund to mitigate the risk that the Fund is unable to meet its financial obligations and benefit payments. The liquidity of asset classes and their respective weightings is also an important factor in the determination of the Fund's overall liquidity profile and liquidity risk shall be an important consideration as the strategic policy asset mix is reviewed by the TPPTI.

8. Investment Directives

8.1 Policy Asset Mix

The long-term strategic investment of the Fund is expressed through the following asset classes: equity, fixed income, real assets and absolute return strategies. As determined by the TPPTI, the policy asset mix sets out the target weights for each of the asset classes with consideration given to the health of the Fund, long-term expected risk and return objectives, diversification of assets and the liquidity profile of the Fund.

Short-term tactical asset allocation of the Fund focuses on short-term conditions and opportunistic shifts in asset class weights and is expressed through the policy ranges (maximum and minimum) of the asset class weights. The rebalancing of weights of the asset classes within the policy range shall be the responsibility of the Administrator. The

Administrator shall review asset class weights on a regular basis and rebalance the asset mix with consideration to the cost of doing so.

In 2015, a decision was made by the TPPTI to adopt a new policy asset mix which is represented below under the column "Target Weight". Enhancing the diversification of assets and reducing the volatility of valuations were the objectives of the change. The current policy asset mix, as provided in Appendix 4, will incrementally transition to the Target Weights to reflect the funding of new asset classes and the removal of funds from other asset classes. The gradual progression of the policy asset mix from the current policy asset mix to the target policy asset mix will be provided to the TPPTI quarterly and updated in Appendix 4 of the Policy from time to time.

Asset Class	Benchmark	Minimum Target Weight	Target Weight	Maximum Target Weight
<u>Equity</u>				
Canadian	S&P/TSX Composite		7%	
US Large Cap	S&P 500		7%	
US Mid Cap	S&P 400		5%	
International	MSCI EAFE		7%	
Global	MSCI ACWI		7%	
Emerging Markets	MSCI Emerging Markets		<u>4%</u>	
Total Equity		27%	37%	47%
<u>Fixed Income</u>				
Government Bonds	FTSE TMX All Gov't	5%	12%	19%
Credit	*	8%	15%	22%
RRB	**	0%	<u>3%</u>	6%
Total Fixed Income		20%	30%	40%
<u>Real Assets</u>				
Real Estate				
Infrastructure				
Agriculture/Timber				
Total Real Assets	CPI + 4.5%	11%	21%	31%
<u>Absolute Return Strategies</u>	3 Month USD LIBOR + 4%	3%	7%	11%
<u>Commodities</u>	BCOM TR Index	0%	3%	6%
Cash	FTSE TMX 30 Day T-Bill	0%	2%	7%
Total			100%	

*6% Barclays Capital US Credit Index; 2% Barclays Global Aggregate Credit Index; 3% Merrill Lynch US Corp. BB/B 2% Issuer Constrained Index; 3%JP Morgan EMBI Global Diversified Index; 1%S&P/LSTA Leverage Loan Total Return Index

** FTSE TMX Canada RRB Index, customized index for 407 Inter. Inc. RRB

8.2 Benchmarks

In order to evaluate the performance of the Fund, the TPPTI shall measure the performance of each asset class relative to the performance of a benchmark. These benchmarks normally represent the return of market indices from each of the asset classes or CPI or LIBOR + benchmarks. The Fund benchmark shall be a composite of these indices based on the weights of each asset class.

8.3 Investment Constraints

In addition to the directives provided in the Policy, asset class constraints are also outlined in the investment policies detailed in Appendix 2 and within investment management agreements and mandates of specific investment managers.

Additionally, at the fund level, the Fund shall not:

- Issue debt;
- Apply leverage;
- Invest in one name which exceeds 5% of total Fund assets excluding Government of Canada and related entities;
- Invest in venture capital equities, whether through direct investing or pooled funds.

8.4 Permissible Investments

Permissible investments within the Fund are described within the investment policies listed in Appendix 2 and within investment management agreements and mandates of specific investment managers.

For clarity, certain investment managers and asset classes shall be permitted to:

- Pledge assets as security for a loan or obligation;
- Engage in the act of selling a security that the Fund does not own;
- Use debt to finance an asset purchase (leverage);
- Borrow securities for the completion of a short sale;
- Purchase securities on margin which involves buying a security while paying only a portion of the total value.

8.5 Investment Exceptions

When applying the above directives, it is recognized that there may be occasions during which the policies are breached for valid investment reasons. It is the responsibility of the Administrator to report any violations to the TPPTI and to recommend appropriate action.

9. Securities Lending

The securities of the Fund may be loaned for the purpose of generating revenue for the Fund subject to the Income Tax Act of Canada and its regulations, and to any other applicable laws. Such loans must be secured by cash and/or readily marketable Government bonds, short term debt, corporate debt, common and preferred shares or

convertible securities having a market value of at least 105% of the loaned securities or 102% if it reflects best practices in the local market in which the securities are being lent. The terms and conditions of the securities lending program are set out in a contract with the Custodian, including an approved list of those institutions to be utilized.

10. Performance Measurement

10.1 Investment Manager Performance Evaluation

Investment managers shall achieve a time-weighted rate of return, net of fees, which exceeds their benchmark, as defined in their mandate, over a rolling four-year period. The adequacy of value added will be judged relative to competitors with the same mandate and by comparing actual volatility to the benchmark's volatility.

Investment manager performance to their benchmark is monitored on a regular basis as is each manager's style, risk and compliance to their mandate. Failure to comply with policies and/or mandates may cause an investment manager to be terminated.

10.2 Valuation of Investments

The Fund shall follow the principal of Fair Value when valuing investments. For investments that trade on public equity and fixed income markets the Custodian will provide asset values. For assets that do not trade on public markets such as real estate and infrastructure, valuation methodologies are further detailed in their respective policies.

11. Proxy Voting

11.1 Proxy Voting Procedure

Generally, the Fund shall adopt a passive approach to voting proxies by delegating the responsibility to investment managers under contract. To ensure that proxies are voted in accordance with the TPPTI's engagement and climate change disclosure strategies, the Administrator will engage, in certain circumstances, with investment managers(s). All managers shall annually be requested to provide the Administrator with a copy of their policy on proxy voting.

11.2 Proxy Voting Reporting

The Administrator shall report to the TPPTI annually on the voting of proxies within the Fund.

12. Standard of Care

12.1 Standard of Care

The TPPTI and the Administrator as well as agents (investment managers, custodians, consultants etc.) employed by the Fund must maintain a standard of prudence and reasonableness in the management of the Fund's assets.

An agent is defined to mean a company, organization, association or individual, retained by the Fund to provide specific services with respect to administration and management of the Fund.

More specifically, the Administrator employed by the Fund shall exercise the same degree of care, diligence and skill that a prudent, professional pension administrator and investment manager experienced in the administration and investment of pension plans would exercise in like circumstances.

External service providers under contract to the Fund shall maintain an appropriate standard of care in the management of the Fund's assets. The custodian shall perform its duties with the skill and care that would be expected from a professional custodian and investment managers shall exercise such competence and skill as may be expected of a prudent and professional investment advisor

12.2 Disclosure

Any person listed above shall disclose any direct or indirect association or material interest or involvement in aspects related to their role with regard to the Fund's investments which may result in any perceived or actual conflict of interest. It is expected that no Director or Chair of the TPPTI, no staff of the Administrator or agent shall make any personal financial gain (direct or indirect) because of their position. It is incumbent on any party affected by this statement who believes that he/she may have a conflict of interest, or is aware of any conflict of interest shall notify the appropriate office according to the policy to which they are subjected. Disclosure should be made promptly after the affected person becomes aware of the conflict. According to the respective policies, the appropriate office shall decide what action is appropriate under the circumstances.

No affected person who has or is required to make a disclosure as contemplated by this statement shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he/she has made or is required to make disclosure.

The TPPTI shall be subject to its Conflict of Interest Policy and the Administrator and agents shall be subject to their respective conflict of interest policies. Any

violation by the Administrator or agent of their conflict of interest policies shall be reported to the TPPTI.

12.3 Related Party Transactions

The Administrator shall not enter into a transaction with a related party, on behalf of the Plan, unless:

- the transaction is required for the operation or administration of the Plan and the terms and conditions are not less favourable to the Plan than market terms and conditions;
- the securities of the related party are acquired at a public exchange; or
- the value of the transaction is not material to the Fund.

A related party is defined as: The Administrator and its officers, directors and employees; those holding or investing on behalf of the Fund such as investment managers and the custodian and their officers, directors and employees; unions representing members of the Plan and their officers, directors and employees; an employer who participates in the Plan and their officers, directors and employees; a member of the Plan; and a corporation controlled or indirectly controlled by any of the above. A related party does not include government or government agency.

Requirements for disclosure of conflicts of interest include related party transactions.

13. Reporting Requirements

The Administrator shall provide an annual report to the TPPTI that shall include the following information: performance of the Fund; asset mix; top 20 holdings; major accomplishments in the past year; and an economic and market outlook.

The Administrator shall provide quarterly reports to the TPPTI on the Fund's performance, investment manager performance, asset mix, inter manager flows, style analysis, risk analysis and compliance.

The Administrator shall provide monthly reports to the TPPTI that shall include Fund performance, asset mix and general market information.

Annual financial results and statements shall be provided to the stakeholders and shall be made public. Results and statements shall include any material breaches of policy compliance and actions undertaken to correct the breach.

14. Professional Standards

All investment managers are expected to adhere to the Code of Ethics and Standards of Professional Conduct of the CFA Institute or an acceptable equivalent.

15. Policy Administration and Enquiries

The Policy shall be reviewed annually. Recommendations for policy changes as well as questions and queries on the Policy should be brought to the Chair of the TPPTI.

16. Compliance and Sanctions

Failure to comply with the Policy may result in discipline up to and including termination.

17. References

The Plan is a defined benefit plan established by an act of the Legislative Assembly in 1949 and has continued under successor acts.

18. Appendices

The attached appendices to the Policy are for information purposes and shall be kept up to date by the Administrator.

1. Glossary of Terms
2. Related Policies
3. Policy History
4. Transition Benchmark

APPROVED BY MOTION at the Teachers' Pension Plan Trustee Inc. Meeting of November 17, 2015

Revisions:

APPROVED BY MOTION at the Teachers' Pension Plan Trustee Inc. Meeting of September 20, 2016

APPROVED BY MOTION at the Teachers' Pension Plan Trustee Inc. Meeting of May 16, 2017

APPROVED BY MOTION at the Teachers' Pension Plan Trustee Inc. Meeting of November 14, 2017

Appendix 1 Glossary of Terms

Absolute Return Strategies: an investment strategy which focuses on generating positive returns in rising and falling capital markets.

Actuarial assumed rate of return: the assumed rate of return as stated in the annual Report on the Actuarial Valuation for Funding Purposes.

Asset Mix: the proportion of assets invested in cash, equities, fixed-income securities and real estate.

Asset/liability Studies: an examination of the long-term projections of a pension plan's investment assets and liabilities to determine whether the plan will be in a deficit or surplus position.

Benchmark: a standard against which rates of return can be measured. Stock and bond market indexes are two examples.

CFA: Chartered Financial Analyst.

CPI: Consumer Price Index measures changes in the price level of consumer goods and services purchased.

Custodian: an independent company entrusted with holding investments on behalf of the owner. They maintain the financial records for the investments and settle trades.

Defined Benefit Pension Plan: a pension plan in which retirement benefits, rather than contributions into the plan, are specified.

Derivatives: financial contracts that derive their value from an underlying asset or index. Some common derivatives are forwards, futures, swaps and options.

EAFE: an equity index which covers the regions of Europe, Australasia and Far East.

Equities: share ownership of a company.

Fair Value: A valuation methodology. The amount which an asset could be exchanged between knowledgeable and willing parties in an arm's length transaction.

Fixed Income: Securities that generate a predictable stream of interest such as bonds and debentures.

Infrastructure: term used to define a class of physical assets, often for public use, that typically provide basic services. Such assets include bridges, roads, pipelines, electricity, ports etc.

LIBOR: London Inter Bank Offer Rate, an average interest rate estimated by banks if borrowing from other banks.

Private Equity: ownership interest in assets that do not trade on public exchanges.

Proxy Voting: written authorization by a shareholder for someone else to represent them and vote their shares at a shareholders' meeting.

RRB: Real Return Bonds

Short Selling: the sale of a security the seller does not own.

Swaps: over-the counter derivatives that obligate the parties to exchange the financial returns from one asset or index for those of another at a specified rate of exchange over a pre-determined period of time.

Venture Capital: capital invested in young companies that have the potential to grow and eventually earn profits.

**Appendix 2
Related Policies**

Policy	Approved By	Date Approved
Cash Management Policy	TPPTI	2017 May
Currency Policy	TPPTI	2017 May
Derivatives Policy	TPPTI	2015 September
Fixed Income Policy	TPPTI	2016 September
Hedge Fund Investment Policy	TPPTI	2017 May
Real Asset Investment Policy	TPPTI	2017 November
Investment Manager Selection & Monitoring Policy	TPPTI	2017 May
Sustainable Investment Policy	TPPTI	2015 September

**Appendix 3
Policy History**

Current Effective Date: 2017 November 14

Past Effective Dates: 2005 December 5
2008 February 5
2009 June 23
2010 September 15
2011 August 30
2013 July 23
2015 November 17
2017 May 16

Next Scheduled Review Date: 2018