The HMRF/HWRF Pension Administration Sub-Committee presents Report 06-001 and respectfully recommends:

1. Master Trust Statement of Investment Policies and Procedures (FCS06062) (City Wide) (Item 3(b))

   (a) That Report FCS06062, “Master Trust Statement of Investment Policies and Procedures” for the City of Hamilton defined benefit pension plans Master Trust, be approved;

   (b) That the former Investment Policies of the former Hamilton Municipal Retirement Fund (HMRF), Hamilton-Wentworth Retirement Fund (HWRF), and the Hamilton Street Railway (HSR), be rescinded;

   (c) That the approved “Statement of Investment Policies and Procedures” be forwarded to the sub-committee of the Hamilton Street (HSR) Pension Advisory Committee for their information.

Corporate Administration Committee – June 21, 2006
2. Hamilton-Wentworth Retirement Fund (HWRF) Review (FCS06057) (City Wide) (Item 6)

(a) That the information contained in Appendix “A” and “B” of Report FCS06057 be received, and that the HWRF review be considered complete and no further action required;

(b) That staff prepare a report for the next meeting with findings regarding the feasibility of amending the Plan Text to provide inflationary increases equal to that provided under the Ontario Municipal Employees Retirement System (OMERS) plan.

FOR THE INFORMATION OF COMMITTEE OF THE WHOLE:

(a) Declarations of Interest (Item 1)

None declared.

(b) Minutes of Previous Meeting – September 15, 2004 (Item 2)

The Minutes of the June 23, 2005 meeting of the HWRF/HMRF Pension Administration Sub-Committee, were received and adopted as presented.

(c) Presentation by Gaetan Daigneault and Barbara Lomnicki of James P. Marshall Consultants (Item 3(a))

The Sub-Committee received a presentation from Gaetan Daigneault and Barbara Lomnicki of James P. Marshall Consultants with respect to the City of Hamilton Pension Plans Master Trust, Statement of Investment Policies and Procedures (SIP&P), which included:

- An overview of the Policies and Procedures, and changes made
- What is a SIP&P and why is it required
- What is the content of the SIP&P (describes obligations and investment objectives, asset mix, diversification, permitted investments and restrictions and performance monitoring).

The Sub-Committee also received a presentation on the Hamilton Master Trust Pension Investment Performance Review to December 31, 2005 which included:

- Investment objectives
- Summary of 2005’s Master Trust Performance
• Performance vs OMERS
• Relative Performance
• Funds – Market Value as at December 31, 2005
• Master Trust
  - Market Value Reconciliation
  - Fund Managers and Mandates
  - Asset Mix Analysis
• Market Overview
• Capital Markets Overview – December 31, 2005
• Funds Investment Performance Periods Ending December 31
• Master Trust – Investment Performance Period Ending December 31
• Hamilton Street Railway vs Benchmark
• Region of Hamilton vs Benchmark
• City of Hamilton vs Benchmark
• Master Trust – Value Added Periods Ending December 31, 2005
• Canadian Equities – Periods Ending December 31, 2005
• Global Equities – Periods Ending December 31, 2005
• Bonds – Periods Ending December 31, 2005
• Index Managers – Periods Ending December 31, 2005.

(d) Master Trust Statement of Investment Policies and Procedures (FCS06062)
(City Wide) (Item 3(b))

Jim Garchinski noted that there were some discrepancies in the contents of
Section 1.03 – Plan Profile in Appendix “A” of the Statement of Investment
Policies and Procedures between the HMRF and HWRF. The Sub-Committee
approved the recommendation in Report FCS06062 subject to assurances from
the consultants and staff that the final document would be reviewed to ensure
that these two sections would mirror each other.

(e) The following reports, previously approved by Council, were distributed to
the Sub-Committee for information purposes only:

(i) Master Trust Pension Investment Performance 2005 (FS06036) (City
Wide) (Item 3(c))
(ii) 2005 Financial Report and Audited Financial Statements (FCS06051)
(Item 4)
(iii) Hamilton Municipal Retirement Fund (HMRF) 2006 Pension Indexation
(FCS05125) (City Wide) (Item 5)
(iv) Hamilton-Wentworth Retirement Fund (HWRF) 2006 Pension Indexation
(FCS05126) (City Wide) (Item 7)
There being no further business, the meeting adjourned at 4:15 p.m.

Respectfully submitted

Councillor P. Bruckler
Chairman

Carolyn Biggs
Legislative Assistant
June 13, 2006
SUBJECT: Master Trust Statement of Investment Policies and Procedures 
FCS06062 (City Wide)

RECOMMENDATION:

(a) That Report FCS06062 “Master Trust Statement of Investment Policies and Procedures” for the City of Hamilton defined benefit pension plans Master Trust be recommended for approval.

(b) That the former Investment Policies of the former Hamilton Municipal Retirement Fund (HMRF), Hamilton-Wentworth Retirement Fund (HWRF), and the Hamilton Street Railway (HSR) be rescinded.

(c) That the approved “Statement of Investment Policies and Procedures” be forwarded to the sub-committee of the Hamilton Street (HSR) Pension Advisory Committee for their information.

Joseph L. Rinaldo 
General Manager 
Finance and Corporate Services

EXECUTIVE SUMMARY:

A “Statement of Investment Policies and Procedures (SIP&P) is required for each of the plans. The attached Schedule I to Report FCS06062 is the common SIP&P for the Master Trust and each of the plans. This structure was implemented to facilitate administration of assets and minimize variance in returns to the individual plans.
BACKGROUND:

A Master Trust structure was approved by Council on May 18, 1999 (INV99-004). Three pension plans’ assets (HSR, HMRF and HWRF) were pooled. As per the “Pensions Benefits Act” and the regulations there under, a “Statement of Investment Policies and Procedures” is required. The SIP&P is to be based on the “Prudent Person Portfolio Approach” to ensure the prudent investment and administration of assets. This approach permits a very wide variety of investments subject to a sponsor’s return/risk parameters, as outlined in an appropriate investment policy and conforming to legislative guidelines.

The legislative guidelines have recently been altered (2005) to allow unlimited foreign market investment. As well, a new hybrid investment vehicle called an Income Trust has become popular in Canada. There is a limited liability to an investor in Income Trusts in Canada which is not true of other markets. These investment types now form approximately eight percent of the “S&P/TSX Composite Index” as reported. These changes are embodied in the SIP&P attached as Schedule I.

ANALYSIS/RATIONALE:

The Statement of Investment Policy and Procedures (SIP&P) attached as Schedule I outlines a long-run target return of 6.75%. This target return is based on a benchmark asset mix of 60% equities and 40% fixed income. The current target asset mix minimum, benchmark and maximum are outlined in the table below:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Minimum %</th>
<th>Benchmark %</th>
<th>Maximum %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian Equity</td>
<td>25</td>
<td>30</td>
<td>35</td>
</tr>
<tr>
<td>Global Equity (Hedged)</td>
<td>10</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Global Equity (Unhedged)</td>
<td>10</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Total Equities</td>
<td>50</td>
<td>60</td>
<td>65</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>30</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>Cash</td>
<td>0</td>
<td>0</td>
<td>25</td>
</tr>
</tbody>
</table>

The actual investment management is carried out by external managers specializing in active or passive management in the sectors outlined above. There are currently seven external managers investing funds on behalf of the pension plans.
The SIP&P describes the responsibilities of the pension committee and its agents. Each of the agents is monitored on a regular basis. The performance of the fund managers is reviewed on a quarterly basis to ensure compliance with the mandate. The results of the fund managers are assessed on a long term basis against an appropriate benchmark.

The Policy outlines permitted and prohibited investments. The permitted investments allow investment in Canadian and Foreign Equities and Bonds. The participation in foreign securities is now unlimited. Income Trusts domiciled in Canada have been added to eligible investments. The lending of securities and the use of derivatives for hedging or index construction is allowed but not new. Allowed investment and process is outlined in detail in the “SIP&P” as attached Schedule I.

<table>
<thead>
<tr>
<th>ALTERNATIVES FOR CONSIDERATION:</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FINANCIAL/STAFFING/LEGAL IMPLICATIONS:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returns that exceed the benchmarks and match or exceed OMERS benchmarks result in lower reduced City contributions to the plans. There are no staffing or legal implications.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>POLICIES AFFECTING PROPOSAL:</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>RELEVANT CONSULTATION:</th>
</tr>
</thead>
<tbody>
<tr>
<td>James P. Marshall, a Hewitt Company as Investment Consultants for the City.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CITY STRATEGIC COMMITMENT:</th>
</tr>
</thead>
<tbody>
<tr>
<td>By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.</td>
</tr>
</tbody>
</table>

Community Well-Being is enhanced.  ☑ Yes  ☐ No
Environmental Well-Being is enhanced.  ☑ Yes  ☐ No

Economic Well-Being is enhanced.  ☑ Yes  ☐ No

Does the option you are recommending create value across all three bottom lines?
  ☑ Yes  ☐ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants?
  ☑ Yes  ☐ No
Statement of Investment Policies and Procedures

City of Hamilton Defined Benefit Pension Plans Master Trust

March 2006
## Contents

<table>
<thead>
<tr>
<th>Section 1—Overview</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.01 Purpose of Statement</td>
<td>1</td>
</tr>
<tr>
<td>1.02 Background of the Plan</td>
<td>1</td>
</tr>
<tr>
<td>1.03 Investment and Risk Philosophy Plan Profile</td>
<td>1</td>
</tr>
<tr>
<td>1.04 Administration</td>
<td>1</td>
</tr>
<tr>
<td>Section 2—Asset Mix and Diversification Policy</td>
<td>2</td>
</tr>
<tr>
<td>2.01 Portfolio Return Expectations</td>
<td>2</td>
</tr>
<tr>
<td>2.02 Expected Volatility</td>
<td>2</td>
</tr>
<tr>
<td>2.03 Asset Mix</td>
<td>2</td>
</tr>
<tr>
<td>2.04 Management Structure</td>
<td>3</td>
</tr>
<tr>
<td>Section 3—Permitted and Prohibited Investments</td>
<td>4</td>
</tr>
<tr>
<td>3.01 General Guidelines</td>
<td>4</td>
</tr>
<tr>
<td>3.02 Permitted Investments</td>
<td>4</td>
</tr>
<tr>
<td>3.03 Minimum Quality Requirements</td>
<td>6</td>
</tr>
<tr>
<td>3.04 Maximum Quantity Restrictions</td>
<td>7</td>
</tr>
<tr>
<td>3.05 Prior Permission Required</td>
<td>9</td>
</tr>
<tr>
<td>3.06 Securities Lending</td>
<td>9</td>
</tr>
<tr>
<td>3.07 Borrowing</td>
<td>9</td>
</tr>
<tr>
<td>3.08 Conflicts Between the Policy and Pooled Fund Investment Policies</td>
<td>9</td>
</tr>
<tr>
<td>Section 4—Monitoring and Control</td>
<td>11</td>
</tr>
<tr>
<td>4.01 Delegation of Responsibilities</td>
<td>11</td>
</tr>
<tr>
<td>4.02 Performance Measurement</td>
<td>12</td>
</tr>
<tr>
<td>4.03 Compliance Reporting by Investment Manager</td>
<td>14</td>
</tr>
<tr>
<td>4.04 Standard of Professional Conduct</td>
<td>14</td>
</tr>
<tr>
<td>Section 5—Administration</td>
<td>15</td>
</tr>
<tr>
<td>5.01 Conflicts of Interest</td>
<td>15</td>
</tr>
<tr>
<td>5.02 Related Party Transactions</td>
<td>16</td>
</tr>
<tr>
<td>5.03 Selecting Investment Managers</td>
<td>16</td>
</tr>
<tr>
<td>5.04 Directed Brokerage Commissions</td>
<td>16</td>
</tr>
<tr>
<td>5.05 Monitoring of Asset Mix</td>
<td>17</td>
</tr>
<tr>
<td>5.06 Monitoring of Investment Managers</td>
<td>17</td>
</tr>
<tr>
<td>5.07 Dismissal of an Investment Manager</td>
<td>17</td>
</tr>
<tr>
<td>5.08 Voting Rights</td>
<td>18</td>
</tr>
<tr>
<td>5.09 Valuation of Investments Not Regularly Traded</td>
<td>18</td>
</tr>
<tr>
<td>5.10 Policy Review</td>
<td>18</td>
</tr>
</tbody>
</table>

### Appendix A - Statement of Investment Policies and Procedures
- The Hamilton Municipal Retirement Fund
- Hamilton Street Railway Company Pension Plan (1994)
- The Hamilton-Wentworth Retirement Fund Pension Plan

### Appendix B—Compliance Reports
Section 1—Overview

1.01 Purpose of Statement
This Statement of Investment Policies and Procedures (the “Policy”) provides the framework for the investment of the assets of the City of Hamilton Defined Benefit Pension Plans Master Trust (the “Master Trust”).

This Policy is based on the “prudent person portfolio approach” to ensure the prudent investment and administration of the assets of the Master Trust are within the parameters set out in the Pension Benefits Act, (Ontario) and the Regulations thereunder.

1.02 Background of the Master Trust
The inception date of the Master Trust is November 1, 1999, when three defined benefit pension plans (the Hamilton Municipal Retirement Fund (Registration number 0027512), the Hamilton Street Railway Pension Plan (Registration number 0253344), and the Hamilton Wentworth Retirement Fund (Registration number 1073352)) commingled their assets in the Master Trust for investment purposes. These Plans hold units of the Master Trust and share, on a pro-rata basis, in all income, expenses and capital gains and losses of the Master Trust.

For reference purposes, the details of the Statement of Investment Policies and Procedures for each of the above mentioned pension plans participating in the Master Trust have been attached to Appendix A of this policy.

1.03 Investment and Risk Philosophy
Based on historical data, the asset classes most likely to produce the greatest return in excess of inflation over time are also likely to exhibit the most volatility. Conversely, the asset classes likely to be the least volatile are likely to produce the lowest returns over time. Therefore, the investment philosophies and strategies must take into account both return and risk objectives.

1.04 Administration
The General Manager, Finance and Corporate Services for the City of Hamilton (the General Manager) is the designated contact person at the City for administrative purposes.
Section 2—Asset Mix and Diversification Policy

2.01 Master Trust Return Expectations
Each Investment Managers appointed to invest the assets of the Master Trust (the “Investment Managers”) is directed to achieve a satisfactory long-term real rate of return through a diversified portfolio, consistent with acceptable risks, performance objectives and prudent management.

The long-term investment objective of the Master Trust is to achieve a minimum rate of return, net of all expenses, of 6.75%. A long-term asset mix policy has been established in order to provide a reference for long-term return requirements, which are consistent with the plan liabilities and the actuarial assumed interest rate assumption, at an acceptable risk level.

2.02 Expected Volatility
The volatility of the Master Trust is directly related to its asset mix, specifically, the balance between Canadian bonds, Canadian equities and foreign equities. Since the Investment Managers do not have the authority to make any type of leveraged investment on behalf of the Master Trust, the volatility of the Master Trust should be similar to the volatility of the Benchmark Portfolio set out in Section 4.02 (Performance Measurement).

2.03 Asset Mix
(a) Total Asset Mix
Taking into consideration the investment and risk philosophy of the participatory Plans, the following asset mix has been established:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Minimum %</th>
<th>Benchmark %</th>
<th>Maximum %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian Equity</td>
<td>25</td>
<td>30</td>
<td>35</td>
</tr>
<tr>
<td>Global Equity (unhedged)</td>
<td>10</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Global Equity (hedged)</td>
<td>10</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Total Equities</td>
<td>50</td>
<td>60</td>
<td>65</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>30</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>Cash</td>
<td>0</td>
<td>0</td>
<td>25</td>
</tr>
</tbody>
</table>

For purpose of the total asset mix described above, the Investment Managers’ asset class pooled funds are deemed to be 100% invested, even though these funds may contain a portion held in cash and cash equivalent instruments.
2.04 Management Structure

A specialized management structure has been adopted for the Master Trust consisting of:

(i) active managers specializing in Canadian equity, foreign equity, and Canadian fixed income;

(ii) index managers specializing in Canadian equity, foreign equity, and Canadian fixed income.

The Master Trust employs a mix of active and passive management styles for each major asset class. Active management provides the opportunity to outperform specific investment benchmarks and it can provide lower absolute volatility of returns. Passive, or index, management minimizes the risk of underperformance relative to a benchmark index and is generally less expensive than active management. This approach also diversifies the manager risk, making the Master Trust less reliant on the skills of a single Investment Manager.

Because holding large amounts of foreign assets can expose the Master Trust to fluctuations in the level of the Canadian dollar, a portion of the foreign assets are hedged back into Canadian dollars. This will reduce the effect of currency volatility on the Master Trust’s return.
Section 3—Permitted and Prohibited Investments

3.01 General Guidelines
The investments of the Master Trust must comply with the requirements and restrictions set out in the *Income Tax Act (Canada)* and the *Pension Benefits Act (Ontario)*, and their respective Regulations.

3.02 Permitted Investments
In general, and subject to the restrictions in this Section 3, the Investment Managers may invest in any of the following asset classes and in any of the investment instruments listed below:

(a) **Canadian and Foreign Equities**
   (i) Common and convertible preferred stock.
   (ii) Debentures convertible into common or convertible preferred stock, provided such instruments are traded on a recognized public exchange or through established investment dealers;
   (iii) Rights, warrants and special warrants for common or convertible preferred stock.
   (iv) Private placement equities, where the security will be eligible for trading on a recognized public exchange within a reasonable and defined time frame;
   (v) Instalment receipts, American Depository Receipts, Global Depository Receipts and similar exchange traded instruments.
   (vi) Units of real estate investment trusts (REITs);
   (vii) Exchange traded index-participation units (e.g., iUnits; SPDRs).
   (viii) Income trusts registered as reporting issuers under the Securities Act, domiciled in a Canadian jurisdiction that provides limited liability protection to unitholders.
   (ix) Units of limited partnerships which are listed on the TSX exchange.

(b) **Canadian and Foreign Fixed Income**
   (i) Bonds, debentures, notes, non-convertible preferred stock and other evidence of indebtedness of Canadian or developed market foreign issuers whether denominated and payable in Canadian dollars or a foreign
currency, provided such instruments are traded on a recognized public exchange or through established investment dealers, subject to Section 3.04 below;

(ii) Real return bonds.

(iii) Mortgages secured against Canadian real estate subject to Section 3.05 below.

(iv) Mortgage-backed securities, guaranteed under the National Housing Act.

(v) Term deposits and guaranteed investment certificates.

(vi) Private placements of bonds subject to Section 3.03 below.

(vii) Investment in bond and debenture issues of the City of Hamilton and affiliated bodies is neither encouraged nor discouraged. The decision by the Investment Manager(s) to invest in such issues is entirely their responsibility and they should be governed by the same degree of due diligence and prudence that they would apply when assessing any other investment.

(c) Cash and Short Term Investments

(i) Cash on hand and demand deposits.

(ii) Canadian and U.S. Treasury bills and bonds (with remaining maturities not exceeding 365 days) issued by the federal and provincial governments and their agencies;

(iii) Sovereign short-term debt instruments of developed countries, with maturities not exceeding 365 days;

(iv) Obligations of trust companies and Canadian and foreign banks chartered to operate in Canada, including bankers’ acceptances.

(v) Commercial paper and term deposits.

(vi) Other money market instruments (maturity not exceeding 365 days).

(d) Derivatives

The following uses of non-leveraged derivative instruments are permitted:

(i) Covered put and/or call options with respect to publicly traded securities that are held in the portfolio.

(ii) The Manager of an index portfolio may utilize fully backed, i.e. non-leveraged, derivative strategies designed to replicate the performance of specific market indices, i.e.- exchange-traded equity index futures contracts.
(iii) Investment Managers may use currency futures contracts and forward contracts to hedge foreign currency exposure.

(e) **Other Investments**

(i) Investments in open-ended or closed-ended pooled funds provided that the assets of such funds are permissible investments under this Policy.

(ii) Deposit accounts of the Custodian can be used to invest surplus cash holdings.

(f) **Index Mandates**

(i) For managers of index mandates, permitted investment vehicles may include all instruments that may form part of the respective index.

### 3.03 Minimum Quality Requirements

(a) **Quality Standards**

Within the investment restrictions for individual portfolios, all portfolios should hold a prudently diversified exposure to the intended market.

(i) The minimum quality standard for individual bonds and debentures is ‘BBB’ or equivalent as rated by a Recognized Bond Rating Agency, at the time of purchase.

(ii) The minimum quality standard for individual short term investments is ‘R-1’ low or equivalent as rated by a Recognized Bond Rating Agency, at the time of purchase.

(iii) The minimum quality standard for individual preferred shares is ‘P-1’ or equivalent as rated by a Recognized Bond Rating Agency, at the time of purchase.

(iv) All investments shall be reasonably liquid (i.e. in normal circumstances they should be capable of liquidation within 1 month).

(b) **Split Ratings**

In cases where the Recognized Bond Rating Agencies do not agree on the credit rating, the bond will be classified according to the methodology used by Scotia Capital, which states:

(i) If two agencies rate a security, use the lower of the two ratings;

(ii) If three agencies rate a security, use the most common; and

(iii) If all three agencies disagree, use the middle rating.

(c) **Downgrades in Credit Quality**

A Manager will take the following steps in the event of a downgrade in the credit rating of a portfolio asset by a Recognized Rating Agency to below the purchase standards set out in Section 3.03 (a) Quality Standards:
(i) The client will be notified of the downgrade by telephone at the earliest possible opportunity;

(ii) Within ten business days of the downgrade, the Manager will advise the Client in writing of the course of action taken or to be taken by the Manager, and its rationale; and

(iii) Immediately upon downgrade, the Manager will place the asset on a Watch List subject to monthly review by the Manager with the Client until such time as the security matures, is sold or until it is upgraded to a level consistent with the purchase quality standards as expressed in the above guidelines.

(d) Rating Agencies
For the purposes of this Policy, the following rating agencies shall be considered to be ‘Recognized Bond Rating Agencies’:

(i) Dominion Bond Rating Service;

(ii) Standard and Poor’s;

(iii) Moody’s Investors Services; and

(iv) Fitch Ratings.

(e) Private Placement Bonds
Private placement bonds are permitted subject to all of the following conditions:

(i) The issues acquired must be ‘A’ or equivalent rated;

(ii) The total investment in such issues must not exceed 10% of the market value of the Investment Manager(s) bond portfolio;

(iii) The Investment Manager’s portfolio may not hold more than 5% of the market value of any one private placement; and,

(iv) The Investment Manager(s) must be satisfied that there is sufficient liquidity to ensure sale at a reasonable price.

(v) The minimum issue size for any single security must be at least $150 million.

3.04 Maximum Quantity Restrictions
(a) Total Fund Level
No one equity holding shall represent more than 10% of the total book value of the Master Trust’s assets.

(b) Individual Investment Manager Level
The Investment Manager(s) shall adhere to the following restrictions:
(i) **Equities**

(A) No one equity holding shall represent more than the greater of 10% of the market value of any one Manager’s equity portfolio.

(B) No one equity holding shall represent more than 10% of the voting shares of a corporation.

(C) No one equity holding shall represent more than 10% of the available public float of such equity security.

(D) Income Trusts shall not comprise more than 15% of any fund manager Canadian equity portfolio.

(ii) **Bonds and Short Term**

(A) Except for federal and provincial bonds (including government guaranteed bonds), no more than 10% of a manager’s bond portfolio may be invested in the bonds of a single issuer and its related companies.

(B) Except for federal and provincial bonds, no one bond holding shall represent more than 10% of the market value of the total outstanding for that bond issue.

(C) No more than 8% of the market value of a manager’s bond portfolio shall be invested in bonds rated ‘BBB’ or equivalent.

(D) This Policy will permit the continued holding of instruments whose ratings are downgraded below BBB after purchase, provided that such instruments are disposed of in an orderly fashion.

(E) No more than 10% of the market value of a manager’s bond portfolio shall be invested in bonds denominated in a currency other than Canadian dollars.

(F) No more than 10% percent of the market value of the bond portfolio may be held in real return bonds.

(iii) **Other**

The use of derivative securities shall be supported at all times by the explicit allocation of sufficient assets to back the intended derivative strategy. For greater certainty, Investment Managers are not permitted to leverage the assets of the Master Trust. The use of derivative securities is only permitted for the uses described in this Policy. Purchase or sale of any of these instruments for speculative purposes is prohibited.

Notwithstanding the limits described in this Section, the single security limits do not apply to an Investment Manager’s index mandate.
3.05 **Prior Permission Required**

The following investments are permitted **provided that** prior permission for such investments has been obtained from the General Manager:

(a) Investments in private placement equities (except for the foreign equity managers investing in pooled funds where the pooled fund policy permits private placement equities).

(b) Direct investments in mortgages.

(c) Direct investments in any one parcel of real property that has a book value less than or equal to 5% of the book value of the Master Trust’s assets. The aggregate book value of all investments in real property and Canadian resource properties shall not exceed 25% of the book value of the Master Trust’s assets.

(d) Direct investments in venture capital financing or private equity partnerships.

(e) Derivatives other than those described in 3.02(d).

3.06 **Securities Lending**

The investments of the Master Trust may be loaned, for the purpose of generating revenue for the Fund, subject to the provisions of the *Pension Benefits Act (Ontario)* and the *Income Tax Act (Canada)*, and applicable regulations.

For securities held in segregated accounts, such loans must be secured by cash and/or readily marketable government bonds, treasury bills and/or letters of credit, discount notes and bankers’ acceptances of chartered banks. For bonds, the security held must have a market value of at least 105% of the market value of the loaned securities. For equities, the security held must have a market value of at least 105% of the market value of the loaned securities for Canadian and Non-North American equities, and 102% for U.S. equities. This market value relationship must be calculated at least daily.

The terms and conditions of any securities lending program will be set out in a contract with the custodian. The custodian shall, at all times, ensure that the Chief Investments Officer has a current list of those institutions that are approved to borrow the Fund’s investments.

Lending of the portion of the Master Trust’s assets held in a pooled fund is governed by the terms of the conditions set out in the pooled fund Statement of Investment Policies and Goals or similar document.

3.07 **Borrowing**

The Master Trust shall not borrow money, except to cover short-term contingency and the borrowing is for a period that does not exceed ninety days, subject to the *Pension Benefits Act (Ontario)*, the *Income Tax Act (Canada)* and the written permission of the General Manager.
3.08 Conflicts Between the Policy and Pooled Fund Investment Policies
While the guidelines in this Policy are intended to guide the management of the Master Trust, it is recognized that, due to the use of pooled funds, there may be instances where there is a conflict between the Policy and the investment policy of a pooled fund. In that case, the investment manager is expected to notify General Manager upon the initial review of the Policy and whenever a change in the pooled fund policy creates a conflict. However, it is understood that the pooled fund policy shall dominate.
Section 4—Monitoring and Control

4.01 Delegation of Responsibilities
The General Manager, Finance and Corporate Services, for the City of Hamilton is the
designated contact person for administrative matters. Overall responsibility for the Master
Trust ultimately rests with City Council. However, City Council has delegated certain
administrative duties and responsibilities to internal and external agents.

(a) Chief Investments Officer
The Chief Investments Officer is responsible for:

(i) monitoring the Master Trust asset mix and rebalancing as required,

(ii) day-to-day liaison with external Investment Managers and the
Investment Consultant,

(iii) monitoring and budgeting for cash flow within the pension fund,

(iv) researching, recommending and implementing improvements to asset
management of the Master Trust, and

(v) directing and implementing strategy for self managed portfolios, if any.

(b) Investment Managers
The Investment Managers will:

(i) invest the assets of the Master Trust in accordance with this Policy;

(ii) meet with the Chief Investments Officer as required and provide written
reports regarding the Investment Manager’s past performance, their future
strategies and other issues as requested;

(iii) notify the Master Trust, in writing of any significant changes in the
Investment Manager’s philosophies and policies, personnel or
organization and procedures;

(iv) will provide periodically, but no less than quarterly, lists of assets and such
other information as may be requested by the Chief Investments Officer;
and,

(v) file quarterly compliance reports (see section 4.03).

(c) Custodian/Trustee
The custodian/trustee will:
(i) fulfil the regular duties of a Custodian/Trustee as required by law;

(ii) maintain safe custody over the assets of the Master Trust Plans;

(iii) execute the instructions of the Chief Investments Officer and the Investment Managers; and,

(iv) record income and provide financial statements to the Chief Investments Officer monthly, or as required.

(d) Investment Consultant

The investment consultant will:

(i) assist the Chief Investments Officer in developing a prudent long-term asset mix, and specific investment objectives and policies;

(ii) monitor, analyse and report on the Master Trust’s investment performance and to support the Chief Investments Officer on any investment related matters;

(iii) assist with the selection of Investment Managers, custodians and other suppliers; and,

(i) meet with the Chief Investments Officer as required.

4.02 Performance Measurement

For purposes of evaluating the performance of the Master Trust and the Investment Managers, all rates of returns are measured over moving four-year periods. Return objectives are net of fees and include realized and unrealized capital gains or losses plus income from all sources. Returns will be measured quarterly and will be calculated as time-weighted rates of return.

(a) Total Fund

Investment weightings and results of the Master Trust are to be measured regularly against a long-term Benchmark Portfolio comprising:

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P/TSX Composite Index</td>
<td>30.0</td>
</tr>
<tr>
<td>MSCI World ex-Canada Index (C$)</td>
<td>15.0</td>
</tr>
<tr>
<td>MSCI World ex-Canada Index (C$) (hedged)</td>
<td>15.0</td>
</tr>
<tr>
<td>Scotia Capital Universe Bond Index</td>
<td>40.0</td>
</tr>
</tbody>
</table>
(b) **Active and Index Canadian Equity Managers**
Investment results of the active and index Canadian Equity Managers are to be tested regularly against a Benchmark Portfolio comprising:

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P/TSX Composite Index</td>
<td>100</td>
</tr>
</tbody>
</table>

(c) **Active Global Equity Managers**
Investment results of the active and index Global Equity Managers are to be tested regularly against a long-term Benchmark Portfolio comprising:

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI World ex-Canada Index (C$)</td>
<td>100</td>
</tr>
</tbody>
</table>

(d) **Index Global Equity Managers**
Investment results of the active Global Equity Manager are to be tested regularly against a Benchmark Portfolio comprising:

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI World ex-Canada Index (C$) (hedged)</td>
<td>100</td>
</tr>
</tbody>
</table>

(e) **Active and Index Canadian Bond Managers**
Investment results of the active and index Canadian Bond Managers are to be tested regularly against a Benchmark Portfolio comprising:

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotia Capital Universe Bond Index</td>
<td>100</td>
</tr>
</tbody>
</table>
4.03 Compliance Reporting by Investment Manager
The Investment Managers are required to complete and deliver a compliance report to the Chief Investments Officer and the Investment Consultant each quarter. The compliance report will indicate whether or not the Investment Manager was in compliance with this Policy during the quarter.

In the event that an Investment Manager is not in compliance with this Policy, the Investment Manager is required to advise the Chief Investments Officer immediately, detail the nature of the non-compliance and recommend an appropriate course of action to remedy the situation.

The Master Trust invests in pooled funds with separate investment policies. In that case, the Investment Manager must confirm compliance to the pooled fund policy. In addition, should a conflict arise between a pooled fund policy and this Policy, the Investment Manager is required to advise the Chief Investments Officer immediately and detail the nature of the conflict.

4.04 Standard of Professional Conduct
The Investment Managers are expected to comply, at all times and in all respects, with the Code of Ethics and Standards of Professional Conduct as promulgated by the CFA Institute (CFA).

The Investment Managers will manage the assets with the care, diligence and skill that an investment manager of ordinary prudence would use in dealing with pension plan assets. The Investment Managers will also use all relevant knowledge and skill that they possess or ought to possess as prudent investment managers.
Section 5—Administration

5.01 Conflicts of Interest

(a) Responsibilities
This standard applies to the City’s staff, as well as to all agents employed by the City, in the execution of their responsibilities under the Pension Benefits Act (Ontario) (the “Affected Persons”).

An “agent” is defined to mean a company, organization, association or individual, as well as its employees who are retained by the Administrator to provide specific services with respect to the investment, administration and management of the assets of the Master Trust.

(b) Disclosure
In the execution of their duties, the Affected Persons shall disclose any material conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased advice, or to make unbiased decisions, affecting the administration of the Master Trust assets.

Further, it is expected that no Affected Person shall make any personal financial gain (direct or indirect) because of his or her fiduciary position. However, normal and reasonable fees and expenses incurred in the discharge of their responsibilities are permitted if documented and approved by the Administrator.

No Affected Person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from a person with whom the employee deals in the course of performance of his or her duties and responsibilities for the Master Trust.

It is incumbent on any Affected Person who believes that he or she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation to the attention of the General Manager immediately. The General Manager, in turn, will decide what action is appropriate under the circumstances.

No Affected Person who has or is required to make a disclosure as contemplated in this Policy shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure, unless otherwise determined permissible by decision of the General Manager.
5.02 Related Party Transactions
The Chief Investments Officer, on behalf of the Master Trust, may not enter into a transaction with a related party unless:

(a) the transaction is both required for operation and or administration of the Master Trust and the terms and conditions of the transaction are not less favourable than market terms and conditions;

(b) securities of the related party are acquired at a public exchange; or,

(c) the combined value of all transactions with the same related party is nominal or the transaction(s) is immaterial to the Master Trust.

For the purposes of this Section 5.02, only the market value of the combined assets of the Fund shall be used as the criteria to determine whether a transaction is nominal or immaterial to the Master Trust. Transactions less than (0.5%) of the combined market value of the assets of the plan are considered nominal.

A “related party” is defined to mean the administrator of the plan, including any officer, director or employee of the administrator. It also includes, the Investment Managers and their employees, a union representing employees of the employer, a member of the Master Trust, a spouse or child of the persons named previously, or a corporation that is directly or indirectly controlled by the persons named previously, among others. Related party does not include government or a government agency, or a bank, trust company or other financial institution that holds the assets of the Master Trust.

5.03 Selecting Investment Managers
In the event that a new Investment Manager must be selected or additional Investment Manager(s) added to the existing Investment Manager, the Chief Investments Officer will undertake an Investment Manager search with or without the assistance of a third-party investment consultant depending on the expertise required. The criteria used for selecting an Investment Manager will be consistent with the investment and risk philosophy set out in Section 1.05 (Investment and Risk Philosophy).

5.04 Directed Brokerage Commissions
Investment Managers may use directed brokerage to pay for research and other investment related services provided they comply with, and provide the disclosure required by, the Soft Dollar Standards promulgated by the Association for Investment Management and Research.
5.05 Monitoring of Asset Mix

In order to ensure that the Master Trust operates within the minimum and maximum guidelines stated in this Policy, the Chief Investments Officer shall monitor the asset mix on a calendar quarterly basis. Rebalancing between the investment mandates can take place over a reasonably short period of time after an imbalance has been identified. Rebalancing may be effected by redirecting the net cash flows to and from the Master Trust, or by transferring cash or securities between portfolios/managers.

<table>
<thead>
<tr>
<th>Manager Asset Mix</th>
<th>Minimum %</th>
<th>Benchmark %</th>
<th>Maximum %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian Equity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active</td>
<td>15.0</td>
<td>20.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Index</td>
<td>5.0</td>
<td>10.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Global Equity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active</td>
<td>5.0</td>
<td>10.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Index</td>
<td>15.0</td>
<td>20.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Fixed Income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active</td>
<td>15.0</td>
<td>20.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Index</td>
<td>15.0</td>
<td>20.0</td>
<td>25.0</td>
</tr>
</tbody>
</table>

5.06 Monitoring of Investment Managers

An important element in the success of this policy is the link between the Investment Managers and the Chief Investments Officer. It is expected that the Investment Managers will communicate with the Chief Investments Officer whenever necessary between regularly scheduled meetings.

Regular meetings between the active Canadian Equity, Canadian Bond, and Global Equity Managers and the Chief Investments Officer will be scheduled annually. Meetings will be scheduled with the Index managers as required. At each meeting, it is expected that the managers will prepare a general economic and capital markets overview, which will be distributed prior to the meeting. They should also address the following issues in their presentations:

- review the previous period’s strategy and investment results,
- discuss how the condition of the capital markets affects the investment strategy of their respective portfolios,
- economic and market expectations,
- anticipated changes in the asset mix within the limits provided in this Policy, and,
- discuss compliance and any exceptions.

5.07 Dismissal of an Investment Manager

Reasons for considering the termination of the services of an Investment Manager include, but are not limited to, the following factors:

(a) performance results which are below the stated performance benchmarks;
(b) changes in the overall structure of the Master Trusts’ assets such that the Investment Manager’s services are no longer required;

(c) change in personnel, firm structure or investment philosophy which might adversely affect the potential return and/or risk level of the portfolio; and/or

(d) failure to adhere to this Policy.

5.08 Voting Rights
The Administrator has delegated voting rights acquired through the investments held by the Master Trust to the custodian of the securities to be exercised in accordance with the Investment Manager’s instructions. Investment Managers are expected to exercise all voting rights related to investments held by the Master Trust in the interests of the members of the underlying pension plans. At least annually, the Investment Managers shall report their voting activities to the Chief Investments Officer.

5.09 Valuation of Investments Not Regularly Traded
The following principles will apply for the valuation of investments that are not traded regularly:

(a) Equities
Average of bid-and-ask prices from two major investment dealers, at least once every calendar quarter.

(b) Bonds
Same as for equities.

(c) Mortgages
Unless in arrears, the outstanding principal plus/minus the premium/discount resulting from the differential between face rate and the currently available rate for a mortgage of similar quality and term, determined at least once every month.

(d) Real Estate
A certified written appraisal from a qualified independent appraiser at least every two years.

5.10 Policy Review
This Policy may be reviewed and revised at any time, but at least once every calendar year it must be formally reviewed. Should the Investment Manager(s) wish to review this policy at any time, it is his/her responsibility to contact the Chief Investments Officer with specific recommendations.

—END—
Appendix A – Statement of Investment Policies & Procedures
Overview

1.01 Purpose of Statement
This Statement of Investment Policies and Procedures (the “Policy”) provides the framework for the investment of the assets of the Hamilton Municipal Retirement Fund, registration number 0027512 (the “Plan”);

The objective of this Policy is to ensure that the assets of the Plan, together with expected contributions made by both the City of Hamilton and the Plan members, shall be invested in a continued prudent and effective manner.

This Policy is based on the “prudent person portfolio approach” to ensure the prudent investment and administration of the assets of the Plan (the “Fund”) are within the parameters set out in the Pension Benefits Act, (Ontario) and the Regulations thereunder.

1.02 Background of the Plan
The Hamilton Municipal Retirement Fund is a contributory defined benefit plan. The plan has been closed to new entrants since 1965. Municipal employees hired after June 30, 1965 participate in the OMERS Pension Plan. Therefore, this is a closed fund and will terminate upon retirement of the last retiree or successor.

1.03 Plan Profile
a) Contributions
Under the terms of the Plan text:

For normal retirement age 60 class: 7% of contributory earnings up to YMPE plus 8.5% of contributory earnings in excess of the YMPE.

For normal retirement age 65 class: 6% of contributory earnings up to the YMPE plus 7.5% of contributory earnings in excess of the YMPE.

Effective August 1, 1998, employee contributions to the Plan ceased.

b) Benefits
2% of average annual earnings in best 5 years before retirement for each year of credited service up to 35 years reduced by 0.675% of the 5-year average earnings up to the final year’s YMPE for each year of contributory service after January 1, 1966. Reduction suspended from date of retirement to age 65 for CPP benefit. On an ad hoc basis, annual increases will not be less than the increase provided by OMERS, up to 100% of the increase in the Consumer Price Index.

c) Liabilities
As of the most recent actuarial valuation of the Plan as at December 31, 2002, there was no active member, 3 deferred members and 360 retirees and beneficiaries.
As of December 31, 2002, the going-concern liability of the plan was $103,740,900 compared to the actuarial value of assets of $116,982,200. On a solvency basis, the liability was $106,309,800, while the assets (at market) were $122,390,500.

1.04 Objective of the Plan
The primary goal of the Plan is to provide a secure source of assets on which to meet present and future obligations accumulated on behalf of the Plan’s members. The Fund must provide levels of returns to allow adequate benefit levels. The Fund should be prudently managed to assist in avoiding actuarial deficits and excessive volatility in annual rates of return.

1.05 Investment and Risk Philosophy
a) Investment Philosophy
The Plan has an average risk tolerance. Despite the plan having a moderate surplus, the vast majority of the Plan’s liabilities are attributable to retiree members and the pension benefits (on an ad hoc basis) are indexed to increases in CPI. Finally, the actuarial interest rate assumption is 7% net of expenses. As a result, an equity-biased investment philosophy has been adopted.

b) Risk Philosophy
In order to achieve its long-term investment goals, the Plan must invest in assets that have uncertain returns, such as Canadian equities, foreign equities and non-government bonds. However, the Company attempts to reduce the overall level of risk by diversifying among asset classes and by diversifying the holdings within each individual asset class.

1.06 Administration
The General Manager, Finance and Corporate Services for the City of Hamilton is the designated contact at the City for administrative purposes.

1.07 Pooling of Assets
For investment purposes, the assets of the Plan are combined with the assets of the Hamilton-Wentworth Retirement Fund and the Hamilton Street Railway Company. The combined assets are included in the City of Hamilton Defined Benefit Plans Master Trust.

1.08 Master Trust SIP&P
The Master Trust SIP&P is the policy that should be followed while investing the assets, both commingled and uncommingled, of the Hamilton Municipal Retirement Fund.
Overview

1.01 Purpose of Statement

This Statement of Investment Policies and Procedures (the “Policy”) provides the framework for the investment of the assets of the Hamilton Street Railway Company Pension Plan, registration number 0253344 (the “Plan”);

The objective of this Policy is to ensure that the assets of the Plan, together with expected contributions made by both the Hamilton Street Railway Company (the “Company”) and the Plan members, shall be invested in a continued prudent and effective manner.

This Policy is based on the “prudent person portfolio approach” to ensure the prudent investment and administration of the assets of the Plan (the “Fund”) are within the parameters set out in the Pension Benefits Act, (Ontario) and the Regulations thereunder.

1.02 Background of the Plan

The effective date of the current Plan is January 1, 1994, when two predecessor plans, the Canada Coach Lines and the Hamilton Street Railway plans, were merged. The Plan is a contributory defined benefit Plan. The Plan is open to all full-time and part-time employees of the Hamilton Street Railway, subject to certain requirements outlined in the Plan text.

1.03 Plan Profile

d) Contributions

Based on the most recent actuarial valuations dated January 1, 2003, there is an excess surplus on an ongoing basis. Therefore, the Company is precluded from making additional contributions until the excess surplus has been eliminated. Under the terms of the Plan text, members’ contributions should be 7.5% of earnings less contributions which are made to the Canada Pension Plan. However, members did not contribute during 1999 and 2002.


e) Benefits

Members receive a pension equal to 1.5% of average pensionable earnings up to the average Year’s Maximum Pensionable Earnings (YMPE) as established under the Canada Pension Plan, plus 2% of the excess, multiplied by years of credited service. The “average pensionable earnings” are defined as the average of best five years’ earnings as a contributory member. The average YMPE is the average of the YMPE for the last thirty-six months of the plan membership.

In the event that pensions accrued under the prior plan exceed the pension accrued under this plan for service prior to July 1, 1980, then the pension is increased accordingly.
A bridging benefit is payable on early retirement in the amount of $18.00 per month per year of employment service to a maximum of 30 years of employment service, reduced by the early retirement reduction as described above. The bridge benefit stops at age 65 or earlier death and is not indexed.

Benefits are subject to annual indexing at the rate of 75% of the change in the Consumer Price Index for the prior calendar year less 1.5%. The maximum adjustment is 6% per annum and the minimum 0%.

f) **Liabilities**

As of the most recent actuarial valuation of the Plan as at January 1, 2003, there were 509 active members, 13 deferred members and 420 retirees and beneficiaries. The average age of the active members was approximately 48.2 years with average pensionable earnings of $43,323.

As of January 1, 2003, the going-concern liability of the plan was $123,106,100 compared to the actuarial value of assets of $153,219,500. Approximately 48.0% of the accrued liability was related to active members, approximately 49.7% was related to retirees, approximately 2.3% was related to deferred members. On a solvency basis, the liability was $115,953,300, while the assets (at market) were $152,917,200.

1.04 **Objective of the Plan**

The primary goal of the Plan is to provide a secure source of assets on which to meet present and future obligations accumulated on behalf of the Plan’s members. The Fund must provide levels of returns to allow adequate benefit levels. The Fund should be prudently managed to assist in avoiding actuarial deficits and excessive volatility in annual rates of return.

1.05 **Investment and Risk Philosophy**

c) **Investment Philosophy**

The Plan has an average risk tolerance. Due to the excess surplus that the Plan has on an ongoing basis, the Plan is in a very strong financial position. Additionally, a majority of the Plan’s liabilities are attributable to active members and the average age of the active members about 48 years. Benefits payable are subject to an indexing formula. Finally, the actuarial interest rate assumption is 7% net of expenses. As a result, an equity-biased investment philosophy has been adopted.

d) **Risk Philosophy**

In order to achieve its long-term investment goals, the Plan must invest in assets that have uncertain returns, such as Canadian equities, foreign equities and non-government bonds. However, the Company attempts to reduce the overall level of risk by diversifying among asset classes and by diversifying the holdings within each individual asset class.

1.06 **Administration**

The General Manager, Finance and Corporate Services for the City of Hamilton is the designated contact at the City for administrative purposes.
1.07 **Pooling of Assets**
For investment purposes, the assets of the Plan are combined with the assets of the Hamilton-Wentworth Retirement Fund and the Hamilton Municipal Retirement Fund. The combined assets are included in the City of Hamilton Defined Benefit Plans Master Trust.

1.08 **Master Trust SIP&P**
The Master Trust SIP&P is the policy that should be followed while investing the assets, both commingled and uncommingled, of the Hamilton Street Railway Pension Plan.
Overview

1.01 Purpose of Statement
This Statement of Investment Policies and Procedures (the “Policy”) provides the framework for the investment of the assets of the Hamilton-Wentworth Retirement Fund, registration number 1073352 (the “Plan”);

The objective of this Policy is to ensure that the assets of the Plan, together with expected contributions made by both the Regional Municipality of Hamilton-Wentworth and the Plan members, shall be invested in a continued prudent and effective manner.

This Policy is based on the “prudent person portfolio approach” to ensure the prudent investment and administration of the assets of the Plan (the “Fund”) are within the parameters set out in the Pension Benefits Act, (Ontario) and the Regulations thereunder.

1.02 Background of the Plan
The Plan is a contributory, defined benefit Plan. Effective January 1, 1985 all active Region Other Participants, excluding Police Civilians, were transferred to OMERS. The liability to transfer such members to OMERS was met by monthly payments of $115,187 until December 31, 2000 and monthly payments of $361, concluding September 30, 2003. The outstanding balance of such payments is taken as adjustment to the assets of the Plan. There are no active members remaining in the Plan.

1.03 Plan Profile

g) Contributions
Under the terms of the Plan text:

For normal retirement age 60 class:

1) Senior Police Officers: contributions should be 7% of earnings up to the YMPE plus 8.5% of contributory earnings in excess of YMPE.

2) Other Police Officers: contributions should be 6.5% of earnings up to YMPE plus 8% of contributory earnings up to YMPE plus 8% of contributory earnings in excess of YMPE.

For a normal retirement age of 65 contributions should be 5.75% of earnings.

h) Benefits
2% of average annual earnings in best 5 years before retirement for each year of credited service up to 35 years reduced by 0.675% of the 5-year average earnings up to the final year’s YMPE for each year of contributory service after January 1, 1966.
Reduction suspended from date of retirement to age 65 for CPP benefit. On an ad hoc basis, annual increases will not be less than the increase provided by OMERS, up to 100% of the increase in the Consumer Price Index.

i) Liabilities
As of the most recent actuarial valuation of the Plan as at December 31, 2004, there were no active members, 1 deferred member and 312 retirees and beneficiaries.

As of December 31, 2004, the going-concern liability of the plan was $82,808,400 compared to the actuarial value of assets of $72,237,800. On a solvency basis, the liability (before adjustments) was $83,688,300, while the assets (at market) were $74,498,600. Both deficits are being eliminated through a series of special payments.

1.04 Objective of the Plan
The primary goal of the Plan is to provide a secure source of assets on which to meet present and future obligations accumulated on behalf of the Plan’s members. The Fund must provide levels of returns to allow adequate benefit levels. The Fund should be prudently managed to assist in avoiding actuarial deficits and excessive volatility in annual rates of return.

1.05 Investment and Risk Philosophy

   e) Investment Philosophy
   The Plan has an average risk tolerance. The plan is underfunded and all of the Plan’s liabilities are attributable to retiree members. However, pension benefits (on an ad hoc basis) are indexed to increases in CPI and the actuarial interest rate assumption is 6.75% net of expenses. As a result, an equity-biased investment philosophy has been adopted.

   f) Risk Philosophy
   In order to achieve its long-term investment goals, the Plan must invest in assets that have uncertain returns, such as Canadian equities, foreign equities and non-government bonds. However, the General Manager attempts to reduce the overall level of risk by diversifying among asset classes and by diversifying the holdings within each individual asset class.

1.06 Administration
The General Manager, Finance and Corporate Services for the City of Hamilton is the designated contact at the City for administrative purposes.

1.07 Pooling of Assets
For investment purposes, the assets of the Plan are combined with the assets of the Hamilton Street Railway Company and the Hamilton Municipal Retirement Fund. The combined assets are included in the City of Hamilton Defined Benefit Plans Master Trust.

1.08 Master Trust SIP&P
The Master Trust SIP&P is the policy that should be followed while investing the assets, both commingled and uncommingled, of the Hamilton-Wentworth Retirement Fund Pension Plan.
Appendix B – Compliance Reports
# Compliance Report for the Quarter Ended [Date]

### ASSET MIX (at Market Value)

<table>
<thead>
<tr>
<th>Category</th>
<th>Guidelines</th>
<th>Policy Complied with</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIXED INCOME</td>
<td>BONDS</td>
<td>100%</td>
</tr>
<tr>
<td>CASH</td>
<td>SHORT-TERM &amp; CASH</td>
<td>0%</td>
</tr>
</tbody>
</table>

### CONSTRAINTS

<table>
<thead>
<tr>
<th>Category</th>
<th>Policy Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>GENERAL</td>
<td>3.01 – General Guidelines</td>
</tr>
<tr>
<td>BONDS</td>
<td>3.02 (b) – Bonds</td>
</tr>
<tr>
<td>CASH</td>
<td>3.02 (c) – Cash</td>
</tr>
<tr>
<td>DERIVATIVES</td>
<td>3.02 (c) – Derivatives</td>
</tr>
<tr>
<td>OTHER</td>
<td>3.02 (e) – Other Investments</td>
</tr>
<tr>
<td>INDEX</td>
<td>3.02 (f) – Index Mandates</td>
</tr>
<tr>
<td>QUALITY REQUIREMENTS</td>
<td>3.03 – Minimum Quality Requirements</td>
</tr>
<tr>
<td>QUANTITY RESTRICTIONS</td>
<td>3.04 – Maximum Quantity Restrictions</td>
</tr>
<tr>
<td>PRIOR PERMISSION</td>
<td>3.05 – Prior Permission Required</td>
</tr>
<tr>
<td>SECURITIES LENDING</td>
<td>3.06 – Securities Lending</td>
</tr>
<tr>
<td>RESPONSIBILITIES</td>
<td>4.01 (b) – Delegation of Responsibilities – Investment Managers</td>
</tr>
<tr>
<td>STANDARDS OF PROFESSIONAL CONDUCT</td>
<td>4.04 - Standards of Professional Conduct</td>
</tr>
<tr>
<td>CONFLICTS OF INTEREST</td>
<td>5.01 - Conflicts of Interest</td>
</tr>
<tr>
<td>VOTING RIGHTS</td>
<td>5.08 - Voting Rights</td>
</tr>
</tbody>
</table>

* If policy not complied with, comment on specifics

**COMPLETED BY:** __________________________ **SIGNED BY:** __________________________
# Compliance Report for the Quarter Ended ______________ (date)

<table>
<thead>
<tr>
<th>ASSET MIX (at Market Value)</th>
<th>%</th>
<th>YES/NO *</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQUITIES</td>
<td>CANADIAN</td>
<td>YES/NO *</td>
</tr>
<tr>
<td></td>
<td>U.S.</td>
<td>YES/NO *</td>
</tr>
<tr>
<td></td>
<td>EAFE</td>
<td>YES/NO *</td>
</tr>
<tr>
<td>CASH</td>
<td>TOTAL FOREIGN</td>
<td>YES/NO *</td>
</tr>
<tr>
<td></td>
<td>SHORT-TERM &amp; CASH</td>
<td>YES/NO *</td>
</tr>
</tbody>
</table>

## CONSTRAINTS

<table>
<thead>
<tr>
<th>CONSTRAINT</th>
<th>Policy Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>GENERAL</td>
<td>3.01 – General Guidelines</td>
</tr>
<tr>
<td>EQUITIES</td>
<td>3.02 (a) – Canadian and Foreign Equities</td>
</tr>
<tr>
<td>CASH</td>
<td>3.02 (c) – Cash and Short Term Investments</td>
</tr>
<tr>
<td>DERIVATIVES</td>
<td>3.02 (d) – Derivatives</td>
</tr>
<tr>
<td>OTHER INVESTMENTS</td>
<td>3.02 (e) – Other Investments</td>
</tr>
<tr>
<td>INDEX</td>
<td>3.02 (f) – Index Mandates</td>
</tr>
<tr>
<td>QUALITY REQUIREMENTS</td>
<td>3.03 – Minimum Quality Requirements</td>
</tr>
<tr>
<td>QUANTITY RESTRICTIONS</td>
<td>3.04 – Maximum Quantity Restrictions</td>
</tr>
<tr>
<td>PRIOR PERMISSION</td>
<td>3.05 – Prior Permission Required</td>
</tr>
<tr>
<td>SECURITIES LENDING</td>
<td>3.06 – Securities Lending</td>
</tr>
<tr>
<td>BORROWING</td>
<td>3.07 – Borrowing</td>
</tr>
<tr>
<td>RESPONSIBILITIES</td>
<td>4.01 (b) – Delegation of Responsibilities – Investment Managers</td>
</tr>
<tr>
<td>STANDARDS OF PROFESSIONAL CONDUCT</td>
<td>4.04 - Standards of Professional Conduct</td>
</tr>
<tr>
<td>CONFLICTS OF INTEREST</td>
<td>5.01 - Conflicts of Interest</td>
</tr>
<tr>
<td>VOTING RIGHTS</td>
<td>5.08 - Voting Rights</td>
</tr>
</tbody>
</table>

* If policy not complied with, comment on specifics

**COMPLETED BY:** ______________________ **SIGNED BY:** ______________________
The City of Hamilton Master Trust  
Active Bond Manager  

Compliance Report for the Quarter Ended ____________  
(date)  

<table>
<thead>
<tr>
<th>ASSET MIX (at Market Value)</th>
<th>GUIDELINES</th>
<th>POLICY COMPLIED WITH</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIXED INCOME</td>
<td>BONDS</td>
<td>100%</td>
</tr>
<tr>
<td>CASH</td>
<td>SHORT-TERM &amp; CASH</td>
<td>0%</td>
</tr>
</tbody>
</table>

**CONSTRAINTS**

<table>
<thead>
<tr>
<th>GENERAL</th>
<th>Investment Policy Section 3.01 – General Guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>BONDS</td>
<td>Investment Policy Section 3.02 (b) – Bonds</td>
</tr>
<tr>
<td>CASH</td>
<td>Investment Policy Section 3.02 (c) – Cash</td>
</tr>
<tr>
<td>DERIVATIVES</td>
<td>Investment Policy Section 3.02 (c) – Derivatives</td>
</tr>
<tr>
<td>OTHER</td>
<td>Investment Policy Section 3.02 (e) – Other Investments</td>
</tr>
<tr>
<td>INDEX</td>
<td>Investment Policy Section 3.02 (f) – Index Mandates</td>
</tr>
<tr>
<td>QUALITY REQUIREMENTS</td>
<td>Investment Policy Section 3.03 – Minimum Quality Requirements</td>
</tr>
<tr>
<td>QUANTITY RESTRICTIONS</td>
<td>Investment Policy Section 3.04 – Maximum Quantity Restrictions</td>
</tr>
<tr>
<td>PRIOR PERMISSION</td>
<td>Investment Policy Section 3.05 – Prior Permission Required</td>
</tr>
<tr>
<td>SECURITIES LENDING</td>
<td>Investment Policy Section 3.06 – Securities Lending</td>
</tr>
<tr>
<td>RESPONSIBILITIES</td>
<td>Investment Policy Section 4.01 (b) – Delegation of Responsibilities – Investment Managers</td>
</tr>
<tr>
<td>STANDARDS OF PROFESSIONAL CONDUCT</td>
<td>Investment Policy Section 4.04 - Standards of Professional Conduct</td>
</tr>
<tr>
<td>CONFLICTS OF INTEREST</td>
<td>Investment Policy Section 5.01 - Conflicts of Interest</td>
</tr>
<tr>
<td>VOTING RIGHTS</td>
<td>Investment Policy Section 5.08 - Voting Rights</td>
</tr>
</tbody>
</table>

* If policy not complied with, comment on specifics

COMPLETED BY: ___________________________  SIGNED BY: ___________________________
Compliance Report for the Quarter Ended ______________

<table>
<thead>
<tr>
<th>ASSET MIX (at Market Value)</th>
<th>%</th>
<th>YES/NO *</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQUITIES</td>
<td>CANADIAN</td>
<td></td>
</tr>
<tr>
<td>U.S.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EAFE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CASH</td>
<td>TOTAL FOREIGN</td>
<td></td>
</tr>
<tr>
<td></td>
<td>SHORT-TERM &amp; CASH</td>
<td></td>
</tr>
</tbody>
</table>

**GUIDELINES**

**POLICY COMPLIED WITH**

**CONSTRAINTS**

<table>
<thead>
<tr>
<th>CONSTRAINTS</th>
<th>POLICY</th>
</tr>
</thead>
<tbody>
<tr>
<td>GENERAL</td>
<td>Investment Policy Section 3.01 – General Guidelines</td>
</tr>
<tr>
<td>EQUITIES</td>
<td>Investment Policy Section 3.02 (a) – Canadian and Foreign Equities</td>
</tr>
<tr>
<td>CASH</td>
<td>Investment Policy Section 3.02 (c) – Cash and Short Term Investments</td>
</tr>
<tr>
<td>DERIVATIVES</td>
<td>Investment Policy Section 3.02 (d) – Derivatives</td>
</tr>
<tr>
<td>OTHER INVESTMENTS</td>
<td>Investment Policy Section 3.02 (e) – Other Investments</td>
</tr>
<tr>
<td>INDEX</td>
<td>Investment Policy Section 3.02 (f) – Index Mandates</td>
</tr>
<tr>
<td>QUALITY REQUIREMENTS</td>
<td>Investment Policy Section 3.03 – Minimum Quality Requirements</td>
</tr>
<tr>
<td>QUANTITY RESTRICTIONS</td>
<td>Investment Policy Section 3.04 – Maximum Quantity Restrictions</td>
</tr>
<tr>
<td>PRIOR PERMISSION</td>
<td>Investment Policy Section 3.05 – Prior Permission Required</td>
</tr>
<tr>
<td>SECURITIES LENDING</td>
<td>Investment Policy Section 3.06 – Securities Lending</td>
</tr>
<tr>
<td>BORROWING</td>
<td>Investment Policy Section 3.07 – Borrowing</td>
</tr>
<tr>
<td>RESPONSIBILITIES</td>
<td>Investment Policy Section 4.01 (b) – Delegation of Responsibilities – Investment Managers</td>
</tr>
<tr>
<td>STANDARDS OF PROFESSIONAL CONDUCT</td>
<td>Investment Policy Section 4.04 - Standards of Professional Conduct</td>
</tr>
<tr>
<td>CONFLICTS OF INTEREST</td>
<td>Investment Policy Section 5.01 - Conflicts of Interest</td>
</tr>
<tr>
<td>VOTING RIGHTS</td>
<td>Investment Policy Section 5.08 - Voting Rights</td>
</tr>
</tbody>
</table>

* If policy not complied with, comment on specifics

**COMPLETED BY:** ______________________  **SIGNED BY:** ______________________

James P. Marshall  
a Hewitt Company
SUBJECT: Hamilton Wentworth Retirement Fund (HWRF) Review (FCS06057) (City Wide)

RECOMMENDATION:

a) That the information contained in Appendix ‘A’ and ‘B’ be received and that the HWRF review be considered complete and no further action required.

b) That staff prepare a report for the next meeting with findings regarding the feasibility of amending the plan text to provide inflationary increases equal to that provided under the Ontario Municipal Employees Retirement System (OMERS) plan.

EXECUTIVE SUMMARY:

At the HMRF/HWRF Pension Administration Sub-Committee meeting of September 29, 2003, members of the Sub-Committee requested a legal opinion as to whether the employer was obligated under the Pension Benefit Act to fund for future indexation since contract language provides for indexation.

Legal and actuarial opinions received, concluded that the ad-hoc funding method used by the City to fund the contractual obligation to provide indexing to its HWRF members was an appropriate method and in accordance with accepted actuarial practices and in compliance with the Pension Benefit Act. They further concluded that this opinion would
not change even if the indexation commitment were to move from the collective agreement, where it now resides, to the plan text.

The Financial Services Commission of Ontario (FSCO) also supported the ad hoc funding method used by the City and stated that its opinion would not alter regardless of whether the plan text was amended to provide indexing for fixed periods of time or indefinitely.

As of the December 31, 2004 valuation the plan had a $10.6 million deficit (2003 – $9.2 million) on a going concern basis and a solvency deficit of $23.5 million (2003 – $22.5 million). As a result of these deficits, the required special payments commencing in 2005 were $4.8 million annually, which was met by the current budget. The granting of the 2006 pension indexation increased the annual payments to $5 million.

Over the two-year period, the consulting fees required to resolve the matter were paid by the Plan and total $79,610.

It is recommended that all issues raised have been resolved and that no further action is required.

BACKGROUND:

At the HMRF/HWRF Pension Administration Sub-Committee meeting of September 29, 2003, members of the Sub-Committee requested a legal opinion as to whether the employer was obligated under the Pension Benefit Act to fund for future indexation since contract language provides for indexation.

A subsequent meeting was arranged in December 2003, where members approved the use of a lawyer from the firm Fraser Milner and Casgrain. The lawyer assured both parties that he could render an unbiased opinion on the matter. It was agreed at this meeting that both parties would be privy to all information and that any finding would be disclosed to all parties at the same time. Staff and members compiled the historical documents requested by the lawyer and these were couriered in February 2004.

On May 21, 2004 a meeting took place to provide an update of the research undertaken by Paul Baston (Fraser Milner and Casgrain) to date. Mr. Baston confirmed that based on contract language that there was an obligation to provide pensioners with indexation and that since this benefit was introduced that the administrators of the plan had fulfilled their obligation to pensioners.

The meeting of May 21st, 2004 concluded by granting the Mr. Baston the authority to hire an independent actuary to render an opinion on:

a) whether labour laws and/or pension legislation require the City to fully fund the indexation when it was first negotiated into the collective agreements or was the ad hoc funding method used by the city an appropriate funding method, and
b) If the indexation should have been fully funded when first negotiated, then is the City required to fund commencing today or retroactively plus all investment returns.

On November 26th, 2004, a meeting was held with the Paul Baston, a member representative and staff to review the legal opinion as well as that of the independent actuary, Malcolm Hamilton from Mercer Human Resource Consulting.

In summary, the actuary concluded that the ad hoc funding method used by Watson Wyatt to fund the contractual cost of living increases was in accordance with accepted actuarial practices and in compliance with the Pension Benefit Act. Further, the actuary rendered an opinion that even if the requirement to provide indexation was to reside in the plan text rather than in the collective agreement, that the funding method used would still be an accepted actuarial practice and meet legislated requirements. This is due to the fact that the Pension Benefit Act allows actuaries to ignore the future cost of indexation in calculating the going concern and solvency liabilities, even when such indexation is committed.

From a legal perspective, Mr. Baston also concluded that the ad hoc funding method was appropriate. Further, that even though there is a contractual obligation to provide indexation, there is no legal requirement to incorporate the indexation commitment in the plan text by an amendment to by-law 7970.

However, the member representative felt strongly that the contract language regarding indexation be incorporated into the plan text and by-law 7970. As a result, Mr. Baston was directed to seek written confirmation from the FSCO on the appropriateness of the ad hoc funding method if the indexation language was incorporated into the plan text. A letter to FSCO was drafted by Mr. Baston in April 2005 outlining the current funding practice and requesting whether the funding method used by the City would be appropriate under each of the following scenarios:

a) if the indexation commitment was incorporated into the plan text for fixed periods of time to coincide with the term of the collective agreement and extended by amendment with each successive collective agreement, or

b) If the indexation commitment was incorporated into the plan text without an expiry date.

In addition to the above request, the member representative requested that Mr. Baston expand his legal opinion rendered on November 8, 2004 and provide feedback to members as to why:

a) amendments to the plan were required for benefit plan enhancements incorporated into the collective agreement, but the indexation provision in the collective agreement does not require an amendment to the plan text, and

b) The ad hoc funding method was still appropriate even if the indexing obligation were to be included in the collective agreement.
Mr. Baston expanded upon his opinion in a letter dated June 21\textsuperscript{st}, 2005. A copy was distributed to members at the June 23\textsuperscript{rd}, 2005 sub-committee meeting and is attached as Appendix A. In summary, Mr Baston responded as follows:

a) An amendment is required for changes to the plan text. Since indexing is already provided for in the plan text it does not require an amendment to the plan. Conversely, benefit enhancement negotiated in the collective agreement were not included in the plan text and therefore required an amendment.

b) When the indexing provision is included in the collective agreement, it does not obligate the employer beyond the term of the agreement and therefore ceases at the expiry of the collective agreement unless it is renewed in a subsequent agreement.

An Information Update Report dated November 21\textsuperscript{st}, 2005 and attached as Appendix B, was distributed to HWRF sub committee members. The report contained the response from FSCO as well as an email from Watson Wyatt, which provided further clarification on the response from FSCO.

The response from FSCO concluded that regardless of whether the plan text was amended to provide an indexing formula for fixed periods of time or indefinitely, the current practice of ad hoc funding would still be acceptable under the Pension Benefit Act. The email from Watson Wyatt clarified FSCO’s response, whereby, not only is the current funding acceptable but that if the plan provided for automatic indexing then it would be possible to delay the recognition of liabilities until the next valuation, thereby reducing the annual deficit payments to the fund.

**ANALYSIS/RATIONALE:**

At a December 14\textsuperscript{th}, 2005 meeting, members and staff met with Mr. Baston to review the various opinions received on the matter and to discuss what further action, if any was required to demonstrate that the ad hoc funding method used by the City was appropriate. Although a member representative requested that a representative from FSCO be invited to a future sub-committee meeting, Mr. Baston advised that based on his past experience FSCO would not agree to such a meeting. After much discussion, the member representative agreed that the matter had been adequately resolved and no further action required.

However, the member did request that in light of the opinions received, that the plan be amended to include wording that recognizes the intent to continue providing pension indexing to HWRF retirees based on the increases provided to retirees under the OMERS plan.

Staff had some concerns with this request. Currently, OMERS provides 100% indexation to its retirees. Under pension legislation, a multi-employer plan such as OMERS has the ability to decrease indexation in the future if it chooses. However, the
HWRF plan is a single employer plan and the legislation does not provide the same flexibility for these types of plans. Consequently, the City may find itself offside with the intent of the contract language to provide indexation “as approved by the OMERS board.”

Staff have requested that Watson Wyatt review the members’ request to change the plan text in light of the employer’s concerns. Specifically, Watson Wyatt was asked to comment on the feasibility of amending the plan to state, “Inflationary increases will be provided equal to that provided to retirees under the OMERS plan”. In addition, would the absence of a specified inflationary indexation formula in the plan text enable the City to match the OMERS annual inflationary increases even though OMERS may have changed their indexation formula such that the inflation increase was lower than what it would have been under their old formula? The result of this review will be reported at a subsequent meeting.

**ALTERNATIVES FOR CONSIDERATION:**

None

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

Financial Implications

A total amount of $79,610 was expensed to the HWRF fund to cover the cost of legal fees and actuarial fees required to respond to this issue.

Staffing Implications

Approximately 125 hours of staff time were required in compiling documents and data as well as reviewing and reporting on the findings and attending the meetings required to resolve the matter.

Legal Implications

None. The legal and actuarial opinions concluded that the method used to fund for future indexation was appropriate. This was further supported by FSCO.

**POLICIES AFFECTING PROPOSAL:**

None
RELEVANT CONSULTATION:

The firm Fraser Milner and Casgrain provided the legal opinions on this matter. Actuarial opinions were provided by Mercer Human Resource Consulting. The Financial Services Commission of Ontario provided its opinion on the provincial legislation governing pension plans.

CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. □ Yes ☑ No

There are no community well-being issues affected by the recommendation.

Environmental Well-Being is enhanced. □ Yes ☑ No

The issue has no environmental impact.

Economic Well-Being is enhanced. ☑ Yes □ No

The recommendation is fiscally responsible since no further costs will be incurred to address the issues.

Does the option you are recommending create value across all three bottom lines? □ Yes ☑ No

The recommendation creates value on Economic Well-being only as the other two categories have no relevance to the issue.

Do the options you are recommending make Hamilton a City of choice for high performance public servants? □ Yes ☑ No

The option recommended only affects members of a closed pension plan with no current employee membership.
June 21, 2005

PRIVILEGED AND CONFIDENTIAL

The Hamilton Wentworth Retirement Fund
Administration Committee
c/o R. G. (Ralph) Caughell
Senior Pension Analyst, Finance Department
City of Hamilton
120 King Street West 9th Floor
Hamilton, Ontario L8N 1E9

Dear Committee Members:

Subject: Hamilton-Wentworth Retirement Fund ("HWRF Plan")
Pension Indexing and Funding Opinion [Supplemental to opinion dated
November 8, 2004 ("Opinion")]

We have been requested to provide additional written comment on two aspects of the Opinion.

Additional Comment No. 1

We have been asked to expand upon why it was necessary to amend the HWRF Plan to incorporate other benefits negotiated under collective agreements but not the indexing of pensions in pay.

As noted in the Opinion, since 1988 the HWRF Plan, pursuant to an amendment to By-law 7970, provides that pensions "shall as a minimum be indexed by an inflation adjustment formula established by the Pension Benefits Act, (Ontario) as amended". As also noted in the Opinion, such an inflation adjustment formula has never been established. The amendment permits indexing and establishes any statutory requirements under the Pension Benefits Act, (Ontario) ("PBA"), if any, as a minimum. As a consequence of this authority, indexing is authorized to be provided without the necessity of amending the Plan text itself. Indexing which is granted constitutes an adjustment or amendment to the pension that is in pay but not of the text which authorizes such action to be taken.

As we stated in our Opinion, although indexing which is granted does not constitute an amendment to the Plan text, it does constitute an amendment or adjustment to benefits in pay and consequently written evidence of such amendments/adjustments should be filed under the PBA.
As also noted in the Opinion, recent practice under the HWRF Plan has been to file
determinations to provide indexing with the Financial Services Commission of Ontario
("FSCO") pursuant to the PBA and such filings have been accepted by FSCO as "amendments".
These filings form part of the documentation that constitutes and supports the HWRF Plan and it
must be administered in accordance with the filed documents. These amendments/adjustments
to benefits in pay that have been granted are permanent and cannot be taken away subsequently.

These arrangements with respect to indexing need to be contrasted with other benefit
enhancements that have been negotiated. Because the HWRF Plan must be administered in
accordance with its text and other documents that are filed with FSCO, changes to such matters
as the definition of earnings to be included for pension calculation purposes and the
circumstances under which members may retire with unreduced pensions must be implemented
by amendment to the HWRF Plan text. If this was not done then the Plan terms would not
 correspond with the manner in which the Plan is being administered. For example, at one point
the HWRF Plan provided for actuarial reduction of pension on early retirement unless the
member had 35 years of credited service. It was subsequently bargained that an unreduced
pension could be received by individuals who are eligible to retire under the "thirty (30) year
supplementary plan". In order to make this change the HWRF Plan text had to be amended. If
the HWRF Plan text were not amended to provide for this additional unreduced benefit
entitlement, then it would have been improper to provide unreduced pensions to persons who
retired under this supplementary plan notwithstanding the agreement to do so. Similarly, if there
are to be changes in the types of earnings recognized for pension accrual purposes, the HWRF
Plan text would need to be amended to include them, and it was. This situation is to be
 contrasted with indexing. If the HWRF Plan text were silent about indexing it would not be
lawful to index pensions. However, the Plan was amended to permit indexing. The granting of
indexing in any particular year does not conflict with the Plan text and in fact is consistent with
it.

Additional Comment No. 2

The second additional comment requested was why the incorporation of the express indexing
obligation found in the collective agreement into the HWRF Plan would not alter the funding
opinions rendered by the writer and Malcolm Hamilton of Mercer Human Resource Consulting.
As you are aware, this very question has been put on behalf of the Committee to FSCO for its
opinion by letter dated June 3, 2005.

Where an obligation to provide indexing arises under a collective agreement and is not expressed
to extend beyond the term of the agreement, the obligation to index pensions in the future
beyond the indexing that has already been granted and is protected as noted above, terminates at
the expiry of the collective agreement unless the obligation is renewed in a subsequent
agreement or the agreement is extended. The term of the collective agreement would have to be
reflected in any amendment to the HWRF Plan in order to be consistent with the collective
agreement. Consequently, the provision from the collective agreement which is quoted in the
Opinion and provides for indexing "in accordance with any such increases approved by the
OMERS Board" would have to be time limited in the HWRF Plan text so that the provision
would cease to be effective going forward from the date of expiry of the collective agreement. If
the agreement to index going forward is extended or contained in a new collective agreement, then the HWRF Plan text would have to be further amended accordingly, and so on from time to time going forward. Projections for future funding obligations could not extend beyond the next expiry date of a collective agreement. Mr. Hamilton has confirmed his agreement with this funding opinion. The specific indexing obligation arises each year after increases are approved by the OMERS Board.

The writer would be pleased to deal with any questions or comments which you may have on these additional comments.

Yours truly,

FRASER MILNER CASGRAIN LLP

Per. Paul F. Baston
### INFORMATION UPDATE

**Hamilton**

<table>
<thead>
<tr>
<th>To:</th>
<th>HWRF Pension Administration Sub-Committee Members</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Councillor Bruckler, Councillor Pearson, James Garchinski, Wilf Heene, Wynn Webb</td>
</tr>
<tr>
<td>From:</td>
<td>Joseph L. Rinaldo</td>
</tr>
<tr>
<td></td>
<td>General Manager</td>
</tr>
<tr>
<td></td>
<td>Finance and Corporate Services</td>
</tr>
<tr>
<td>Telephone:</td>
<td>(905) 540-6150</td>
</tr>
<tr>
<td>Facsimile:</td>
<td>(905) 546-2095</td>
</tr>
<tr>
<td>E-mail:</td>
<td><a href="mailto:jrinaldo@hamilton.ca">jrinaldo@hamilton.ca</a></td>
</tr>
<tr>
<td>Date:</td>
<td>November 21, 2005</td>
</tr>
<tr>
<td>Re:</td>
<td>Hamilton-Wentworth Retirement Fund (HWRF) (City Wide)</td>
</tr>
</tbody>
</table>

As a follow-up to report FSC05076, respecting the Hamilton-Wentworth Retirement Fund (HWRF) Review, presented at the June 23, 2005 Sub-Committee and attached herein, the following information has been received:

a) Letter from Mr. Paul Baston dated June 3, 2005 to Financial Services Commission of Ontario (FSCO) requesting a response to the questions posed by HWRF member representatives. (this letter was distributed at the June 23, 2005 meeting)

b) Letter from FSCO dated August 10, 2005, responding to the above letter.

c) Letter e-mailed from Watson Wyatt on November 16, 2005, explaining the letter from FSCO.

The letter from FSCO states that even if the plan were to be amended to specify indexing formula for either fixed periods of time or indefinitely, the current practice of ad hoc funding would still be acceptable under the Pension Benefit Act.

Although the letter from FSCO supports the City's current practice, the third paragraph of their letter was found to be somewhat confusing, and therefore we requested the plan’s actuary to provide an annotated summary of the points in this paragraph. The actuary concludes that not only is the current funding acceptable, but that if the plan provided for automatic indexing, then it would be possible to delay the recognition in the liabilities until the next valuation, and thereby reduce the annual deficit payments to the fund.

In addition, a report has been submitted to the December 2005 Council meeting, recommending the equivalent OMERS increase of 3.36% to all HWRF pensions effective January 1, 2006.
Committee reports on the above information will be forwarded to the next HMRF/HWRF Pension Administration Sub-Committee, at which time we expect to present the December 31, 2005 actuarial valuation.

Joseph L. Rinaldo
General Manager
Finance and Corporate Services

Copy to:
June 3, 2005

Financial Services Commission of Ontario
5160 Yonge Street
4th Floor
Toronto, Ontario
M2N 6L9

Attention: Marilyn Johnson

Dear Ms. Johnson:

Subject: Hamilton-Wentworth Retirement Fund ("Plan")

FSCO Registration No. 1073352

I am writing to you on behalf of the Administration Committee of the Plan which has asked that I pose two questions to you.

Background

The Plan contains the following provision with respect to indexing of pension benefits:

Pension benefits, pension and deferred pensions shall as a minimum be indexed by an inflation related adjustment formula established by the Pension Benefits Act, (Ontario) as amended.

Under the terms of collective agreements, the employer (formerly Regional Municipality of Hamilton-Wentworth, now City of Hamilton) from January 1, 1988 has agreed to provide cost of living increases "... in accordance with any such increases approved by the OMERS Board". This commitment is made for the term of each collective agreement and expires with the expiry of the agreement although it has been renewed in successive agreements to date. The practice has been to provide such indexing to all retired members of the Fund whether or not they have been represented by the bargaining agent for the collective agreement.

The actuarial valuations of the Plan have consistently recognized indexing granted each year as ad hoc increases and have not included the cost of increases that may be granted in subsequent
years except for *ad hoc* increases effective January 1st of the year commencing immediately after
the date of the valuation.

The recent practice has been to file certified copies of Region/City resolutions setting out the
indexing rate for the applicable years. These filings have been accepted by FSCO and registered
as Plan amendments.

**Questions**

1. If the current indexing commitment to match indexing approved by the OMERS Board
   contained in the collective agreements ("indexing commitment") were incorporated into the Plan
   text for fixed periods of time (i.e. term of the collective agreement), subject to extension by
   amendment if continued in a successor collective agreement, would the current *ad hoc* funding
   practice be acceptable?

2. If the indexing commitment were incorporated into the Plan text without an expiry date,
   would the current *ad hoc* funding practice be acceptable?

Thank you for your assistance on these matters. If you have any questions concerning the
foregoing, please contact me.

Yours truly,

[Signature]

Paul F. Baston

cc: Plan Administration Committee

2773008_1.DOC
August 10, 2005

Mr. Paul F. Baston
Fraser Milner Casgrain LLP
1 First Canadian Place
100 King Street West
Toronto, ON M5X 1B2

Dear Mr. Baston:

Re: Hamilton-Wentworth Retirement Fund ("Plan")

Thank you for your letter of June 3, 2005 wherein you posed two questions on behalf of the Administration Committee of the Plan.

You asked whether the current funding practice for ad hoc pension increases would be acceptable if the Plan was amended to specify the indexing formula: (i) for fixed periods of time or (ii) indefinitely.

The Plan’s current funding practice does not pre-fund future escalated adjustments. If the Plan was amended as noted above, subsection 11(1) of the Regulation 909, R.R.O. 1990, as amended (the Regulation) and the definition of solvency liabilities would permit the exclusion of future escalated adjustments from the funding requirements of the Plan. However, subsection 11(2) of the Regulation would require the Plan’s normal cost to include the amount of payments related to escalated adjustments that had not been pre-funded. Furthermore, as per Regulation 19(9), the exclusion of escalated adjustments from solvency liabilities would impose certain restrictions on commuted value transfers.

Should you have further questions or concerns, you may contact me either at the above address, or directly by telephone at (416) 590-2042. Please refer to the registration number shown at the top of this letter.

Yours truly,

Julina L. Lyn
Pension Officer

copy: Mr. Joe Rinaldo, City of Hamilton
From: Mao, Yishi (Toronto) [mailto:Yishi.Mao@WatsonWyatt.com]
Sent: Wednesday, November 16, 2005 12:49 PM
To: rcaughel@city.hamilton.on.ca
Cc: Sohier, Martine (Toronto); Ma, Grace (Toronto); Mao, Yishi (Toronto); Wong, Mandy (Toronto)
Subject: HWRF Funding of Indexing Provisions

Ralph,

As requested, we have prepared the attached documents to address the questions that you raised with regard to the letter that you received from FSCO on August 10, 2005. We have also shown an example using the projected liability increases due to the assumed annual indexing of 3.0% of pension payments starting 2006. Please note, the example given in the attachment is only for the illustration purposes. The discount rate as well as the indexation rate assumptions used in our illustration could differ from the emerging actual rates.

Martine has asked me to send you this e-mail, since she is out of the office today (she will return on Friday, November 18, 2005). Please feel free to contact us if you have any questions.

Regards,

Yishi

Attachments PR: M Sohier

Yishi Mao, A.S.A.
Actuarial Associate
Watson Wyatt Worldwide
One Queen Street East Suite 1100
Toronto, Ontario M5C 2Y4
Telephone: (416) 874-3001
Fax: (416) 366-9691
yishi.mao@watsonwyatt.com
www.watsonwyatt.com

Notice of Confidentiality
This transmission contains information that may be confidential and that may also be privileged. Unless you are the intended recipient of the message (or authorized to receive it for the intended recipient), you may not copy, forward, or otherwise use it, or disclose its contents to anyone else. If you have received this transmission in error, please notify us immediately and delete it from your system.
November 15, 2005

Delivered by Fax and Mail

Mr. Ralph Caughell
Senior Pension Analyst
City of Hamilton
The Standard Life Building
120 King Street West, 9th Floor
Hamilton, ON L8P 4V2

Subject: The Hamilton-Wentworth Retirement Fund (the “Plan”)
Funding of Indexing Provisions

Dear Ralph:

As you requested, we are providing our comments on the letter you received from the Financial Services Commission of Ontario (“FSCO”) dated August 10, 2005 with respect to acceptable ways to fund for the indexing of pension payments.

Our comments specifically relate to the third paragraph of FSCO’s letter, which can be read as follows:

1. “If the Plan was amended as noted above, subsection 11(1) of the Regulation 909, R.R. 1990, as amended (the Regulation) and the definition of solvency liabilities would permit the exclusion of future escalated adjustments from the funding requirements of the Plan.”
2. “However, subsection 11(2) of the Regulation would require the Plan’s normal cost to include the amount of payments related to escalated adjustments that had not been pre-funded.”
3. “Furthermore, as per Regulation 19(9), the exclusion of escalated adjustments from solvency liabilities would impose certain restrictions on commuted value transfers.”

Our comments with respect to FSCO’s response, presented in the same order as above, are as follows:

1. If the Plan is amended to include a promise to index pension payments in the future, it is permitted, based on the Regulation, to exclude the cost of future indexing from both the going concern and solvency liabilities. This applies whether the indexing commitment is provided under the Plan for a fixed or an indefinite period of time.

This means that if the Plan is amended to provide automatic indexing, the funding requirements do not have to change materially from the current situation where indexing is provided on an ad hoc basis.
2. If the Plan is amended to provide future indexing and the cost of such indexing is excluded from the liabilities, the increase in pension payments granted in a year has to be included in the normal cost (referred to as current service cost in the valuation report) until the next valuation. At the next valuation, the cost related to past increases since the last valuation has to be fully recognized in the liabilities.

For example, let’s assume an increase of 3% is provided as at January 1, 2006. If the pension payments are $1,000,000 before the increase, the normal cost will have to be increased by $30,000 (3% x $1,000,000) for 2006 and for each year until the next valuation. This means that a payment of $30,000 will have to be remitted in addition to the existing special payment schedule.

If the next valuation is performed as at January 1, 2007, the cost of the 3% increase will have to be included in the liabilities as at January 1, 2007. If the plan is not fully funded at the time, additional special payments will be determined as at January 1, 2007. In our example, if the increase in the liabilities is $285,000 as at January 1, 2007, after taking into account the normal cost payment of $30,000 made in 2006 with respect to the pension increase that is not pre-funded, special payments of approximately $65,000 will have to be paid starting in 2007 for the next five years.

When an ad hoc increase is granted, either a complete valuation or a cost certificate must be filed with FSCO to determine the additional liabilities and funding requirements resulting from the benefit increase right away at the effective date of the amendment. When the Plan is not fully funded, the cost of the increase is amortized starting at the effective date of the increase. Using our example, if the total cost of granting a 3% increase is $300,000 as at January 1, 2006, then special payments of approximately $69,000 will have to be paid over the next five years starting in 2006.

The following table summarizes the payment schedule for the 3% benefit increase effective January 1, 2006 described in our example above:

<table>
<thead>
<tr>
<th>Year</th>
<th>Ad hoc indexing</th>
<th>Automatic Indexing* Annual Valuations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>69,000</td>
<td>30,000</td>
</tr>
<tr>
<td>2007</td>
<td>69,000</td>
<td>65,000</td>
</tr>
<tr>
<td>2008</td>
<td>69,000</td>
<td>65,000</td>
</tr>
<tr>
<td>2009</td>
<td>69,000</td>
<td>65,000</td>
</tr>
<tr>
<td>2010</td>
<td>69,000</td>
<td>65,000</td>
</tr>
<tr>
<td>2011</td>
<td>-</td>
<td>65,000</td>
</tr>
</tbody>
</table>
In summary, when a pension plan provides for automatic indexing, it is possible to delay the recognition in the liabilities of the full cost of indexing granted after a valuation to the next valuation. However, until the next valuation is performed, additional pension payments resulting from new increases must be paid immediately (current service cost). With ad hoc indexing, the full cost of indexing has to be reflected in the liabilities at the effective date of the increase.

3. The restrictions on the payments of commuted values do not apply as there are no longer any members who can elect a commuted value payment under the Plan.

If you have any questions, please do not hesitate to contact us.

Yours truly,

[Signature]
Martine Sohier
Actuary
Direct Dial (416) 943-6045

Copy: Yishi Mao, Watson Wyatt
     Grace Ma, Watson Wyatt
Hamilton-Wentworth Retirement Fund
Illustration of Annual Funding Requirements
Indexing of 3% per year starting January 1, 2006

<table>
<thead>
<tr>
<th>Year</th>
<th>Ad hoc indexing</th>
<th>Automatic Indexing*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>2006</td>
<td>3.00%</td>
<td>582,000</td>
</tr>
<tr>
<td>2007</td>
<td>3.00%</td>
<td>1,151,000</td>
</tr>
<tr>
<td>2008</td>
<td>3.00%</td>
<td>1,705,000</td>
</tr>
<tr>
<td>2009</td>
<td>3.00%</td>
<td>2,244,000</td>
</tr>
<tr>
<td>2010</td>
<td>3.00%</td>
<td>2,766,000</td>
</tr>
<tr>
<td>2011</td>
<td>3.00%</td>
<td>2,689,000</td>
</tr>
<tr>
<td>2012</td>
<td>3.00%</td>
<td>2,606,000</td>
</tr>
<tr>
<td>2013</td>
<td>3.00%</td>
<td>2,517,000</td>
</tr>
<tr>
<td>2014</td>
<td>3.00%</td>
<td>2,423,000</td>
</tr>
</tbody>
</table>

* No prefunding of future indexing

Discount rate used: 6.25%
Mortality table: UP94 projected to 2015