

**HOW TO INCORPORATE
ACTIVE TRUSTEE PRACTICES
INTO
PENSION PLAN INVESTMENT POLICIES**

A resource guide for pension trustees and other fiduciaries

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Disclaimer: This resource guide is provided as a guide to assist pension trustees in developing their plan investment policies and procedures. It is not to be taken as legal advice. Pension trustees are strongly advised to seek independent legal and financial advice in developing their plan investment policies.

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About SHARE

The Shareholder Association for Research and Education (SHARE) is a national non-profit organization originating within the labour movement working with institutional investors to promote socially, economically and environmentally responsible investment practices through research, educational activities, and advocacy.

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Executive Summary

A pension plan's Statement of Investment Policies and Procedures (SIPP) is critical to responsible plan governance. It sets out the pension plan's investment philosophy, strategy and objectives and the degree of trustee involvement and oversight in the management of plan investments. Trustees have ultimate responsibility for a pension plan's investment and therefore must be actively involved at all stages of its development, implementation and review. Trustee oversight is mandated by law which also requires that the SIPP be reviewed on an annual basis.

The purpose of this resource guide is to assist pension trustees with incorporating more active trustee oversight in all aspects of a pension plan's investment policy. The first section provides practical guidance on how to incorporate active trustee oversight into a SIPP in four investment-related practices:

- (1) Shareholder activism
- (2) Proxy voting
- (3) Investment screening
- (4) Economically targeted investment (ETI)

It also looks at three other practices addressed in a SIPP, including the:

- (5) Selection and review of investment managers;
- (6) Selection of benchmarks; and
- (7) Provision allowing trustees to deviate from the investment policy.

Discussion on each practice begins with an introduction, followed by recommendations on how to enhance trustee oversight, a list of issues to consider, questions for pension trustees to ask themselves and their investment advisors, and suggested model wording for the SIPP. The resource guide focuses on *implementing* these practices, rather than *justifying* them. Throughout the document, trustees are directed to other literature that discusses the merits of including shareholder activism, proxy voting, investment screening and economically targeted investment as part of a prudent pension plan investment policy.

The second part of the resource guide reviews some of the key process issues that pension trustees may encounter when implementing these practices. Issues such as consulting with plan beneficiaries, conflicts of interest, trustee education and training, investment committees, and administrative costs are reviewed.

At the end of the resource guide are numerous appendices that include a fiduciary checklist for trustees, sample wording from various existing SIPPs, questions for trustees to pose during the selection and review of investment managers, and a list of SIPPs that are available on the internet

The Four Practices

Shareholder activism encompasses a wide range of activities aimed at improving long-term shareholder value, including engaging corporate management through letters and face-to-face meetings, drafting and filing shareholder proposals, and supporting other proposals at corporate annual general meetings.

Proxies are the voting rights attached to shares that a pension fund owns in a corporation. The voting of proxies gives shareholders the opportunity to participate in the governance of the corporation by voting on shareholder and management proposals in order to enhance shareholder value. Proxy votes are valuable plan assets and both the law and the fiduciary duties of pension trustees require that the SIPP account for the retention or delegation of the voting rights attached to investments.

Investment screening is the process of applying financial or non-financial criteria to the selection of investments. The application of investment screens is compatible with the fiduciary duties of trustees provided they are applied in a prudent and impartial manner, authorized in the SIPP, and communicated to plan members.

Economically targeted investment (ETI) involves “pension asset allocations [that] obtain both market-grade returns and economic or social benefits by addressing perceived financing gaps and under-investment.” (Falconer, 1999; CalPERS, 2000) The intention of such investments is to support job creation and community development along with obtaining a reasonable rate of return for the pension fund through investments in such ventures as mortgage trusts, affordable housing, commercial building, regional development, small business, emerging technology sectors, real estate and local community investment. (Carmichael, 2000, p.161-162)

Recommendations

The resource guide makes the following recommendations for including active trustee oversight into a SIPP:

- Pension plans engaging in shareholder activism should include a separate provision in the SIPP that outlines a systematic approach for engaging corporations in which the pension plan invests.
- Pension trustees should oversee four areas of proxy voting, including (1) establishing guidelines; (2) assessing issues; (3) voting proxies; and (4) monitoring results.
- Pension plans applying investment screens to their investments should include a provision in the SIPP authorizing trustees to develop, implement and review the investment screens, including details about the types of screens and specific screening criteria to be applied, and how often the screens will be reviewed by the board of trustees, consultation mechanisms, and appropriate benchmarks to be used in assessing performance.
- Where pension trustees decide to consider economically-targeted investments as part of the pension plan’s investment strategy, the SIPP should indicate the types of investments of interest to plan members, detail the percentage of assets to be allocated to such investments and the plans overall risk/return profile, provide authorization for such investments, specify the approvals required in order to make such investments, provide a mechanism for independent arms-length valuation of such investments, address performance evaluation, and the process for consultations with beneficiaries.
- The SIPP and/or related investment documents should provide a clear set of criteria and process for selecting and reviewing investment managers. Instructions and targets should be detailed,

including reference to shareholder activism, proxy voting, investment screens, and economically targeted investments where desired.

- Trustees must ensure that the SIPP uses relevant benchmarks as a basis for assessing investment and investment manager performance.
- SIPPs should include a provision that permits the board of trustees to deviate from the plan's investment policies where such variation is in the best interests of plan members.
- Pension trustees should develop two-way communication processes to provide information to and obtain information from plan members and beneficiaries. At a minimum, the SIPP should detail how often, how much, and in what manner information will be provided. Such practices help to keep plan members informed and can be used to demonstrate that a specific investment practice is in the best interests of plan members and keeps plan members informed.
- SIPPs should include provisions that require pension trustees and agents to disclose any potential conflicts of interest.
- Trustee engagement in shareholder activism, proxy voting, investment screening and economically targeted investing can be an *evolutionary* process expanding as trustees become more familiar and comfortable with each practice.
- Trusteeship is not restricted to "experts" provided the individual is committed to obtaining the education and training required to oversee the affairs of the pension plan responsibly. Pension trustees have the right and responsibility to avail themselves of educational opportunities at the plan's expense in order to engage in a meaningful way with other trustees and investment professionals about matters pertaining to plan investment policy.
- Trustees have a duty to ask questions of their investment advisors on any investment-related issue that they do not understand and should not feel shy or intimidated when doing so.
- Whether a committee or the board as a whole develops investment policy, trustees should ensure that they are adequately represented and have meaningful involvement in the investment policy development process. The SIPP or some other plan governance document should define the relationships and accountability of those involved in developing investment policy.
- Before advancing these practices for inclusion in a plan's SIPP, trustees should clearly define each term to avoid confusion or misunderstanding.

Pension trustees should assess the administrative costs associated with implementing these practices. In some cases, they may be non-discretionary. In other situations, a cost-benefit analysis may be required.

Introduction

A pension plan's Statement of Investment Policies and Procedures (SIPP)¹ is one of the most important governing documents for a pension plan. It sets out the pension plan's investment philosophy, strategy and objectives and the degree of trustee involvement and oversight in the management of plan investments. The SIPP may also be supported by other investment-related documents such as investment manager mandates.

Trustees have ultimate responsibility for all plan investments, ensuring compliance with the SIPP, and ensuring that the plan's investment policy meets the long-term interests of pension plan members and beneficiaries.² A SIPP is usually developed through a cooperative tri-partite process involving plan trustees, investment consultants and plan actuaries. However, trustees are ultimately responsible for the content and execution of the SIPP. Therefore, they should ensure that they are *actively* involved at *all* stages of its development, implementation and review. Both federal and provincial pension and tax laws in Canada put the responsibility on pension trustees to develop and implement a SIPP. Legislation also requires that the trustees review the SIPP on an annual basis to ensure it reflects changes within the pension plan and the economy.

The basic requirements of a SIPP are set out in provincial pension law and the trust documents establishing the pension plan. All provinces and territories, with the exception of Prince Edward Island and Quebec, have adopted the investment rules detailed in Schedule III of the federal *Pension Benefits Standards Regulation* (PBSA, 1985). These requirements (see Appendix A) serve to focus attention on the primary concern of plan managers to ensure that plan assets match plan liabilities over the long-term.

The Office of the Superintendent of Financial Institutions, which is responsible for overseeing all federally-regulated pension plans, has established guidelines ("OSFI Guidelines") to assist in the development, implementation and monitoring of a SIPP. (OSFI, 2000) The OSFI Guidelines are not law, however courts may still take them into consideration when reviewing the decisions of trustees. Therefore, pension trustees are strongly advised to consider them. The OSFI Guidelines are summarized in Appendix A.

Active trustee oversight is also important because of the significance of pension plans in the overall well-being of the Canadian economy, our communities and the natural environment. Trusteed pension plans in Canada own approximately 25% of the Canadian equity market and have total assets valued at approximately \$568.6 billion, the second largest pool of investment capital in Canada after the chartered banks. (Statistics Canada, 2001) Therefore, investment decisions have an effect on the health of the economy, society and the environment, which in turn all affect the potential for sustainable, long-term financial returns. For example, investing in companies with strong corporate governance standards, labour policies and environmental practices can meet the short-term interests of current plan members

¹ Some jurisdictions refer to the investment policy statement as a Statement of Investment Policies and Guidelines (SIP&G). For the purposes of this document, reference to a SIPP includes all forms of investment policies created by statute.

² Persons acting as "trustees" are different for different types of plans. Pension legislation uses the term "administrator" to cover board of trustees, an employer, or a person appointed administrator of a plan by the Superintendent of Pensions or the Minister. In all cases, we use the term "trustee" to refer to the person(s) with ultimate responsibility for the plan's administration.

and the long-term interests of future beneficiaries, their families and communities by fostering a strong and stable workforce, reducing potential corporate liabilities and enhancing corporate goodwill and investor confidence.

This resource guide provides trustees with practical guidance on how to incorporate active trustee oversight into a SIPP in four specific areas:

- (5) Shareholder activism
- (6) Proxy voting
- (7) Investment screening
- (8) Economically targeted investment (ETI)

It also looks at three other related parts of a SIPP, including the:

- (8) Selection and review of investment managers;
- (9) Selection of benchmarks; and
- (10) Provision allowing trustees to deviate from the investment policy.

The first four practices are still quite new to many trustees and trustees can incorporate them over time as they acquire greater knowledge and comfort in each area (see section entitled “All or Nothing Approach”.) While plans now frequently engage in one or more of these practices, many have not formalized them or incorporated them into their SIPP. Interested trustees often find it difficult to identify model precedents or determine which issues should be considered when designing policy in these areas. Accordingly, the first section of this resource guide provides trustees with an introduction to each practice, recommendations on how to enhance trustee oversight, a list of issues to consider, questions to ask themselves and their investment advisors, and suggested model wording for the SIPP. The second part briefly reviews some of the key process issues that pension trustees may encounter when implementing these practices. In addition, there are a number of appendices included with sample SIPPs, a fiduciary checklist for trustees, and questions related to these practices for trustees to pose during the selection and review of investment managers.

This resource guide is the result of extensive research and consultations with pension trustees and investment professionals. During the spring and summer of 2001, samples of existing SIPPs were compiled from across Canada and the United States, and interviews were conducted with individuals involved in all facets of pension investment, including pension trustees, investment managers and other professional advisors. The document went through several drafts, each reviewed by a committee of pension trustees, union pension staff, investment managers, pension consultants, and pension lawyers from across Canada (see list of reviewers under “Acknowledgements”). The views expressed in this resource guide are attributable solely to SHARE and do not necessarily reflect the views of the reviewers or others consulted during the document’s preparation.

The resource guide is intended to provide general information only and does not constitute legal advice or a legal opinion. Nor does it constitute investment advice and should not be taken as an endorsement or recommendation of any particular company or individual. Trustees should consult legal counsel and investment professionals for assistance with the development, implementation and review of their individual plan SIPP.

Incorporating Active Trustee Oversight into the SIPP

In designing a SIPP, pension trustees must always be mindful of their fiduciary duties to plan members and beneficiaries. Fiduciary duties are reviewed extensively elsewhere. (Yaron, 2001) In principle, shareholder activism, proxy voting, investment screening, and economically targeted investing are all permitted, provided they are authorized in the SIPP, and conducted in a prudent manner and impartial manner in the best interests of plan members (see fiduciary checklist for pension trustees under Appendix B). Explicit reference to these practices in the SIPP also communicates the plan's objectives and investment strategy to trustees and investment professionals to ensure proper execution of and compliance with the SIPP, and educates plan members about what the plan is doing to protect their interests. More information about pension trustee fiduciary duties and these investment practices is available in a paper entitled *The Responsible Pension Trustee*, available at <www.share.ca>.

A SIPP should have *breadth, depth* and *clarity*. (Greifer, 2001) Investment policies should be comprehensive and provide sufficient detailed guidance to trustees, plan staff and agents. The document should also communicate clearly and concisely the pension plan's investment strategy and objectives to that those responsible for its execution can understand it and implement it. Balancing the need for a clear and succinct policy against the need for sufficient detail (i.e. *depth*) can be achieved by developing separate procedures (e.g. investment manager mandates) and incorporating them by reference into the SIPP.

The California Public Employees Retirement System (CalPERS), the largest public sector pension plan in the United States, incorporates shareholder activism, proxy voting on issues of corporate governance and social responsibility, investment screening based on the International Labour Organization's (ILO) "Declaration on Fundamental Principles and Rights at Work," and economically targeted investing into its SIPP and related investment policies (see Appendix E).

SIPPs are plan-specific. Each pension plan is unique. Consequently, it is impossible to develop model wording that addresses the needs and issues of all plans. Although this resource guide provides model wording for trustees to consider, trustees must develop wording that reflects the particular administrative and financial circumstances of their plan, including:

- plan liabilities;
- risk tolerance;
- administrative resources;
- whether investment is managed in-house or externally; and
- time, financial resources and expertise of trustees and advisors to implement and monitor these practices.

Shareholder Activism

One way for pension plans to protect their investments is to engage the corporations in which they invest through shareholder activism to ensure their performance is meeting the best interests of plan members. The objective in all cases is to address issues of concern to investors, including corporate governance, corporate responsibility and other measures to improve long-term corporate performance.

“[The] dramatic growth in institutional investments has been accompanied by a steady increase in the involvement of these institutions in corporate issues. A decade ago, institutional activism in Canada was almost unheard of. Institutional investors who were unhappy with corporate management or the direction of a particular company would simply “vote with their feet” by selling their shares. Today, institutions no longer automatically follow this path; they possess considerable proxy voting power and may quietly or openly seek the changes in a corporation which they believe should be implemented.”

-- Report of the Standing Senate Committee on Banking, Trade and Commerce, *The Governance Practices of Institutional Investors* (November 1998)

Shareholder activism encompasses a wide range of activities aimed at improving long-term shareholder value, including engaging corporate management through letters and face-to-face meetings, drafting and filing shareholder proposals, and supporting other proposals at corporate annual general meetings. Shareholder activists generally take an incremental approach beginning with writing letters raising their concerns and followed by meetings with management. If the issue cannot be resolved satisfactorily through discussion and negotiation, shareholders may file a resolution with the corporation, which is circulated to all shareholders for consideration at the corporation’s next annual general meeting of shareholders. For pension funds, the trustees or their investment managers may undertake these activities.

Shareholder activism is part of prudent trusteeship and practiced by institutional investors in Canada and around the world. In Canada, the Kirby Report of the Senate Standing Committee on Banking, Trade and Commerce has documented the considerable evidence of shareholder activism by pension plans and investment managers in the country (see sidebar). (Canada, 1998) In 2002, more than 50 shareholder proposals submitted by pension funds, religious organizations and other institutional investors were on the ballots of approximately 30 Canadian corporations. (SHARE, 2002) More than 227 shareholder proposals addressing social and environmental issues were submitted to more than 150 American companies by American investors in the same year.

(ICCR, 2002) By engaging corporations through dialogue, filing proposals, and initiating litigation in extreme cases, Canadian pension plans have taken an active approach on many issues related to corporate governance and adverse social and environmental practices of corporations. Examples include the dilutionary effect of stock option plans, auditor independence, the use of unacceptable labour practices by major retailers and their suppliers, and the environmental impacts of extraction industries.

In the United States, the Department of Labour, responsible for overseeing American pension plans and administration of the *Employee Retirement Income Security Act (ERISA)*, has provided guidance on this issue stating that pension funds can, consistent with ERISA and a plan’s SIPP, take an active role in the governance of a corporation:

“An investment policy that contemplates activities intended to monitor or influence the management of corporations in which the plan owns stock is consistent with a fiduciary’s obligations under ERISA where the responsible fiduciary concludes that there is a reasonable expectation that such monitoring or communication with management, by the plan alone or together with other shareholders, is likely to enhance the value of the plan’s investment in the corporation, after taking into account the costs involved.” (Department of Labor, 2001)

Such statements made by American regulators are not law in Canada, however they do provide some guidance in interpreting pension trustee fiduciary duties in Canada. The Myners Review on Institutional Investment in England also recommended “the American ERISA principles on shareholder activism should be incorporated into UK law, making intervention in companies, where it is in the shareholders’ and beneficiaries’ interests, a duty.” (Myners, 2001; HM Treasury, 2001) The British government has indicated that it intends to legislate such a requirement for both fund managers and trustees. (HM Treasury, 2001)

The ability of pension funds to engage in shareholder activism has also become easier because of changes to the law governing shareholder proposals. (CBCA; Yaron, 2002) In the case of federally-incorporated corporations, both registered and beneficial shareholders may file shareholder proposals. Corporations may no longer refuse to circulate a proposal to shareholders if they deem the proposal to be “primarily for the purpose of promoting general economic, political, racial, religious, social or similar causes.” Now corporations must circulate a shareholder proposal as long as it “relates in a significant way to the business or affairs of the corporation.” And shareholders are now permitted to communicate with each other about shareholder proposals as long as they do not solicit proxies.

In all cases, the objective of shareholder activism must be to enhance long-term corporate performance and the interests of plan members. Recent studies suggest that shareholder activism addressing corporate governance issues have had a positive impact on corporate performance and shareholder returns. (Wiltshire Associates, 1995; Opler & Sokobin, 1995; Hawley and Williams, 2000, p.123)

Pension plans take many approaches to incorporating active trustee oversight into shareholder activism. Some plans choose to incorporate authorization for shareholder activism in a general SIPP provision committing them to encouraging responsible corporate practices. For example, The B.C. Public Service Pension Plan SIPP contains a “social/ethical policy” which incorporates discussion of shareholder activism, proxy voting and ethical performance criteria (see Appendix C). Some plans address the issue of shareholder activism in their proxy voting guidelines. For example, OMERS Proxy Voting Guidelines include a section entitled “OMERS Approach to Communicating Governance Concerns” (see Appendix C). A third approach is to provide a discrete provision in the SIPP to address shareholder activism.

SIPPs also vary in the extent of information provided about how to implement a shareholder activism strategy. The SIPP should indicate that the objective of shareholder activism is to improve long-term corporate performance and to further the interests of plan members. Most plans that address shareholder activism provide a general statement that they will engage corporations on issues through corporate dialogue, and where necessary, filing shareholder proposals. It should also state who is authorized to participate in shareholder activism on behalf of the plan (i.e. trustees, investment managers, custodian, and/or a proxy voting service). These measures provide some protection to trustees against possible liability and also give clear direction to investment managers and information to plan members about the plan’s investment strategy.

Like proxy voting guidelines, SIPPs also differ in the criteria they apply in choosing which issues to address through shareholder activism. In some cases, pension plans use the same criteria specified in their proxy voting guidelines. Some smaller plans that do not have proxy voting guidelines in place make decisions on a case-by-case basis using information and analysis provided by larger plans and independent advisors.

Recommendation

Pension plans engaging in shareholder activism should include a separate provision in the SIPP that outlines a systematic approach for engaging corporations. Such a provision demonstrates an appreciation of the importance of shareholder activism to investment performance, and provides a degree of protection to plan representatives and trustees engaging corporations. If shareholder activism is included in the proxy voting guidelines, the guidelines should be incorporated by reference into the SIPP to ensure they are part of the plan's overall investment policy.

The shareholder activism provision in a SIPP should detail:

- Authorization for trustees, plan staff, investment managers or consultants to engage corporations and specify approaches to be used.
- The fiduciary duty of trustees to act in the long-term best interests of plan beneficiaries, with specific reference to the importance of engaging corporations in order to minimize investment risk.
- Responsibilities for coordinating and implementing the plan's shareholder activism strategy.
- Subject to any legal restrictions, authorization to cooperate with other shareholders in developing and supporting shareholder resolutions.
- The criteria used to determine whether or not to engage a corporation (often reference is made to the plan's proxy voting guidelines).

Key questions for trustees in developing a shareholder activism provision in the SIPP

- What are the particular governance, social and/or environmental concerns about which the plan will be active?
- What will be the extent of the plan's shareholder activism activities?
- Who will coordinate the plan's shareholder activism activities?
- Who will be responsible for representing the plan in discussions with corporations?
- Will the plan be allowed to cooperate with other organizations and institutional investors on shareholder actions?
- What will be the process for trustees to approve a shareholder resolution if required?
- What process will be used to determine the interests of plan members with regards to specific proposals?
- How will the plan assess the long-term costs and benefits to plan members associated with carrying out a shareholder action strategy?

Suggested Model Wording for Shareholder Activism Provision

The Board of Trustees, and investment managers where so delegated, are authorized to engage management of corporations in which the Plan invests to ensure corporate performance supports the long-term best interests of plan beneficiaries. Engagement may take the form of letter writing, meetings with company representatives, and where necessary, filing shareholder proposals with companies.

In all instances, such action will be taken to ensure optimal financial performance of investments, to manage risk, and to secure a sustainable economic, social and environmental framework over the long-term. The decision to engage a particular company or group of companies will be guided by the desire to achieve superior investment performance through improvements in the areas of corporate governance, social and environmental practices including, but not limited to, those practices addressed in the plan's proxy voting guidelines, thereby satisfying the long-term best interests of plan members.

All shareholder activity will be carried out by the Plan's [administrator, staff, investment managers] in consultation with the [Board of Trustees, Investment Committee]. In order to maximize efficiencies and results, the Plan may cooperate with other shareholders or organizations in this area.

Proxy Voting

Proxies are the voting rights attached to shares that a pension fund owns in a corporation. The voting of proxies gives shareholders the opportunity to participate in the governance of the corporation by voting on shareholder and management proposals in order to enhance shareholder value. Recent American studies suggest that proxy activities targeted at underperforming firms can lead to significant improvements in shareholder value. (Hawley & Williams, 2000)

The most common items of business that shareholders vote on at a corporation's annual general meeting are the election of the corporation's board of directors and the appointment of the auditor. Shareholders are also sometimes asked to approve other items of business proposed by corporate management or to vote on proposals brought forward by shareholders. Some examples of issues include executive compensation, auditor independence, shareholder rights plans, and reporting on compliance with international labour and environmental standards.

Pension trustees have a fiduciary duty to oversee the voting of all proxies in the best interest of plan members. Furthermore, federal and provincial pension regulations require that the SIPP account for the retention or delegation of the voting rights attached to investments.³ The OSFI Guidelines affirm that proxies are valuable plan assets, must be delegated or retained, and voted in the best interests of plan members:

³ See for example *Pension Benefits Standards Regulations 1985*, SOR/87-19, s.7.1(1)(f); *Pension Benefits Regulations*, R.R.O 1990, Reg. 909, amended to Reg. 680/00, s.78(2).

“Plan administrators should not ignore the value of voting rights acquired through plan investments. Shareholder votes are often most valuable when used in alliance with others. Failure to describe in the investment policy how these rights will be used leaves plan administrators open to charges of either negligence or arbitrary action, possibly in violation of the standard of care requirement. Investment policies should describe and require the use of voting rights, whether directly or through proxy.

If the power to vote proxies is delegated to investment managers, proxies should be bound by rules established in the investment policy. The administrator should receive a report showing how proxies were voted, and affirming compliance with the administrator’s proxy voting policy.” (OSFI, 2000, endnote 4, Appendix I, section I.6.6)

Accordingly, trustees have a responsibility to provide directions in the SIPP and oversee the following four stages of voting proxies:

- (1) Establishing guidelines
- (2) Assessing issues
- (3) Voting proxies
- (4) Monitoring results

1. Establishing Guidelines

In the first stage, trustees are responsible for overseeing the development of *proxy voting guidelines* that provide direction on how proxies are to be voted. This involves defining criteria used to determine how to vote on issues relating to the governance, business affairs, and social and environmental practices of corporations. As with the SIPP, it is important that proxy voting guidelines are clear, and have sufficient scope and depth to allow them to be executed accurately and efficiently. (Greifer, 2001) Trustees should also obtain expert advice on corporate governance and corporate social responsibility and then consult with the plan investment managers for plan implementation.

Trustees may also elect to have proxies voted in accordance with guidelines created by an investment manager or proxy voting service, however trustees should review the guidelines to ensure they reflect the interests of plan members. SHARE has developed an extensive set of generic proxy voting guidelines that pension trustees may consider when developing guidelines for their plan. In some cases, trustees elect to include authorization for shareholder activism as part of the SIPP provision dealing with proxy voting.

Proxy voting criteria are usually spelled out in a plan’s proxy voting guidelines. Proxy voting guidelines can be included as part of the SIPP (in the text or as an appendix), but are more often contained in a separate document. In the later case, proxy voting guidelines should be incorporated by reference in the SIPP as part of the plan’s investment policy.

2. Assessing issues

Most issues will be covered in a plan’s proxy voting guidelines. However guidelines are not comprehensive. Where the guidelines provide no guidance on how to vote on a particular issue, the SIPP

should provide a process for assessing the issue, including consulting with the trustees or the body of trustees responsible (e.g. the investment committee or proxy voting committee if such exists).

In some instances, plans do not develop guidelines, but rather refer shareholder proposals to a designated body (e.g. the Board, committee or an individual) to decide how the proxy will be voted (see Appendix D). If such a procedure is followed by a plan, it should be laid out in the plan SIPP.

3. Voting proxies

Proxies can be voted by the plan's investment manager, a proxy voting service, the plan administrator, the Investment Committee, the Board of Trustees, plan custodians, or any combination of the above. The voting of proxies may be retained by the trustees or delegated any other party mentioned above. In practice, except for large pension plans (e.g. Ontario Teachers' Pension Plan), the physical exercise of voting proxies is usually delegated to investment managers or a proxy voting service. In such instances, the SIPP should include the right of trustees to vote proxies directly where the trustees deem it necessary to do so (see Appendix D).

Where investment managers are responsible for voting proxies for the plan, some SIPPs require that the Board of Trustees or Investment Committee be notified in advance of an intention to vote against a management proposal or an "unusual item" (see Appendix D).

With respect to pooled funds, pension plans generally cannot direct the voting of proxies. However larger pension plans may be able to negotiate an arrangement that allows the voting of an amount of the pooled fund's proxies proportionate to the plan's stake in the fund. Plans that are unable to make such an arrangement should advise their investment managers of their voting preferences and request a report on how the pooled fund's shares are voted.

Finally, SIPPs should include a provision addressing conflicting interests between managers and particular investments. Where a manager voting proxies has a direct or indirect material interest in any matter in which the manager exercises a right to vote on behalf of the plan, the SIPP should require the matter to be referred to the plan administrator (see Statement of Investment Policies and Goals of the Steelworkers Members' Pension Benefit Plan (June 5, 2000) in Appendix D).

4. Monitoring results

In practice, trustees are often not aware if or how plan proxies have been voted. This is troubling in light of a recent survey conducted by SHARE (2001b) that demonstrated significant differences in how investment managers voted proxies under their discretion (i.e. where trustees had not directed their investment manager on how to vote the proxies). Without regular monitoring, trustees cannot be sure that proxies are being voted in accordance with the best interests of their plan members. One study has indicated that in the absence of proxy voting guidelines, proxies are often voted according to corporate management's recommendations, which do not necessarily reflect the interests of plan members. (Zanglein, 1998, p.51-52)

The SIPP should require that the party responsible for voting proxies keep records and report to the board of trustees (or investment committee) on a regular basis and that trustees must monitor the voting

of proxies by reviewing proxy voting reports received from their investment manager(s) (see Appendix D). OSFI Guidelines recommend “the administrator should receive a report showing how proxies were voted, and affirming compliance with the administrator’s proxy voting policy.” (OSFI, 2000, endnote 4, Appendix I, page I.11) This report should be received on a quarterly basis. Any deviations in voting, including votes not in accordance with proxy voting guidelines and on unusual items, should be noted in the report from the investment manager or proxy voting service and discussed with the trustees. If reports are not clear or require explanation, trustees should seek clarification from their investment manager(s) or proxy voting service. Failure to monitor voting practices could constitute a breach of trustees’ duties to plan members. (OSFI, 2000, endnote 4, Appendix I, section I.6.6)

Recommendation

SIPPs should contain, at a minimum, provisions detailing:

- What proxy voting guidelines, if any, will be followed when voting proxies.
- Who is responsible for developing proxy voting guidelines, and reviewing and voting proxies.
- What procedure should be followed where guidelines do not provide voting direction on a particular issue.
- That those responsible for voting proxies adhere to the guidelines.
- That trustees retain the right to vote proxies themselves on a case-by-case basis at their discretion.
- That complete and accurate voting records be maintained.
- That proxy voting reports be provided to all trustees on a regular (quarterly) basis.
- That where the agent authorized by the trustees to vote plan proxies has a conflict of interest with regard to a particular vote, the agent will notify the trustees and seek direction.

Key questions for trustees in developing a SIPP

- Who is has been assigned to develop proxy voting guidelines?
- What process exists to consult plan members about the proxy voting guidelines?
- How often are guidelines reviewed?
- In the absence of guidelines or where guidelines don’t cover the issue in question, who decides how to vote proxies and based on what criteria?
- Who is responsible and best situated to vote proxies in the long-term best interests of plan members?
- Does the SIPP require that proxies be voted in accordance with proxy voting guidelines?
- Do the trustees have the discretion to vote or direct the voting of proxies themselves?
- Does the SIPP require regular (quarterly) proxy voting reports to the board of trustees?
- Does the SIPP include a compliance check for proxy voting? Does the SIPP require proxy voting reports to detail when proxies are not voted in accordance with proxy voting guidelines?

Suggested Model Wording for Proxy Voting Provision

Proxy voting is a fiduciary duty and an integral component of the investment process. Proxy votes are valuable plan assets and federal guidelines recommend that the authority to vote proxies be delegated or retained, and voted in the best interests of plan members.

The Board of Trustees shall be responsible for developing proxy voting criteria and approving proxy voting guidelines. The Board of Trustees shall review these guidelines on an annual basis and reserves the right to provide additional proxy voting direction to its investment managers and/or proxy voting service at any time.

[Investment managers/proxy voting service] shall be responsible for the timely voting of all proxies consistent with the proxy voting guidelines, or in the absence of guidelines on a particular issue, in the best interests of plan members. [Investment managers/proxy voting service] are prohibited from abstaining from voting proxies unless so directed by the trustees. Where the guidelines do not address a proxy issue, the [investment manager/proxy voting service] shall consult with the [Board of Trustees/Investment Committee/ other designated body] to determine how to vote on that issue. The final decision for such proxies will be based upon the merits of each case in accordance with the best interests of plan members.

The Board of Trustees reserves the right to direct or override the voting decisions of the investment manager/proxy voting service if it believes such action is in the best interest of the plan members.

The Board of Trustees reserves the right to exercise the voting of proxies directly in specific situations.

Investment Managers/proxy voting service shall maintain complete and accurate voting records indicating how shares were voted and the reasons for any deviations from voting instructions outlined in the proxy voting guidelines. The Trustees will have access to these records.

Investment managers/proxy voting service shall provide a proxy voting report to the Board of Trustees within 30 days from the end of each quarter, except where an extension is obtained in writing from the plan administrator. The report shall allow trustees to determine how all proxies were voted, outline changes in proxy voting policies adopted by the Board of Trustees over the past quarter, and any instances where proxies were not voted in accordance with the plan's proxy voting guidelines or the best interests of plan members.

Investment Screening

Investment screening is the process of applying financial or non-financial criteria to the selection of investments (see side box “What is investment screening?”). The Social Investment Organization estimates that social or environmental screens are applied to approximately \$40 billion of pension assets in Canada. (SIO, 2000)

Where a plan elects to use investment screens, trustees are responsible for developing social and environmental criteria used to establish the screens. Trustees have the option of developing a set of custom screening criteria that are applied to all or a portion of the plan’s segregated portfolio. Alternatively, pension plans may invest in screened pooled funds. Such funds apply a set of generally accepted screens to a recognized index of companies. In either case, criteria should be measurable and applied equally to all companies under consideration. Examples of measurable criteria include general principles detailed in international agreements such as the Universal Declaration of Human Rights and the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work.

The application of investment screens is compatible with the fiduciary duties of trustees provided they are applied in a prudent and impartial manner, authorized in the SIPP, and communicated to plan members. (Yaron, 2001) While the exact legal interpretation of the duties of trustees in this area remains unclear in Canada, other countries, including Britain, Germany and Australia, have adopted pension regulations that acknowledge investment screening as an acceptable pension investment practice.⁴

What is investment screening?

Investment screening is a process whereby positive or negative criteria are identified for selecting or rejecting investments. Exclusionary screens prohibit investments in certain enterprises such as the production or sale of alcohol, tobacco or military arms, or the use of poor labour practices.

Qualitative screens, including positive screening and the “best-of-class” approach, recognize that corporations that adopt economic, social and environmental policies tend to perform better over the long-term. Positive screening encourages investment in companies that meet certain social or environmental standards (e.g. the International Labour Organization’s *Declaration of Fundamental Principles and Rights at Work*) or engage in environmentally sustainable practices.

The “best-of-class” approach evaluates companies against standards of best practice in their particular industry. For example, an environmental screen would grade within the mining industry for the best company within that sector. This allows investors to invest in all sectors of the economy and keep their investment portfolio adequately diversified. Both qualitative approaches encourage companies to improve their performance in a specific area to meet the benchmark for inclusion in the group of sector companies that are included in plan portfolios.

⁴ For Britain’s regulation see *The Occupational Pension Schemes (Investment, and Assignment, Forfeiture, Bankruptcy etc.) Amendment Regulations 1999*, S.I. 1999, No. 1849 (29 June 1999). This is especially significant because the regulations contradict the earlier 1984 British case of *Cowan v. Scargill*, which has been interpreted in Canada to severely limit application of social and environmental screens. The Financial Services Commission of Ontario issued a memorandum in February 1993 stating that the application of investment screens is not imprudent provided that it is permitted by the plan’s SIPP and communicated to plan beneficiaries. This statement has since been rendered “obsolete” with the Province’s adoption of the federal investment guidelines for pension plans under Schedule III of the *Pension Benefits Standards Act*, although the opinion has not been contradicted.

As with proxy voting, the SIPP should contain a requirement that trustees review screening criteria and their impact on investment performance on a regular basis. The SIPP should also include an escape clause to allow trustees to deviate where application of the screening criteria are not in the best interests of plan members (see section on escape clauses below). SIPPs should also clearly state that the plan portfolio must maintain adequate diversification, reasonable returns across the entire portfolio that satisfy the plan's financial objectives.

Qualitative Screens

The OPSEU Staff Pension Plan applies a qualitative labour screen of approximately 25 criteria to Canadian companies developed in part by surveying members support to ensure they reflect the interests of plan beneficiaries. Variables that are considered include the level of unionization, labour practices, diversity issues and community relations.

Companies in the TSE 300 are reviewed periodically and are given positive or negative points based on the criteria. This review produces a list of ineligible and borderline companies. The list is then reviewed by the Board of Trustees to determine whether they should be placed on the list of ineligible companies. Once a company is determined to be ineligible, it is sent a letter, with copies to any unions representing workers at the company, advising that it has been placed on an ineligible list pending receipt of new information. The SIPP authorizes this process in the following simple manner:

"Investments in Canadian and non-Canadian equities will be made in compliance with ethical criteria, as established periodically by the Board and communicated to the Manager. Equities issued by corporations which do not satisfy the minimum standards adopted by the Board will be ineligible for inclusion in the Fund."

Pension trustees may take a variety of approaches to authorizing investment screening in the SIPP. In some cases, general provisions are included permitting the trustees to take financial and non-financial considerations in account when making investment-related decisions (see Appendix E). These general provisions allow trustees to look at issues on a case-by-case basis rather than providing specific screening criteria. This type of general authority can be helpful where trustees do not feel comfortable screening out an entire sector or all companies engaged in a specific activity. However, experience has demonstrated that such provisions sometimes do not provide sufficient direction to plan administrators and investment managers, resulting in confusion that requires later intervention and clarification by plan trustees.

Pension plans that apply screening criteria should specify them in the SIPP or in an accompanying document that is incorporated into the SIPP. In many cases, SIPPs include investment screens for entire sectors such as tobacco and nuclear production (see Appendix E). Such absolute screens are easily interpreted by investment managers and plan members, however trustees must be very cautious about their impact on portfolio diversification and investment risk.

Alternatively, SIPPs may apply a set of qualitative screens or refer to a set of qualitative screens to be applied to investments (see side bar discussion of "qualitative screens").

Regardless which approach(es) is(are) taken, trustees have a duty to ensure that the plan's portfolio remains adequately diversified, overall performance is not substantially diminished, and that acceptable levels of risk are maintained.

Recommendation

SIPPs should contain a provision authorizing trustees to develop, implement and review investment screens for all or part of the plan's investment portfolio. The investment screening provision in a SIPP should detail:

- Which types of screens and specific screening criteria will be applied.
- How often the board of trustees will review the screens.
- How to address cumulative effects of multiple screens.
- How and to what extent plan members will be consulted about screening criteria.
- That professional advice will be obtained when developing and evaluating screening criteria.
- What benchmarks and procedures will be applied in testing performance.
- How trustees can deviate from investment screens where it is deemed to be in the best interests of plan members.

Key Questions for Trustees to Consider

- What process will the plan use to choose screening criteria?
- How will plan members be consulted about the criteria?
- What types of screens are most appropriate for the plan?
- Do the screening criteria chosen allow for maintaining adequate diversification and return targets?
- What outside assistance (e.g. corporate research firms, investment professionals) will be obtained in the design and implementation of the screen(s)?
- Will the SIPP include a general statement authorizing the use of investment screens or list specific screens?
- If the SIPP only includes a general authorizing statement, where will the specific screening criteria be detailed?
- To what portion of the plan's portfolio will the screens be applied?
- What benchmarks will be used to assess the performance of screened investments?
- How often will the screen(s) be reviewed?
- Does the SIPP permit trustees to deviate from the screening criteria?
- What are the costs and benefits associated with the application of the criteria to the extent that they may be predetermined?

Suggested Model Wording for Investment Screening Provision

The application of investment screens is permissible provided it is done in a prudent manner and in the best interests of plan members.

Investments will be made in compliance with financial, corporate governance, social and environmental criteria established periodically by the Board of Trustees in accordance with prudent investment practices. Trustees shall consult with the appropriate investment professionals in the development and application of screening criteria to ensure that acceptable levels of diversification, returns and risk are maintained, and that the screening criteria do not negatively impact the rate of return. Trustees will also consult with plan members to identify the interests of plan members.

Performance of screened investments should be, where possible, measured against equivalent non-screened benchmarks for the particular investment class to ensure that long-term performance is comparable to non-screened investments.

The Board of Trustees shall review the screening criteria and the plan's objectives annually to ensure that they represent the best interests of plan members.

The Board of Trustees may, at its discretion, deviate from the use of any or all screens where it is deemed that their application would have an undue effect on plan diversification or the performance of the portfolio as a whole.

Economically Targeted Investment⁵

Economically targeted investment (ETI) involves "pension asset allocations [that] obtain both market-grade returns and economic or social benefits by addressing perceived financing gaps and under-investment." (Falconer, 1999; CalPERS, 2000) The intention of such investments is to support job creation and community development along with obtaining a reasonable rate of return for the pension fund through investments in such ventures as mortgage trusts, affordable housing, commercial building, regional development, small business, emerging technology sectors, real estate and local community investment. (Carmichael, 2000, p.161-162)

There is a relatively higher degree of risk associated with ETIs and trustees must keep in mind their fiduciary duties, particularly conflicts of interest, when considering such investments. Canadian pension regulators have not provided any instruction about the legality of ETIs. However, the U.S. Department of Labor issued an official definition of ETI in the 1990s clarifying that investments can be made with the intent of providing collateral economic benefits provided the "investment has a risk-adjusted, market-grade return that is equal or superior to a comparable investment of comparable risk and otherwise supports a plan's fiduciary imperatives." (CLBC, 2001) In other words, returns on such investments must

⁵ For the purposes of this paper, ETI includes investments in small businesses, emerging technology sectors, housing and real estate, and local economic development and community economic development.

be commensurate with similar types of investments with similar risk profiles. This approach appears to be consistent with the fiduciary duties of Canadian pension trustees.

The OSFI Guidelines suggest that ETIs are acceptable investments within a well-diversified portfolio. The OSFI Guidelines affirm that the prudent person portfolio approach, generally accepted by most institutional investors, “recognizes that risks that would be unsupportable for an individual investment may be suitable for a well-diversified portfolio.” (OSFI, 2000, p.2)

As stated, there is a relatively high degree of risk associated with such investments, especially given the limited access to private capital markets in Canada. In order to minimize such risks, funds generally pool assets allocated to ETI with those of other pension plans through an independently managed investment vehicle. Creative organizational strategies have been developed in other countries to overcome perceived barriers associated with ETI including long-term loans, mezzanine financing and other varieties of debt and quasi-debt financing. (Falconer, 1999; CLBC, 2001) Trustees should also be wary of investment proposals that are presented to them as ETIs, but are not.

There are few examples of SIPPs in Canada that specifically include a provision dealing with ETI. One example is the Pension Plan for Employees of the Public Service Alliance of Canada, which recently decided to allocate a specific sum for debt instruments (e.g. mortgages) to support more affordable housing in Ottawa and Outaouais. The practice is more common in the United States where access to private capital markets and the number of investment products available to institutional investors is greater. For example, CalPERS has developed a separate investment policy specifically for ETIs. The Statement of Investment Policy for Economically Targeted Investment Program defines ETI and sets out CalPERS’ strategic objectives regarding ETI (see sidebar and Appendix F for a copy of the entire policy and samples of other ETI provisions). (CalPERS, 2000)

CalPER’s ETI Policy

The California Public Employees’ Retirement System’s (CalPER’s) ETI investment policy defines ETI as “an investment which has collateral intent to assist in the improvement of both national and regional economies, and the economic well-being of the State of California, its localities and residents. Economic stimulation includes job creation, development, and savings’ business creation’ increases or improvement in the stock of affordable housing; and improvement of the infrastructure.” (California Public Employees’ Retirement System Statement of Investment Policy for Economically Targeted Investment Program (February 14, 2000). See Appendix J.

Recommendation

Where pension trustees decide to consider ETIs as part of the pension plan’s investment strategy, the SIPP should:

- Indicate the types of investments of interest to plan members. The SIPP may provide general authority for trustees to invest in ETIs or specific authorization for each type of investment, such as venture capital, private placements, mortgages, and real estate.
- Detail the percentage of assets to be allocated to such investments and the plans overall risk/return profile.

- Authorize such investments in the context of a prudent investment strategy that conforms to the terms of the SIPP, maintains adequate diversification and a reasonable rate of return within accepted levels of risk.
- Include a provision restating the fiduciary duties of trustees, including reference to avoiding conflicts of interest.
- Require investment decisions to be made by the board of trustees or representative committee on a case-by-case basis given the wide variety of ETIs.
- Specify the approvals required in order to make such investments.
- Require trustees to obtain expert legal and investment advice in considering ETIs.
- Provide a mechanism for independent arms-length valuation of such investments. Federal pension regulations require that SIPPs outline “the method of, and basis for, the valuation of investments that are not regularly traded at a public exchange”. (PBSA, 1985, s.7.1(1)(g))
- Assess performance of such investments against comparative benchmarks where available.
- Indicate the degree to which beneficiaries should be consulted regarding such investments.

Key Questions for Trustees to Consider

- What ETI options exist amongst the plan’s authorized investments?
- What types of investments will be authorized?
- How much of the plan’s assets will be invested in ETIs? Does the SIPP require ETIs to meet comparative risk-adjusted rates of return and plan asset allocation targets?
- Does the SIPP authorize investment in ETIs and include a requirement that ETIs be made consistent with the fiduciary duties of trustees?
- How will potential conflicts of interests be addressed?
- What process will be used in selecting and reviewing ETIs? What approvals are required before investing in an ETI?
- How will such investments be valued?
- How will such investments be assessed and monitored in relation to other plan investments? What benchmark will be used to assess performance?
- How and to what extent will plan members be consulted in the selection of kinds of investments?
- What intermediary investment vehicles (e.g. pooled funds) are available?
- What are the administrative costs associated with such investments?
- What weight, if any, will be given to collateral benefits?

Suggested Model Wording for Economically Targeted Investment Provision:

The Board of Trustees is authorized to consider investments that assist in the growth and well-being of the nation, the Province and its localities on condition that such investments provide competitive risk-adjusted rates of return and are consistent with the Board's fiduciary obligations and approved investment policies and guidelines. The emphasis will be on the promotion of long-term sustainable economic, industrial and business growth, job creation and affordable housing.

The Board of Trustees will follow plan policies and procedures to assess such investments and to ensure they are made in a prudent manner and in the best interests of plan members. Trustees shall consult with the appropriate investment professionals in the selection of such investments to ensure that acceptable levels of diversification, returns and risk are maintained, and that the screening criteria do not negatively impact the rate of return.

It is recognized that investments made for the sole benefit of the Plan's beneficiaries may also generate collateral benefits. However, the interests of plan members must always be the primary concern of the Board of Trustees.

All such investments must comply with pertinent federal or provincial pension investment guidelines, the plan's asset allocation guidelines and overall risk/return profile for investments. ETIs shall be priced at market prices and shall be subject to the applicable performance measurements for like investments.

The Board of Trustees shall consult with investment advisors and plan beneficiaries when considering ETIs to ensure they are being made in the best interests of plan members and consistent with the plan's investment objectives.

Selection and Review of Investment Managers

Most SIPP's include provisions for the review of investment managers. Guidelines for selection of investment managers are usually detailed in a separate policy, which should be incorporated by reference into the SIPP along with other documents pertaining to investment managers, such as investment manager mandates. OSFI Guidelines recommend that a SIPP "document how investment managers will be chosen, compensated and replaced in a manner that encourages compliance to the policy's goals and procedures". (OSFI, 2000, p.2)

Trustee involvement in the selection and evaluation of investment managers is essential and should be articulated in the SIPP. In the context of jointly trustee pension plans, if responsibility for selecting and evaluating managers is left to an investment committee, the committee should have representation from both the union and management appointed trustees. In all cases, the SIPP should require that the board of trustees as a whole have the final say on the selection and review of investment managers. A suggested list of questions for trustees to ask during selection and review of investment managers is included in Appendix H.

Investment managers are responsible for executing the investment objectives detailed in the SIPP on a day-to-day basis. Clear performance criteria in the SIPP, including requirements regarding shareholder activism, proxy voting, investment screening and ETI where applicable, will promote greater compliance by investment managers, and assists trustees in reviewing their performance. Trustees should actively participate in discussions with investment managers to ensure they understand the various practices, support their use and are capable of implementing them.

Recommendation

The SIPP and/or related investment documents should provide a clear set of criteria and process for selecting and reviewing investment managers. Instructions and targets should be detailed, including reference to shareholder activism, proxy voting, investment screens, and economically targeted investments where desired.

SIPPs should include, at a minimum, the following elements regarding investment managers:

- A general provision on the selection of managers that points to a separate policy for manager selection.
- A compliance report on a semi-annual or annual basis.
- A requirement to report on investment performance on a quarterly basis, including risk and return.
- A general provision mandating the annual review of manager performance to determine compliance with SIPP objectives. This general provision should also refer to a separate policy outlining the evaluation process and criteria.
- A requirement that investment managers meet with the trustees or the plan's investment committee at least semi-annually to discuss investment strategy and past performance.
- A termination provision (in some cases included in the service contract instead).

Key Questions for Trustees to Consider

- Do provisions in the SIPP regarding the selection and review of investment managers include consideration of their ability to support shareholder activism, proxy voting, investment screening and economically targeted investing?
- Should the SIPP detail guidelines for selecting and evaluating investment managers, or refer to separate guidelines?
- Does the SIPP support active involvement by all trustees in the selection and evaluation of investment managers?
- Does the SIPP include clear criteria for evaluating investment manager performance include clear, measurable targets in the areas of shareholder activism, proxy voting, investment screening and ETI or refer to another document which addresses these practices?
- Are investment managers required to provide quarterly performance reports?
- Does the SIPP require investment managers to meet with the body responsible for direct oversight of investment policy (board of trustees or the investment committee) on a regular basis? Semi-annually? Annually?
- Are investment managers required to be evaluated on an annual basis?

Model Wording for Selection and Review of Investment Managers Provision

The Plan may utilize investment managers to implement its investment programs. Each manager shall operate under a set of guidelines specific to the strategic role its portfolio fulfills in the overall investment structure and any other applicable investment related policies. Compliance with these guidelines is mandatory.

Selection

The [Board of Trustees/Investment Committee] is responsible for overseeing the process of selecting investment managers. In all cases, the Board of Trustees will have an opportunity to review recommendations and make the final decision in selecting managers. The criteria used for selecting an investment manager are set out in the Investment Manager Selection and Review Guidelines and will be consistent with the investment and risk philosophy set out in the Statement of Investment Policies and Procedures.

Monitoring

Trustees have an ongoing and constant obligation to monitor the plan's Investment Managers. In addition, the [Board of Trustees/Investment Committee] will meet with Investment Managers semi-annually but not less frequently than annually. Special attention will be paid to evaluating performance against mandatory guidelines and stated objectives.

Reporting

All Managers will provide quarterly performance reports using a standard reporting format specified by the Board. In addition, Managers are encouraged to provide their standard performance information in a different format in addition to the required report. It is anticipated that most Managers will meet with the [Board of Trustees/Investment Committee] semi-annually (but not less frequently than annually) to review past performance and discuss investment strategy and the economic outlook for the future. In addition, investment managers are required to report any significant changes or deviations from plan guidelines within five business days of occurrence.

Review

The [Board of Trustees/Investment Committee] will conduct an evaluation of each investment manager on an annual basis. The criteria used for reviewing investment managers are set out in the Investment Manager Selection and Review Guidelines and will be consistent with the investment and risk philosophy set out in the Statement of Investment Policies and Procedures. The Board of Trustees may have under contract a professional pension investment consultant qualified to provide the Board with investment advice. The investment consultant's relationship with the Board shall be fiduciary in nature.

Termination

The Trustees reserve the right to terminate the services of an investment manager at any time. Reasons for considering the termination of the services of an investment manager include, but are not limited to, the following factors:

- Performance results which are below the stated performance benchmarks;
- Changes in the overall structure of the Plan's assets such that the investment Manager's services are no longer required;
- Change in personnel, firm structure or investment philosophy which might adversely affect the potential return and/or risk level of the portfolio; and/or
- Failure to adhere to investment-related policies and guidelines.

Benchmarks

SIPPs specify the rate of return that is expected of the plan's investment portfolio in relation to a benchmark portfolio return for each asset class. The benchmark portfolio will be specified in the SIPP and generally consists of standard industry indexes such as the S&P 500 Index in the United States for equities, the Scotia Capital Markets Universe Bond Index for bonds, and the Russell Canada Property Total Return Index™ for real estate. Investment managers are usually assessed against a corresponding indexed benchmark that they must meet or outperform. The whole fund's performance may be measured against a mixture of benchmarks matching the fund's asset allocation.

There are also an increasing number of screened indexes that are gaining recognition as credible benchmarks. Indices such as the Jantzi Social Index (Canada), the Domini Social Index (US), the New York Sustainability Index (US), and FTSE4GOOD (UK) are all indexes that track a screened portfolio of investments.

In assessing the performance of a plan's screened portfolio, trustees must use care to use a screened index that is comparable to other standard indexes in its class and that contains a similar basket of investments to the plan's screened portfolio. It is advisable to track performance against both a screened and non-screened index where possible.

While a number of standard benchmark indexes exist for equities, bonds and real estate investment, benchmarks for economically targeted investments are rarer and depend on the type of investment and its respective sector. Currently, there is no universally recognized standard for financial performance of private capital market investments. (Falconer, 1999, pp.74-76) However, pension plans have adapted common bond and stock indexes to private benchmarking and more precise benchmarking and performance measurement methods for ETI are being considered. The important thing is that the benchmark chosen for a particular ETI should be relevant to the ETI investment itself.

Recommendation

Trustees must ensure that the SIPP uses relevant benchmarks as a basis for assessing investment and investment manager performance.

Key Questions for Trustees to Consider

- Does the SIPP identify appropriate benchmarks for evaluating screened and economically targeted investments?

Model Wording for Benchmark Provision

Given the wide variation in investment strategies, it is not possible to provide model wording for the use of benchmarks.

Escape clause

Trustees should always have the flexibility to deviate from investment policies and strategies in order to deal with changes brought about by market forces or plan requirements. Trustees have the ultimate fiduciary responsibility to ensure that investment decisions are made in the best interests of plan members, which may require different approaches where a policy is having an adverse affect on financial returns or is otherwise not in the best interests of plan beneficiaries. For example, trustees may need to deviate from a particular asset allocation strategy or the use of a particular screen where the policy significantly impacts the portfolio, or where the plan needs to generate short-term liquidity in order to handle unforeseen liabilities.

Decisions to deviate from plan policy must be made with appropriate knowledge and advice. This requires that SIPP's be reviewed at least annually to ensure that the investment policy continues to meet the objectives of the plan. Similarly, there should be procedures to regularly monitor investments and investment practices, and to assess the risk/return profile along with procedures for adjusting the portfolio if trustees are not comfortable with the risk profile. Investment manager mandates should also require them to notify trustees if the investment practice appears to be imprudent or restricts performance.

Recommendation

SIPP's should include a provision that permits the board of trustees to deviate from the plan's investment policies where such variation is in the best interests of plan members.

Model Wording for an Escape Clause

The Board of Trustees may direct an Investment Manager to deviate from the investment guidelines with respect to a portion of the Fund if they have determined it to be imprudent to continue to follow such guidelines. Such direction shall be given in writing.

The Board of Trustees shall reassess this policy at least annually. However, if at any time a manager feels that the objectives cannot be met, or that the guidelines or restrictions are imprudent, or that the policy restricts performance, the Board of Trustees should be notified in writing.

Process Issues

This section discusses a number of issues that commonly arise in the process of developing, implementing and reviewing investment policies. The focus, as in the previous section, is on process issues that trustees may encounter when considering investment practices such as shareholder activism, proxy voting, investment screening, and economically targeted investing.

Trustees have the responsibility to oversee the development, implementation and review of the SIPP. Accordingly, the process elements of the SIPP should provide for strong trustee involvement. The SIPP should detail the nature and degree of trustee involvement so that their role and the role of other parties is clearly understood by all those involved in managing plan investments.

Consultation with Plan Beneficiaries

Trustees have a fiduciary duty to invest plan assets in the best interests of plan members and with an even-hand towards all plan beneficiaries (For more information about trustee fiduciary duties and their application to shareholder activism, proxy voting, investment screening, and ETI, see Yaron, 2001.) In order to determine the best interests of plan members and to avoid allegations of trustee conflict of interest, trustees should consult with plan members. Consulting with members in establishing the parameters of investment practices has multiple benefits by engaging members in the management of their pension plan, addressing plan member concerns, and providing member input to trustees. Trustees must ultimately make plan investment policy decisions independently, however demonstrating beneficiary support for a plan's investment policy and practices assists trustees in demonstrating that such practices are in the best interests of plan members.

It is therefore important that trustees develop two-way communication processes to provide information to and obtain information from plan beneficiaries. The consultation process should be outlined in the SIPP. At a minimum, it should detail how often, how much, and in what manner information will be provided.

In the past, pension plans have facilitated communication with plan members on fundamental investment issues by:

- Providing information to them about progress of initiatives, including financial performance results, on a regular basis through newsletters, annual mailings, and reports. In the case of investment screens, this could include information about socially responsible investing, its impact on financial returns, and a review of the process that the plan followed in investigating such initiatives.
- Surveying member support for an initiative.

Consultation is a particularly important part of the investment process in the context of investment screening criteria. Trustees are often confronted with the argument that they cannot incorporate investment screening criteria into a SIPP because it is impossible to demonstrate that the criteria reflect the "best interests" of all plan members. According to this argument, assessing the interests of plan members is not possible because plan members have various interests, and the only common interest of all beneficiaries is their financial interest. Without consulting plan members, trustees have accepted this presumption.

While surveys are subject to bias and cannot be used as absolute indicators, recent polls call into question this presumption and suggest that financial interests cannot automatically be assumed to be the sole common best interest of all beneficiaries or that plan members want to maximize their financial interests at all costs. A 2001 Vector Survey commissioned for the Canadian Democracy and Corporate Accountability Commission found that 51% of those surveyed (including plan members and beneficiaries) wanted a pension fund that invested in companies with a good record of social responsibility even if it resulted in somewhat lower benefits for themselves (CDCAC, 2001). Similarly, a national opinion poll conducted in Britain for the Ethical Investment Research Service (EIRIS), a provider of screening services, in September 1997 found that 73% of 700 adults surveyed wanted ethically-screened pensions; 44% stated that their pension plan should include an ethical policy if that could be done without any reduction in financial return; and a further 29% felt that their pension plan should adopt ethical policies even if this led to reduced returns. (Sparkes, 2000)

Furthermore, the law does not require that there be unanimous support from all beneficiaries. (Yaron, 2001) While the duty of loyalty is sometimes defined to require that trustees make decisions in the best interest of each and every individual beneficiary, in practice the test that courts have applied is whether trustees have made a reasonable effort to ascertain the views of beneficiaries collectively before making an investment policy decision. (Yaron, 2001) It is important that trustees consult with plan members to identify their interests, but unanimity is not required (see for example the University Funds Investment Policy (University of Toronto) cited in Appendix I.)

Conflict of Interest and Standard of Care

Pension trustees have a fiduciary duty to treat all plan beneficiaries, present and future, with an even hand. Accordingly, people entrusted with managing assets on behalf of others must always be aware of potential conflicts of interest. Pension trustees have a fiduciary duty to set aside their personal interests and act in the interests of plan beneficiaries. Similarly, investment managers and other professionals retained by a pension plan must execute their responsibilities in a manner that is consistent with the best interests of their clients.

SIPPs should include provisions that require pension trustees and agents to disclose any potential conflicts of interest (see Appendix G). In the case of pension trustees, this generally takes the form of a restatement of the pension trustee's duty of loyalty to act in the best interests of plan beneficiaries. In the case of investment managers, a provision generally states that an investment manager must disclose any potential conflicts of interest, such as where an investment manager is not dealing at non-arms length with securities (e.g. trading plan assets through an inside brokerage firm.)

All or Nothing Approach

Trustees often feel overwhelmed by the belief that they must implement all of these investment practices at once, including developing and implementing screens, diversifying the plan's portfolio to include economically targeted investments, voting all plan proxies, and engaging corporations in dialogue on issues of corporate governance and corporate social responsibility. Trustees are reluctant to engage in these areas because of concerns regarding lack of experience, extra work, unsure outcomes, time demands and associated costs (Falconer, 1999).

In reality, trustee engagement in shareholder activism, proxy voting, investment screening and economically targeted investing can be an *evolutionary* process. Trustees should take time to familiarize themselves with these practices and consider them in relation to the specific characteristics of their own plan. An incremental approach allows trustees and members to educate themselves about the particular investment practice, properly consider the appropriateness of each investment practice before incorporating it into the plan's investment strategy, and monitor the results of each step over time. Some changes can be made easily and with virtually no increased risk to the plan (e.g. hiring a proxy voting service), whereas others require more information before making a decision. Therefore, trustees may consider implementing some of the simpler practices first and adding others over time.

Following a two-year investigative process, the Joint Pension Advisory Committee of the Pension Plan for Employees of the Public Service Alliance of Canada recently decided to take such an incremental approach to these practices. They started by devoting a percentage (10%) of the current market value of the plan to screened and economically targeted investments while ensuring the plan's overall asset mix was not inappropriately changed. Rather than develop their own screen, they will invest in an established screened fund. They also instructed their investment managers to advise plan trustees when proxies were either voted against a management recommendation, or against the recommendation of a proxy voting service. Future steps will include participating in shareholder actions and supporting shareholder proposals filed by other investors where they are determined to be in the best interests of plan members. None of these steps are expected to result in significant financial or administrative costs to the plan.

Some recommended first steps with nominal time or resource requirements include:

- Amending the SIPP to give trustees discretion in directing the voting of proxies.
- Hiring a proxy voting service to assist in the development of proxy voting guidelines or to vote proxies in accordance with guidelines provided by plan trustees.
- Voting proxies in support of specific shareholder proposals that are determined by the trustees to be in the best interest of plan members.
- Establishing one or two screens with a high level of member support to apply to a segment of the plan's portfolio.
- Investing a portion of plan assets in a screened segregated or pooled fund.

Trustee Education and Training

All trustees require current and comprehensive knowledge about investment principles and plan governance in order to make prudent investment decisions. Trustees have the right and responsibility to obtain the education they need at the plan's expense in order to engage in a meaningful way with other trustees and investment professionals about matters pertaining to plan investment policy. Any person can be a trustee, not just "experts", provided they are committed to obtaining the education and training required to oversee the affairs of the pension plan responsibly. Training expenses should be borne by the pension plan as a necessary cost of effective and efficient governance.

Trustees should receive sufficient education necessary to "de-mystify pension fund governance and investment and allow pension trustees to make prudent decisions." (Carmichael, 2000, p.302) One trustee estimates that in the absence of an education program, it took her approximately two years, relying on

the knowledge of trustees who had been on the Board longer and her own education work to “get up to speed.”

In addition to supporting trustee training, there are other ways in which pension plans can support the professional development of trustees. One approach is to have experienced trustees support new trustees in a mentorship arrangement. Trustees may also consider incorporating an extensive glossary of terms into the SIPP to make the document more accessible to trustees who may be less familiar with investment language.

Trustees should avail themselves of educational programs to meet their educational needs. There are a growing number of trustee education programs available in Canada provided by unions, independent organizations, and investment professionals. For example, Carleton University’s Centre of the Study of Training, Investment and Economic Restructuring (CSTIER) and the University of Toronto’s Ontario Institute for the Study of Education (OISE) in conjunction with SHARE, is currently developing a series of national trustee education programs.

Duty to Question Everything

Trustees may seek advice from professional investment advisors, including actuaries, consultants, and lawyers, as well as unions and other pension-related organizations to assist in setting responsible investment policy. In doing so, it is the responsibility of pension trustees to actively engage their advisors in the development, implementation and review of investment policy by asking questions about things they do not understand.

Trustees have the right and obligation to seek clarification from their professional advisors on any investment-related matter. In setting plan investment policy, investment professionals are often not questioned about the information they provide or the assumptions on which their advice is based because trustees feel intimidated or presume that they should know the answers already. As a result, much investment-related advice is simply adopted without the requisite level of scrutiny and consideration required of prudent trustees.

Professional advisors are retained by the plan to serve the needs of trustees. Where there is confusion or uncertainty, trustees have a duty to ask questions and should not feel shy or intimidated when doing so. Trustees should also be aware of any potential conflicts of interests on the part of those providing responses to questions (see section entitled “Conflicts of Interest”).

Plan Investment Committees

Although all trustees are responsible for plan investment policy decisions, in practice the investment committee of many plans usually has primary responsibility for development of the SIPP. Some plan investment committees are structured so that trustees have little or no involvement in developing investment policy recommendations. Investment committees may be composed of staff and financial professionals who are not trustees, others have a minority of trustees, and still others are composed of trustees assisted by finance industry professionals. As a result, trustees who are not part of the investment committee may have little input into the SIPP’s development. In some instances, the board of trustees adopts investment committee recommendations with little or no scrutiny.

Whether a committee or the board as a whole develops investment policy, trustees should ensure that they are adequately represented within that body and have meaningful involvement in the investment policy development process. This may require restructuring the composition of the investment committee and amending procedures to ensure adequate review and input from trustees at all stages. In one instance a board of trustees decided that investment-related decisions were so important that it expanded its investment committee from two trustees to include the entire Board. Whichever arrangement trustees choose, trustee involvement should be balanced against the need for efficient and effective plan governance.

The SIPP or some other plan governance document should define the relationships and accountability of those involved in developing investment policy. The roles and responsibilities of the board, investment committee, pension advisory committees, investment managers, custodian, actuary, and consultants should be delineated. While smaller pension plans tend to include all this information in the SIPP, larger plans may choose to develop a separate governance document as well as individual investment manager mandates. The Pension Investment Association of Canada and the Association of Canadian Pension Management recommend this approach.

Trustee Communication

Trustees often have difficulty explaining the relevance and benefits of shareholder activism, proxy voting, investment screening and economically targeted investing to their investment advisors and co-trustees. Their audiences may have misperceptions about these practices and automatically dismiss them because, in their view, they do not deal directly with the financial performance of plan investments.

Trustees should be clear about how they describe these practices in order to distinguish them from terms such as “ethical investing” or “socially responsible investing”. Neither term adequately reflects the scope of these four investment-related practices, which together seek to support long-term returns and reduce investment risk by investing plan assets in companies that operate within a framework of sound corporate governance, social and environmental practices.

Before advancing these practices for inclusion in a plan’s SIPP, trustees should set clear definitions of each term to avoid any confusion or misunderstanding. Trustees should also avail themselves of the latest performance data and research on each practice.

Administrative Costs

Pension plans interested in incorporating shareholder activism, proxy voting, investment screening or economical targeted investing into their SIPP are often told that the administrative costs of following such practices are prohibitive. Those interested in incorporating these practices into their SIPP will be concerned with ensuring that the associated administrative costs are reasonable.

In order to uphold their fiduciary duties, pension trustees must expend a certain amount of time and resources to evaluate investment practices, investment performance, and to update the SIPP. For example, trustees have a fiduciary duty to ensure that proxies are voted in a responsible manner. Reasonable expenditures in this area are therefore required.

In other instances, such as investment screening, costs must be weighed against the anticipated long-term benefits to plan beneficiaries. Accordingly, trustees should review all information regarding the administrative and financial costs and benefits associated with implementing and monitoring a desired practice. In some instances, trustees may elect to defer certain actions until more cost-effective mechanisms are in place (see section entitled “All or Nothing Approach”). In other cases, certain practices may have no or minimal additional costs or a pension plan may already be paying for comparable services. For example, investment managers vote proxies on behalf of their clients according to the manager’s guidelines. Requesting that the investment manager vote proxies in accordance with a pension plan’s proxy voting guidelines may be cost neutral depending on their comprehensiveness and clarity. Again, trustees should review whether more than minimal costs may be required in the development and interpretation of the guidelines.

Trustees may also manage and minimize costs in a number of ways. Plans can share materials that they have developed with other plans or develop policies and procedures in cooperation with other plans. Trustees can use precedents from other plans as a basis for developing policies, although trustees must never simply adopt another plan’s policies or procedures. Many large American and Canadian plans provide their investment policies on the internet or upon request (see Appendix I).⁶

Finally, in an increasingly competitive environment, some services may already be offered as part of the existing service package or at little additional cost. By obtaining current information, trustees may find that a particular service is available at a reasonable or no additional cost to the plan.

Trustees should bear in mind the following when considering the issue of costs:

- The OSFI Guidelines recommend that trustees consider the transaction and custodial fees in developing a plan’s investment policy.
- American courts have stated that trustees may incur “minimal” costs in implementing practices such as transfer costs associated with switching investments from a non-screened to a screened portfolio.⁷
- Legal requirements and prudent plan management require trustees to incur costs in order to carry out certain practices (e.g. development and application of proxy voting guidelines). Such costs are not “add-ons” but rather a non-discretionary cost associated with prudent plan governance.

⁶ The Council of Institutional Investors in the United States has compiled a three-volume set of SIPP’s available to all pension plans.

⁷ *Board of Trustees v. City of Baltimore*, 562 A.2d 720 (Md. 1989).

Conclusion

It bears repeating - trustees have the ultimate responsibility for the plan's investment policy. Accordingly, they must be actively involved in the development and review of the SIPP which details the framework of the pension plan's investment strategy. Along with setting out the plan's objectives and strategies, the SIPP acts as a guide for trustees, plan staff and third party agents, and can provide some protection to plan trustees provided it is developed and executed in a prudent manner.

Increasingly, pension plans are considering the incorporation of shareholder activism, proxy voting, investment screening and economically targeted investments as part of a comprehensive and prudent investment strategy. In principle, these practices are permitted, and in the case of proxy voting required, as part of a pension plan's prudent investment strategy. This document has hopefully demonstrated how to construct a SIPP in a prudent manner to include these practices and to ensure that trustees have the requisite involvement in their oversight. The appendices that follow provide a variety of additional materials that can assist trustees further in the development of a SIPP.

Appendix A: Statutory Provisions

Section 7.1 of the federal *Pension Benefits Standards Regulations* require that every SIPP include provisions addressing:

- (a) the categories of investment and loans;
- (b) the investment portfolio's diversification;
- (c) the asset mix and expected rates of return for various asset classes;
- (d) the liquidity of investments;
- (e) the lending of cash and securities;
- (f) the retention or delegation of the voting rights attached to investments; and
- (g) the method for valuing investments that are not regularly traded at a public exchange; and related party transactions.

All provinces and territories except Prince Edward Island and Quebec have adopted the federal regulations.

The OSFI Guidelines recommend that trustees consider the following general factors in developing the plan SIPP:

- (a) the plan's existing investments;
- (b) the rate of future contributions;
- (c) the amount and structure of current and future liabilities (pension benefits, member services and plan administration);
- (d) how these liabilities and contemplated investments would respond to plausible economic events;
- (e) the plan's financial situation;
- (f) its risk tolerance;
- (g) the plan's maturity;
- (h) the estimated cash flow requirements; and
- (i) the financial risks the plan sponsor may face in funding the plan. (OSFI, 2000, p.1.2-1.3)

The OSFI Guidelines also recommend that SIPPs address the following additional risks and issues:

- (a) pledging and borrowing assets;
- (b) the level of foreign investment;
- (c) the percentage of actively and passively managed investments taking into consideration the effects of management fees; and
- (d) transaction costs and custodial fees.

Appendix B: Fiduciary Checklist for Pension Trustees

The following is a brief checklist for trustees when considering incorporating shareholder activism, proxy voting, investment screening or ETI into their plan's investment policy. This is not a comprehensive list of all issues that trustees must consider when setting investment policy and does not constitute legal advice. Trustees are advised to seek independent advice regarding their plan before making investment decisions.

Incorporating Documents

- ✓ Do the plan's governing documents or trust agreement restrict trustees from engaging in shareholder activism, proxy voting, screening and ETI?

Statement of Investment Policy and Procedures

- ✓ Does the plan have a separate SIPP?
- ✓ Does the SIPP explicitly authorize trustees to engage in shareholder activism, proxy voting, investment screening and/or ETI?
- ✓ Are the investment criteria in the SIPP consistent with the mission and/or purpose of the plan as stated in the incorporating documents/trust agreement?
- ✓ Have appropriate diversification levels been maintained in accordance with any statutory or common law requirements?
- ✓ Are there provisions in the SIPP specifying a required rate of return on investments that limits the ability to apply other investment criteria in any way?
- ✓ Has discretion been reserved for trustees to deviate from the SIPP where it is deemed to be in the best interests of plan beneficiaries?

Investment Review Process

- ✓ Have the incorporating documents and investment policy been reviewed to determine who is responsible for making investment decisions?
- ✓ Are there procedures in place for the implementation and annual review of the SIPP?
- ✓ Have methods for developing and reviewing investment criteria been approved by the board of trustees?

Expert Advice

- ✓ Has ongoing, current and comprehensive expert legal and financial advice been obtained in the process of developing the investment policy?
- ✓ Has the plan obtained several opinions with regards to SIPP provisions dealing with shareholder activism, proxy voting, investment screening or ETI?

Trustee Independence

- ✓ Have all decisions been made in an independent fashion in accordance with the SIPP rather than simply adopting recommendations of experts or fund managers?
- ✓ Have all steps taken in authorizing investment decisions been documented?

Member Communications

- ✓ Is there a process for receiving input from beneficiaries about investment policies and specific investment decisions?
- ✓ Is there a process in place to survey plan members/beneficiaries about their interests so that trustees can speak with confidence about their “best interests”?

Investment Performance

- ✓ Does the plan have evaluation procedures in place to ensure that all screened and economically targeted investments are commensurate with long-term rates of return of non-screened and traditional investments with similar risk characteristics?

Investment Managers

- ✓ Does the SIPP have guidelines and procedures or refer to separate documents addressing the selection and review of investment managers?
- ✓ Do selection and review criteria include the requirement that investment managers have an understanding of shareholder activism, proxy voting, investment screening and ETI where applicable?
- ✓ Do the review criteria assess the ability of the investment manager(s) to meet the requirements imposed in the SIPP regarding such practices?

Proxy Voting

- ✓ Does the plan/trust have proxy voting guidelines? If they are separate from the SIPP are they incorporated into the SIPP by reference?
- ✓ Do the proxy voting guidelines authorize trustees to instruct fund managers on how to vote proxies or to delegate that function to a proxy voting service or other party responsible for voting proxies?
- ✓ Does the SIPP require those responsible for voting proxies adhere to the pension plan’s proxy voting guidelines and provide a regular (quarterly) record of all proxy votes to the trustees?
- ✓ Does the SIPP require investment managers to consult with the trustees or investment committee where proxy voting guidelines do not cover the issue in question?

Appendix C: Examples of general provisions

The following are excerpts from the investment policies of pension plans that provide general direction on the incorporation of social and environmental criteria into pension plan investment policy and practices.

Excerpt from the Code of Prudent Investment Policy 2000 for the Dutch plan “Stichting Pensioenfonds ABP” (ABP) on Social Responsibility.

The aim of ABP’s investment policy is to obtain a maximum return for the (former) participants in the pension fund, within the risk parameters established by the Governing Board. ABP requires from all those involved in its investment process an undivided dedication to this investment objective.

In light of this objective, ABP will resist all investment compulsion and investment restrictions which have a negative effect on an optimal investment return. There is no room for socially initiated investments or for economically targeted investments, if such investments do not meet the return requirements formulated by the ABP.

ABP is conscious of the social role it fulfils as a large investor. This role compels ABP to exercise great care in its actions. ABP is prepared at all times to account for the consequences of its investment practice for society, the environment, employees and human rights.

Naturally, ABP will not become involved in any investment transaction which would, for instance, contravene international law. Moreover, ABP will avoid an investment:

- if illegal or morally reprehensible behaviour is thereby promoted,
- if the investment – were it to be made – is directly related to a violation of human rights and fundamental freedoms. If it is likely there will be such a relationship and if ABP is aware of this, ABP will refrain from the investment.

ABP will promote that criteria for a social, ethical and environmental nature will be integrated in its investment process. In this context one or more experimental investment portfolios may be created whereby investments are selected, managed and divested on the basis of special concern for these criteria. Of course, this leaves the goal of ABP’s investment policy unaffected.

Excerpt from the British Columbia Public Service Pension Plan’s Investment Policies and Procedures (January 2000).

Introduction

The Public Service Pension Plan (the Plan) exists to provide its members with retirement income and related benefits. Empirical studies have shown that investments provide up to 80 percent of the funding of a pension plan. Therefore, the fiduciaries have a moral and legal obligation to maximize the return on investments on behalf of the Plan’s current and future beneficiaries.

Good social management is part of good business practices. Companies, which implement and maintain high ethical standards, are expected to be the best performing and most profitable companies in the Canadian and world economies.

Given the above, the Plan wishes to use its influence to actively encourage socially responsible behaviour and ethical conduct in companies in which it chooses to be a shareholder.

Ethical Performance Criteria

The following criteria have been identified by the stakeholders as being important in terms of encouraging ethical behaviour in the Plan's Canadian and world equity investments:

1. Environment

Companies should comply with all environmental regulations. It is recognized that implementing new procedures or pollution controls can be a lengthy process. However, failure to address such problems can pose future costs and liabilities to the company. Preferably, the company will have long-term plans for environmental protection and an environmental policy.

2. Labour Relations

Companies should have a track record of progressive labour relations. This should include high standards of employee health and safety, equitable hiring and promotional practices, and promote non-discriminatory workplace behaviour.

3. Human Rights

Companies should not have business dealings with countries where human rights, according to United Nations standards, are violated.

4. Products

Companies should not have as their primary activity the production of armaments.

5. Code of Ethics

Companies should have a Code of Ethics with respect to appropriate business practices. This should include such issues as conflict of interest, obeying the letter and spirit of the law, and corporate objectives. A formal training program should be in place to ensure understanding and compliance by all employees.

Ethical Evaluation Process

The Plan will implement its ethical investment objectives by the use of one or more of the following practices:

- Voting proxies;
- Communicating ethical objectives to company management and/or boards;
- Communicating ethical objectives to other large institutional shareholders to generate support;
- Sponsoring shareholder resolutions; and,
- Should the foregoing actions fail to achieve the desired change, the stock may be sold (providing an alternative equally desirable investment from a financial return and risk point of view is available).

Shares held by index funds are to be excluded from this process if, in the view of the investment manager, the sale would have an adverse impact on the index fund performance.

The goal of this process is to influence corporate behaviour and change their practices when they do not meet the standards outlined in this statement. This, in turn, will make them better corporate citizens and more profitable organizations.

The effectiveness of these measures will be monitored. A corporation that is not responsive will result in the Plan withdrawing its support for the Board of Directors.

Conclusion

At all times, this policy will be conducted within the framework of fiduciary responsibility. It will therefore, be implemented in a manner, which does not interfere with the efficient investment of the Fund's assets to achieve investment return objectives, which are in the best interest of the Plan's current and future beneficiaries.

This policy will be reviewed annually with all external fund managers.

Appendix D: Examples of proxy voting provisions

The following are examples of proxy voting provisions from the SIPPs of various pension plans.

Ontario Municipal Employees' Retirement System (OMERS)

4.1 The Senior Vice President, Investments is responsible for voting all proxies related to securities owned by OMERS; however, where appropriate, this responsibility may be delegated to a Vice President, Portfolio Manager or external agent designated by the Senior Vice President, Investments.

4.2 In all cases, such voting will be done using the best interests of OMERS as the sole criterion.

4.3 OMERS has issued Proxy Voting Guidelines which include general statements of OMERS policy on various aspects of corporate governance and specific recommendations for voting on individual issues. OMERS approach is to take into account the quality of a company's overall governance in deciding to vote for or against a specific proposal.

OMERS makes this publication available to all companies in which it invests, and to all other interested parties in Canada and elsewhere.

If an item of specific concern arises, OMERS initial step is to examine the applicability of the relevant proxy voting guideline. OMERS may then elect to write to an individual company informing the company of the fund's concern. The fund may subsequently request a meeting with the Chief Executive Officer of the company or the Chair of the Board of Directors. The fund may also request a meeting with other members of the Board of Directors, specifically the Chair of the Corporate Governance Committee. If the company is in general agreement with OMERS principle of governance and is receptive to concerns of the fund, OMERS will take this into consideration in voting for any specific proposal. If, however, there is little evidence of agreement or willingness to change, it should be expected that OMERS would vote in favor of proposals in keeping with OMERS specific guidelines. Finally, OMERS will consider introducing specific shareholder proposals itself.

OPSEU Pension Trust

At the time of publishing these guidelines, OPTrust hired an outside firm to research and vote our proxies. The voting fiduciary is expected to vote OPTrust proxies according to the guidelines in this booklet. Resolutions or shareholder proposals should be closely examined to ensure that voting criteria and guidelines are consistently met. OPTrust will conduct random spot checks to ensure that this voting process is followed.

For resolutions or shareholder proposals that are not covered in this booklet, the voting fiduciary is to provide OPTrust's Chief Investment Officer with background information and analysis of the issue in question. If the Chief Investment Officer deems the issue to be outside the scope of the guidelines, OPTrust's proxy voting subcommittee – composed of one union-appointed and one government-appointed trustee – will examine the item and decide how it should be voted.

Canadian Labour Congress Staff Pension Plan

The Committee has delegated voting rights acquired through the investments held by the Fund to the custodian of the securities to be exercised in accordance with the Investment Manager's instructions. The Investment Manager is expected to exercise all voting rights related to investments held by the Fund in the interests of the Plan's members. On a quarterly basis, the Investment Manager shall report their voting activities to the Committee.

CLC reserves the right to take-back voting rights of assets held in segregated portfolios for specific situations. Further, the Investment Managers should advise the Committee regarding their voting intentions for any unusual items.

Steelworkers Members' Pension Plan (excerpt)

In the event the manager or its agents has any material interest, whether direct or indirect in any matter in which the manager exercises a right to vote, prior to exercising any such right, the manager shall bring this matter to the attention of the administrator who shall inform the Chair of the Board of Trustees. The Chair is entrusted with either (a) instructing the manager on how to exercise the right to vote; (b) referring the matter to another money manager which does not have such an interest for decision; or (c) referring such matter to a committee of the Board of Trustees to determine. The Chair or committee may request the manager to exercise the voting rights in accordance with the manager's discretion should they be satisfied the interest of the manager is not such as to impair or colour the decision of the manager, or alternatively, may instruct the manager how to exercise the voting rights after seeking such counsel as the Chair or committee may deem appropriate.

Pension Plan "A"

The Board has directed that the individual investment managers will be responsible for voting proxies in the best interest of plan members. Each investment counsellor is responsible for maintaining records of how each proxy is voted. A written report of proxy voting will be provided to the Board within 30 days from the end of each quarter. A detailed explanation will be given for each instance where the proxy is voted against management.

Pension Plan "B"

Proxy voting is an integral component of the investment process. The Board shall establish an overall policy of voting proxies. The Investment Staff shall be responsible for the timely voting of all proxies in a consistent manner with the proxy voting policy. Investment managers shall vote proxies consistent with their respective policy and in the best economic interests of the System. The staff shall periodically provide a proxy voting status report to the Board.

Pension Plan "C"

Stock proxies are voted in accordance with the following procedures:

The proxy servicer receives and reviews all proxy statements. The proxy servicer will vote all proxies in accordance with the Board's Proxy Voting Policy, except those where a specific concern has been raised by a Board Member, advisor, consultant, or Staff member.

The proxy servicer may also vote any proxy involving other issues essentially the same as those on which the Board's Proxy Voting Policy is well defined.

With regard to proxies requiring special attention under the Board's Proxy Voting Policy, as well as special issues not covered or anticipated by the Proxy Voting Policy, proxies and all pertinent reference material shall be sent to the Chief Investment Officer, who will evaluate the issues with respect to the intent of the Proxy Voting Policy. On issues not covered by the Proxy Voting Policy, controversial, high-profile, and contested change of control issues, the Chief Investment Officer will communicate with the Board's Proxy Committee to determine how such proxies will be voted. Each member of the Proxy Committee will register his/her choices with the Chief Investment Officer as to how the proxies should be voted. The Chief Investment Officer will then direct the proxy voting servicer to vote the proxies in accordance with the wishes of the majority of the Proxy Committee members voting.

The Chief Investment Officer shall regularly report to the Board the types of issues that are being considered or that have been voted by the Chief Investment Officer and the Proxy Committee.

The Chief Investment Officer shall cause to be maintained by the proxy voting servicer, a file of all proxy votes and issue annually a summary report to the Board. This report, along with all individual actions, shall be available for public inspection.

Appendix E: Examples of investment screening provisions

The following are examples of investment screening provisions from the SPPs of various pension plans.

Exclusionary Screens

United Methodist Church of America Board of Pensions' and Health Benefits' Investment Policy

J. Investments shall not knowingly be made in securities in which the corporate entity has a significant interest in distilled spirits, wine or other fermented juices, tobacco, gambling, pornography or fire arms.

Investments shall not knowingly be made in securities in which a core business of the corporate entity:

- Manufactures cigarettes, cigars, chewing tobacco, smokeless tobacco, or in a company in which 10 percent or more of gross revenues are derived from supplying key component elements to the tobacco industry (cigarette papers, flavorings, adhesives) or the sale and marketing of tobacco related products.
- Produces alcoholic beverages (beer, wine, distilled liquor); or in a company in which 10 percent or more of gross revenues are derived from supplying key elements for alcohol production or from the sale, distribution or marketing of alcoholic beverages.
- Owns or manages casinos, racetracks, off track betting parlors; or in a company that derives 10 percent or more of gross revenues from the production of goods and services related to the gaming or lottery industries.
- Derives 10 percent or more of gross revenues from the production, distribution or sale of products or services that are interpreted to be pornographic, meet the legal criteria for obscenity or legal definition of "harmful to minors".

Investments will not be made in corporations in which 10 percent or more of gross revenues are derived from the manufacture, sale or distribution of antipersonnel weapons such as land mines, "assault-type" automatic and semiautomatic weapons, firearms and ammunition provided for commercial and private markets. Restrictions are waived on percentages of revenue derived from the manufacture, sale or distribution of firearms and ammunitions provided for legitimate military or law enforcement organizations.

The General Board of Pension and Health Benefits will make no further investment in non-voting equity securities of companies whose ratio of Department of Defense contracts (or contracts with the comparable agency or department of any foreign government) related to the production and distribution of conventional military armaments or weapons related systems to gross revenues is higher than 5%.

K. The General Board of Pension and Health Benefits will make no further investment in voting or equity securities with voting rights or fixed income securities of companies whose ratio of Department of Defense contracts (or contracts with the comparable agency or department of any foreign government)

related to the production and distribution of conventional military armaments or weapons related systems to gross revenues is higher than 10%.

L. The General Board of Pension and Health Benefits will make no purchase of any security of a company whose identifiable ratio of nuclear weapons contract awards to gross revenues is higher than 3%. The measurement of any nuclear weapons contract award will be based on the most current information available to General Board of Pension and Health Benefits from the Department of Defense and other research sources.

M. The General Board of Pension and Health Benefits will give consideration to the divestment of the securities of any company which remains in violation of the Board's DOD or nuclear weapons guidelines for three consecutive years.

Qualitative Screens

United Methodist Church of America Board of Pensions' and Health Benefits' Investment Policy

It is expected that Investment Managers will invest by consideration of financial issues rather than by non-economic criteria. However, once investments of seemingly equal value and potential have been determined to be available, preference is to be given to companies that :

1. Do not employ anti-union policies,
2. Promote occupational health and safety; and,
3. Provide equal employment and opportunity regardless of race, creed, colour, national origin or gender.

In accordance with these general tenants, these special considerations are not designed to exclude investment in any one industry or company.

The Trustees may direct their investment managers from time to time to make investments only in investments which the Trustees consider ethically appropriate. The Trustees shall, in giving such direction, take into consideration (1) the return on investments, (ii) the security of such investments, and (iii) the ethical nature of the investments.

The United Methodist Church of America Board of Pensions' and Health Benefits' Investment Policy directs its trustees as follows:

The General Board of Pension and Health Benefits shall make an effort to invest in institutions, companies, corporations or funds which are making or which are expected to make a positive contribution toward the realization of the Social Principles of The United Methodist Church.

To the extent that investments are consistent with the trust imposed upon the Board, investments in those industries, companies, corporations and funds deemed likely to make positive social, moral and economic impact on society shall be sought, which are expected to fulfill one or more of the following:

1. Nurture climates in which human communities are maintained and strengthened for the good of every person.
2. Support the concepts of family and equal opportunity of life, health and sustenance of persons.
3. Provide opportunities for persons with handicapping conditions, and for all persons irrespective of sex, age or race.
4. Support the rights and opportunities of children, youth and the aging.

Appendix F: Examples of economically targeted investment provisions

The following are examples of economically targeted investment provisions from the SIPPs of various pension plans.

CalPERS Statement of Investment Objectives and Policy for the Economically Targeted Investment Program (February 2000)

Strategic Objectives

The primary objective of Economically Targeted Investments (ETI's) is to provide competitive risk adjusted rates of return, while still promoting growth and development of the national and regional economies. ETIs will provide collateral economic benefits to targeted geographic areas, groups of people, or sectors of the economy while providing pension funds with prudent investments.

Furthermore, prudent investment in ETIs is to create jobs, housing and improve the general infrastructure, and serves the broad interests of the beneficiaries of the System. By strengthening the State's economy and the well-being of employers, ETIs help promote the continued maintenance of employer contributions to the California Public Employees' Retirement System (CalPERS).

The Board will consider the secondary objective of promoting economic growth and well being in the state of California and its localities when not in conflict with the Board's duties of loyalty, care, skill, prudence, diligence and diversification. The emphasis will be on the promotion of long-term sustainable economic, industry and business growth, job creation and affordable housing.

All ETI investments shall be consistent with Board's fiduciary obligations and approved investment policies and guidelines.

Purpose

For purposes of this policy, an ETI shall be defined as an investment which has collateral intent to assist in the improvement of both national and regional economies, and the economic well-being of the state of California (the state), its localities and residents. Economic stimulation includes job creation, development and savings, business creation, increases or improvement in the stock of affordable housing and improvement of the infrastructure.

General

A consistent and methodical means of evaluating all ETI opportunities is of paramount importance. ETIs are not uniform in structure, method or objective. Consequently, a policy to evaluate risk, return and liquidity characteristics must be established to assure that these investments are comparable on a risk/return basis with more traditional opportunities and are consistent with the financial requirements of CalPERS.

The lack of homogeneity of these instruments, likewise, makes ETIs difficult to market on a large scale basis. Each ETI must be separately evaluated based on its unique structure and potential in accordance

with CalPERS investment criteria and this ETI policy. This will ensure that all CalPERS responsibilities and investment requirements are being addressed in the evaluation and investment process.

The existence of this ETI policy shall not be construed as a mandate to invest in ETIs, but rather should be viewed as an additional set of suggested parameters within which to consider such investments.

Investment Approach and Parameters

The Board's constitutional duties, as defined and clarified by the recent amendments to California Constitution Article XVI, Section 17, take precedence over any other considerations. Any other considerations will be entertained only when not in conflict with any of these duties. It is recognized that investments made for the sole benefit of the System's beneficiaries may also generate collateral benefits.

CalPERS will only consider ETIs which when judged solely on the basis of economic value, would be financially comparable to alternatively available investments. Comparability will be judged on a risk adjusted basis with CalPERS willing to accept no less in return and incur no additional risk or cost.

The collateral benefits shall not be considered part of the return to CalPERS nor shall any improvement to the State's economy be considered part of risk reduction. The decision to make the ETI and consideration of its broader benefits may only occur after the investment is deemed acceptable to the fund exclusively on its economic investment merits.

Any benefit an ETI may confer on other interests (the "targets") is not the responsibility or with the ability or control of CalPERS, but only of those who manage or are otherwise responsible for the target enterprise. This will be made expressly clear to third parties and CalPERS beneficiaries.

For allocation purposes, ETIs will be included with similar investments that are free of economically targeted elements, and the combined assets will be subject to the Board's asset allocation guidelines, ranges and targets. Investments shall not be made so as to alter the overall risk/return profile of CalPERS investments, which derives from CalPERS liability profile and funding level.

ETIs shall not materially alter CalPERS' approved allocation policies. Particular attention should be paid to the California representation in the CalPERS' portfolio. CalPERS' exposure to the State's economy, inclusive of investment in ETIs, at a minimum, shall generally be in line with California's representation in the eligible investment universe and consistent with the Board's fiduciary obligations.

ETIs must at all times conform to the laws, requirements, policies and procedures governing CalPERS.

ETI's shall receive the proper level of due diligence consistent with the type of investment product and portfolio classification. This due diligence, to be conducted by staff, designated outside consultants or advisors, shall at a minimum address:

- Legal sufficiency
- Identification of any potential conflicts of interest
- Investment sufficiency – the standard for investment sufficiency shall be consistent with existing internal policies and practices of due diligence analysis for each specific asset type.

CalPERS may invest in ETI's so long as the Board has determined and can demonstrate that the investments properly discharge the Board's duties under the provisions of California Constitution, Article XVI, Section 17 – namely, the duties of loyalty, care, skill, prudence, diligence and diversification – and are consistent with the California Government Code statutes applicable to CalPERS (Cal. Gov't Code secs. 20000 et seq.). Consequently, all other economic objectives must necessarily be secondary to – and not impair – those duties imposed by the California Constitution and the CalPERS statutes.

Pursuant to the above criteria, consideration will be given in order of preference to those investments which may benefit:

- Current and retired members of the California Public Employees' Retirement System.
- Residents of the State of California.
- Enterprises that operate for the benefit, support, and the employment of residents of the State of California.
- Enterprises that address the economic and social need of the United States residents with unique major representation in the State of California.

ETIs, whether in a stand-alone portfolio or incorporated with like investments which have no economically-targeted orientation, shall be priced at least at market prices and shall be subject to the applicable performance measurements.

Indiana Public Employees' Retirement Fund Restatement of Investment Policy:

The Board shall investigate alternative investment vehicles. Alternative investment vehicles may include, but are not limited to, venture capital, real estate, and private placements. Some may improve the Indiana regional economy. The Board may consider investing in these assets if and only if the vehicles meet all standards for prudent investments. These investments must satisfy all standards of diligence, skill, and risk-adjusted market return that apply to all other pension investments.

[Note: The following provisions from OMERS and PSPP deal with all non-marketable securities, not just ETI.]

Ontario Municipal Employees Retirement System:

Valuing Investments Not Regularly Traded

- 5.1 Non-traded investments will be compared with a reasonable market proxy when one is available.
- 5.2 When a reasonable market proxy is unavailable, the investment is held at book value unless:
 - (a) a subsequent (third party) financing has occurred; or
 - (b) there has been a significant permanent financial or operating change in the company, in which case the value will be adjusted accordingly; or
 - (c) the securities subsequently become public traded, in which case, market values will be used.
- 5.3 In situations where none of the aforementioned valuations are applicable (i.e. venture capital, private placements and real estate), a third party accredited appraiser or a valuation committee, made up of investment specialists and management, shall appraise the investment to current market values, using generally accepted valuation criteria.
- 5.4 Valuations of non-traded investments shall be reviewed periodically by the Audit sub-committee of the OMERS Board.

Public Service Pension Plan's Investment Policies and Procedures (January 2000):

10. The Method of, and the Basis for, the Valuation of Investments that are not Regularly Traded at a Public Exchange

It is expected that during the period covered by this Statement all investments will be either regularly traded at a public exchange or will be subject to the valuation provisions set out in a pooled fund or mutual fund trust indenture.

Investments which are not regularly traded at a public exchange, shall be valued as follows:

(a) Equities and Bonds

Average of bid and ask prices from two major investment dealers, at least once every calendar quarter.

(b) Mortgages

Unless in arrears, the outstanding principal +/- the premium/discount resulting from the difference between face rate and the currently available rate for a mortgage of similar quality and term, determined at least once every calendar quarter.

(c) Real Estate

A certified written appraisal from a qualified independent appraiser at least annually.

Appendix G: Examples of conflict of interest provisions

The following are examples of conflict of interest and disclosure provisions from the SIPP's of various pension plans.

College of Applied Arts & Technology (CAAT) Pension Plan

These guidelines apply to:

- (a) The Board;
- (b) The Investment Managers;
- (c) The Custodian(s)/Trustee(s); and
- (d) Any employee or agent retained by the Board or by a person listed in (a) to (c) to provide services to the Plan or the Fund.

Conflict of Interest

Any person listed above must disclose any direct or indirect material association or material interest or involvement in aspects related to his or her role with regard to the Fund's investments that would result in any potential or actual conflict of interest.

Without limiting the generality of the foregoing, this would include material benefit from any asset held in the Fund, or any significant holdings, or the membership of the boards of any corporations, or any actual or proposed contracts.

Related Party Transactions

Any person listed above may enter into a related party transaction if:

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

Procedure on Disclosure

The person involved in the conflict must disclose the nature and extent of the conflict to the Board in writing, or request to have it entered in the minutes of a meeting of the Board upon first becoming aware of the conflict. The disclosure must be made orally if knowledge of the conflict arises in the course of a discussion at a meeting of the Board.

If the party does not have voting power on decisions affecting the Plan, the party may elect not to participate in the activities related to the issue in conflict, or the party's activities may continue with the approval of the Board.

If the party disclosing the conflict does have voting power, the Board may continue with respect to the issue in conflict only with the unanimous approval of the other members of the Board. In this situation, the party in conflict may elect not to participate with respect to the issue in conflict, but the party must not participate without the unanimous approval of the other members of the Board. The notification

made by the party in conflict shall be considered a continuing disclosure on that issue, subject to any future notification by the party, for the purpose of the obligations outlined by the guidelines.

OPSEU (Ontario Public Service Employees Union) Pension Trust

These guidelines apply to:

- (a) any member of the Board;
- (b) the Manager;
- (c) the Custodian;
- (d) the Pension Consultant;
- (e) any employee or agent retained by those listed above to provide services to the Fund.

Conflict of Interest

All persons listed above must exercise the care, diligence and skill in their administrative and/or investment capacities that the ordinary prudent person would exercise in dealing with the property of another person. All persons listed above shall use all the relevant knowledge and skill that they possess in the administration and investment of the Fund.

All persons listed above shall at all times act in the best interests of the beneficiaries of the Fund and shall not knowingly permit their personal interests to conflict with their duty to act in the best interests of the beneficiaries of the Fund.

Without limiting the generality of the foregoing, any situation involving receipt of any benefit from any asset held in the Fund, or any significant holdings, or the membership on the Board of Directors of other corporations, or any actual or proposed contract, shall be considered a conflict of interest.

In order to avoid a potential conflict of interest situation, the Manager shall not knowingly, without prior written consent of the Board, make any investments in securities of his company or any affiliated companies.

Disclosure Requirements

All persons listed above shall fully disclose the particulars of any actual or potential conflicts of interest with respect to the Fund immediately upon becoming aware of the conflict. Without limiting the generality of the foregoing, such person shall disclose in writing to the Co-Chairs of the Board of Trustees the nature of his/her interest in any investment or transaction to be made or entered into by the Fund or on behalf of the Fund, forthwith after becoming aware that the investment or transaction is proposed for or has been entered into by the Fund or after such person becomes interested in the investment or transaction, as the case may be.

The Co-Chairs of the Board of Trustees shall arrange a meeting of the Board to discuss and resolve the outstanding conflict of interest situation as soon as reasonably possible. The person in conflict shall not participate in any discussion on the subject of the conflict nor participate in any vote on the matter, except insofar as the Board may call upon that person to provide a statement regarding the conflict of interest. All such proceedings shall be recorded in the minutes of the Board of Trustees meeting during which the conflict is discussed.

The Co-Chairs of the Board of Trustees shall advise the person with the conflict of interest forthwith of its remedial decision. That person shall act in accordance with the decision of the Board of Trustees subject to his/her right to seek the consent of the beneficiaries of the Fund.

Appendix H: Questions for selection and review of investment managers

The following questions are provided to *supplement* standard questions asked of investment managers in their selection and evaluation. They deal only with the issues of investment screening, ETIs, proxy voting and shareholder activism.

General

- ✓ Are you willing to work as an agent pursuant to the *Pension Investment Standards Act*?
- ✓ Is your investment style compatible with the active trustee oversight and the inclusion of shareholder activism, proxy voting, investment screens and ETI?
- ✓ Are you able to comply (or to what extent have you complied) with the plan SIPP?
- ✓ Are you able to meet (or to what extent have you been able to meet) the plan's performance targets as identified in the SIPP?
- ✓ Are you willing to attend (or have you attended) no fewer than one Investment Committee meeting per year in addition to regular reporting requirements
- ✓ Have you had experience working with clients who are interested in shareholder activism, proxy voting, screening or economically targeted investment?
- ✓ How many staff do you have that are experienced with these investment practices?
- ✓ How many staff work in these areas within your firm?
- ✓ What research services do you (your company) use to help determine which stocks/bond to buy? Would you change services or add services that use a socially responsible view to your research? If yes, what impact would this have on your (company's) decisions?
- ✓ How do you keep up to date on shareholder activism, proxy voting, investment screening, and ETI?
- ✓ What is your historical performance record with respect to screened investments?
- ✓ What have been the changes (significant) to the portfolio holdings since the last report and why?
- ✓ Are you aware of any community action, environmental group initiative, labour dispute/boycott involving any of our holdings? If so, what are they? Do you think this will have an impact on the value of our holdings? What, if anything, have you done to get management to deal with the issue?
- ✓ Does your company have socially progressive internal policies and practices? Can we see them?

Proxy Voting

- ✓ What is your (company's) policy with regard to evaluating and voting proxies? Do you always vote with management?
- ✓ Do you use a proxy voting service?
- ✓ Do you provide quarterly proxy voting reports?
- ✓ Have you ever or will you ever put a proposal to a shareholder meeting?
- ✓ Are you prepared to vote our shares differently if we so direct either by following our proxy voting guidelines or on a case-by-case basis?
- ✓ How do you receive shareholder proposals?
- ✓ How does your firm handle those proposals and are you prepared to take direction and/or joint initiatives of the various socially responsible proposals put by other shareholders?

Screening

- ✓ Do you offer screened products?
- ✓ Are you willing and able to find appropriate screened investments or develop them if desired?
- ✓ Are you willing to work with the pension plan's screening criteria?

- ✓ How do you select benchmarks for screened portfolios that satisfy the fiduciary duty of prudence?

Economically-Targeted Investments

- ✓ Have you invested in “private placement infrastructure bonds”? If so, what is the project being financed? Is it an infrastructure bond or other bond that privatizes public sector services? If so, what do you think of this initiative? Are you aware of contradictory views? Why do you think a public sector pension plan should support privatization of public sector services (the plan’s own membership)?

The above list includes questions from the CUPE publication "Pension Talk" - Bringing Union Values to Pension Investing, Vol. 1, Number 4: Questions For Your Money Manager(s).

Appendix I: SIPPS Available On-line

The law requires that a SIPP must be provided to trustees and pension plan members upon request. The following SIPPs were available on-line as of April 2002. SHARE makes no representations as to the terms of the policies listed below.

California Public Employees Retirement System (CalPERS)
www.calpers.ca.gov/invest/policies/toc.htm

Canada Pension Plan
www.cppib.ca

Greater Manchester Pension Fund
www.gmpf.org.uk/invest/sip2001/default.htm

Manitoba Civil Service Superannuation Board's Statement of Investment Policies and Goals
www.cssb.mb.ca/sipg.pdf

McGill University Pension Plan
www.is.mcgill.ca/pensions/investments/Statement/stmt.HTM

McMaster University Contributory Pension Plan for Salaried Employees
www.mcmaster.ca/bms/policy/invest.htm

Missouri State Employees Retirement System (MOSERS)
<http://www.mosers.org/html/investmentsinvest.html>

Newfoundland and Labrador Teachers' Association Pooled Investment Fund
www.nlta.nf.ca/HTML_Files/html_pages/publications/handbook/invest.html

Ontario Municipal Employees Retirement System (OMERS)
www.omers.com

Ontario Teachers' Pension Plan
www.otpp.com/web/website.nsf/web/InvestmentStrategy

Pension Fund Master Trust Investment Policy (University of Toronto)
www.utoronto.ca/govcncl/pap/policies/pensionfund.pdf

Pension Plan for Academic Employees of the University of New Brunswick
www.unb.ca/pension/content/unbipnov2000.pdf

Tyne and Wear Pension Fund (UK)
www.s-tyneside-abc.gov.uk/Pensions/FundInvestmentPolicies.htm

State of Connecticut Retirement Plans and Trust Funds

www.state.ct.us/ott/pensiondocs/IPS010402-Feb%2015%20draft2_.pdf

University Funds Investment Policy (University of Toronto)

www.utoronto.ca/govcncl/pap/policies/investpolicy.pdf

University of Northern British Columbia Pension Plan Statement of Investment Policies

www.unbc.ca/policy/pdf/bene-p4.pdf

University of Toronto Employee's Pension Plan of the Ontario Institute for Studies in Education (OISE)

www.finance.utoronto.ca/policies/oise.htm

University of Toronto Pension Fund

www.finance.utoronto.ca/policies/pension.htm

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