Undertaking # 4

MPIC to provide a black line version of the transitional investment policy statement.

RESPONSE:

A blacklined version of the Transitional Investment Policy Statement is attached at *Appendix 1*.

13. TRANSITIONAL INVESTMENT POLICY STATEMENT

Table of Contents

Purpose

The purpose of this Policy is to provide comprehensive guidelines to the Investment Committee on considerations to be made in dealing with the Corporation's investments. This policy is transitional as the current 70% bond/30% growth asset allocation will be effective until February 28, 2019 and the five new investment portfolios will be effective after February 28, 2019 as a result of the Asset Liability Management study conducted in 2017/18. When the policy is reviewed in April 2019 the current 70% bond/30% growth asset allocation will be removed.

Effective Date

The Investment Policy Statement applies to investment activity on or after July 31, 2018.

Review

To be reviewed annually by the Investment Committee. The next scheduled review will occur in April 2019. The Investment Committee will be required to provide a written report on the results of its review, including assessment of the effectiveness of this Policy and recommendations for revisions.

Approval

This Policy is effective subject to approval by the Minister of Finance and will be applied by the Department of Finance.

General Policy Statement

The Manitoba Public Insurance Corporation Act requires the Corporation to pay to the Minister of Finance (the "Minister") the Corporation's investment assets (the "Fund") to be invested in accordance with The Financial Administration Act. The Minister recognizes that the Corporation has unique investment goals and desires the Department of Finance (the "Department") to work closely and cooperatively with the Corporation in ensuring that this Investment Policy Statement is followed to address both the need and objectives of the Corporation and the Minister, respectively.

The purpose of the five portfolios defined in Section 7.2 (collectively "the Fund") is to pay the liabilities of the Corporation as they come due and to provide investment income from interest, dividends and capital gains that will assist in ~~minimizing~~ stabilizing premiums payable by policyholders, in that order.

The Corporation must maintain significant long and short-term investment funds ~~(the "Fund")~~ to ensure satisfaction of its obligations to claimants. These assets must be managed in a manner which will maximize investment returns ~~while minimizing risk in an overall portfolio context~~for an appropriate level of risk. The Fund must also have sufficient liquidity to address all funding needs of the Corporation as they arise.

Total Return includes both the change in the price of a financial asset, over a set period of time, as well as any income or dividends paid by the asset. In a portfolio context, it is the weighted average of the change in price of the various asset classes.

Risk is the uncertainty of future outcomes. In a portfolio context, there is unsystematic risk which can be diversified away and systematic risk which cannot be eliminated. Systematic risk is essentially the risk inherent in securities markets. The minimum acceptable level of risk for the Corporation occurs when its assets have been sufficiently diversified so as to effectively eliminate unsystematic risk. Systematic risk may be controlled by investing in authorized asset classes and through the use of hedging strategies.

The Corporation considers the short-term volatility of premiums to be a primary concern. As such, mitigating short-term changes in the relative value of assets and liabilities is a major investment objective, particularly those generated by interest rates variations. The mismatch in the changes in assets and liabilities, as a result of changes in interest rates, is expected to be minimized by defining a narrow bandwidth around the actuarially determined duration of the Corporation's claim liabilities.

It is a statutory requirement that the Corporation, pursuant to the requirements of the Act, pay to the Minister of Finance (the "Minister"), all moneys in any reserves established under Section 18 of the Act and such additional moneys as are not immediately required for the purposes of the Corporation as are available for investment. The moneys paid will be invested in accordance with *The Financial Administration Act.* The Minister has charged the Department of Finance (the "Department") with the operational management of the Fund.

Any investment counsel, advisors or custodians that may be required to advise on the Corporation's investments will be engaged on a basis satisfactory to the Minister where applicable, subject to authorization by the Lieutenant Governor in Council.

The Minister and the Department recognize the need for participation and direction from the Corporation in determining the appropriate policies and strategies and parameters for investment of the Fund including the use of derivatives to mitigate investment risk or create a desired return (where no margin or borrowing is used). Derivatives are not to be used for speculative purposes.

The Investment Committee Working Group reviews the Investment Policy Statement at least once a year.

Statement of Investment Beliefs

The administrators of the Fund believe that:

i. Asset allocation is the most important factor in determining the performance of the Fund.

ii. Market timing at the strategic asset allocation level is generally not an effective strategy for consistently increasing returns.

iii. Identifying, measuring and monitoring risks within the portfolio are important.

iv. The success of active management varies on the efficiency of capital markets.

    a. In inefficient markets, active managers can add value net of fees over the long term.

b. In efficient markets, it is believed that active managers will tend to underperform net of fees over the long term.

v. Passive management may be appropriate to reduce active management risk and cost in both efficient and some inefficient markets.

vi. A liability sensitive approach to investing reduces the Fund's interest rate risk by matching the size and duration of the Corporation's liabilities with fixed income securities.

vii. Over the long-term, equities are expected to provide a return premium over bonds, with higher expected volatility. A meaningful allocation to foreign equities will increase portfolio diversification and thereby decrease portfolio risk while, at the same time, providing the potential for enhanced long-term returns.

viii. MUSH bonds benefit the Corporation without degrading the quality and return of the Fund's investment portfolio, while also benefiting Manitoba residents.

ix. Private debt benefits the Corporation by enhancing and diversifying the return of the Fund's investment portfolio without degrading the quality.

x. Alternative asset classes such as real estate and infrastructure provide income and potential capital growth, and are suited to offset inflation sensitive liabilities.

xi. Cash provides the lowest expected long-term return, and should be held in minimal amounts where possible.

Investment Fund Strategy Statement

The asset allocation contained in the Investment Policy Statement shall be adopted for investments of the Fund.

Equities

Equities include Canadian and foreign securities.

The Working Group shall annually review the risk, return and diversification of the equity holdings in the Fund, and will report the results to the Investment Committee.

Alternative Investments

Alternative Investments may include Canadian Real Estate, Private Equity and Infrastructure.

The Working Group shall annually review the risk, return and diversification of the Canadian Real Estate, Private Equity and Infrastructure holdings in the Fund, and will report the results to the Investment Committee.

Fixed Income

The Working Group shall annually review the risk, return and diversification of the fixed income holdings in the Fund, and will report the results to the Investment Committee.

The Fund's fixed income assets shall be primarily managed in a "buy and hold" strategy subject to changes in the duration of the claims liabilities. When it is advantageous, the Department may trade bonds to take advantage of various bonds that appear undervalued and to take advantage of the changing shape of the yield curve. The Department should not be taking significant actions based on views regarding the future direction of interest rates. Fixed income management will be governed by the accepted duration ranges as defined in section 8.4 of this Investment Policy Statement. The fixed income portfolio shall be diversified amongst federal, Manitoba, other provincial, municipal and corporate issues and also amongst a variety of maturities, and may include allocations to private placements (bonds and debentures) of various maturities to be funded over time.

Gains and Losses

The Corporation will account for gains and losses in accordance with International Financial Reporting Standards (IFRS).

Section I – Overview

1.1 This Investment Policy Statement ("the Statement") applies to the assets held in the Fund ("the Fund") in respect of the liabilities of the Manitoba Public Insurance Corporation ("the Corporation") under the Manitoba Public Insurance Corporation Act ("the Act"). The Statement contains investment objectives, investment guidelines, and monitoring procedures.

1.2 The Fund will be managed in accordance with all applicable legal requirements notwithstanding any indication to the contrary which might be construed from the Statement. The purpose of the Fund is to pay the liabilities of the Corporation as they come due and to provide investment income from interest, dividends and capital gains that will assist in minimizing premiums payable by policyholders, in that order.

1.3 With respect to any portion of the Fund invested in pooled funds, provisions of the Investment Policy Statement of such pooled fund shall prevail over those of the Statement to the extent that they are in conflict.

1.4 Any investment counsel or other agent or advisor providing services in connection with the investment of the Fund shall accept and adhere to this Statement.

Section II – Responsibilities

2.1 The purpose of the Investment Committee ("the Committee"), as appointed by the Board of Directors of the Corporation ("the Board") shall be to assist the Board in:

i) recommending investment policies and strategies to the Board for subsequent consideration by the Minister;

ii) review matters relating to investment activities of the Fund;

iii) providing oversight and monitoring performance of the Fund;

iv) monitor the implementation of investment decisions consistent with policies and strategies approved by the Board; and

v) provide suggestions for consideration by the Working Group.

2.2 In accordance with the Section 12 of the Act, The Minister of Finance is responsible for the investments of the Corporation. Specifically, the Act provides:

INVESTMENTS
12(1) The corporation shall pay to the minister charged with the administration of The Financial Administration Act, for investment for the corporation, moneys in any reserve established under section 18 and such additional moneys as are not immediately required for the purposes of the corporation and are available for investment.

MONEYS TO BE CREDITED TO CORPORATION
12(2) Moneys paid under subsection (1) for investment shall form part of the trust and special division of the Consolidated Fund and may be invested in accordance with The Financial Administration Act, and the interest earnings thereon shall be credited to the account of the corporation in the trust and special division of the Consolidated Fund.

PAYMENT OF EARNINGS
12(3) Any earnings, whether alone or with the principal sum invested for the corporation under this section, or any part thereof, shall be paid over to the corporation by the minister charged with the administration of The Financial Administration Act on the request of the corporation."

RESERVES
18 The corporation shall establish and maintain reserves in such amounts that, at all times, it has sufficient funds to meet all the payments as may come payable under this Act and regulations.

2.3 Investment counsels, advisers and custodians may be hired by the Minister of Finance subject to authorization by the Lieutenant Governor in Council under The Executive Government Organization Act, Section 16 and 16(d) as follows:

AGREEMENTS WITH OTHER AUTHORITIES

16 The Lieutenant Governor in Council may authorize a minister, for and on behalf of the government, or an agency of the government, to enter into an agreement with

(d) any person or group of persons; for the benefit or purposes of the residents of Manitoba or any part thereof."

The Department is charged by the Minister with the operational management of the fund. Duties include establishing legal contracts with investment counsel, providing the Corporation with short term cash and treasury management services, managing the fixed income portfolio and providing input into the Investment Committee Working Group.

The Investment Committee Working Group is a joint committee of the Department and the Corporation. The role of the Investment Committee Working Group is:

a) Act as liaison between the Department and the Investment Committee;
b) Develop strategies for investment exposure for consideration by the Investment Committee and the Department;
c) Review, screen and recommend investment managers;
d) Monitor the performance of investment managers;
e) Prepare draft investment policies and annual strategies for the Fund for review and approval by the Investment Committee and the Department;
f) Implement investment policies and direction with the prior approval and concurrence of the Department;
g) Provide regular reports to the Investment Committee and the Department, as they shall require.

Quorum for the Investment Committee Working Group is met by one of MPI's Vice President, Finance & CFO or the Chief Actuary & Vice President, Product and Risk Management plus the Assistant Deputy Minister from the Department of Finance, or their respective designates in their absence.

MPI's Financial Services Department manages the treasury function of the Corporation in conjunction with the Department of Finance. This department is also responsible for all the accounting requirements of the Fund.

MPI's Investment Department monitors the outside investment counsel for compliance with the Statement and their contracts, works with any outside consultant for investment counsel searches, provides research and analysis on issues discussed by the Working Group, and develops and maintains relationships with members of the investment community and other provincial Crown insurance companies.

Section III – Conflict of Interest

3.1 A conflict of interest, whether actual, potential or perceived, is defined for the purposes of this Statement as any event in which the Corporation, an employee of the Corporation, an employee of the Department performing duties on behalf of the Corporation, any member of the Board or the Committee, any investment counsel or delegate, the Custodian, or any person or company directly related to any of the foregoing, may benefit materially from knowledge of, participation in, or by virtue of, an investment decision or holding of the Fund.

3.2 The Working Group shall satisfy itself that an appropriate policy regarding conflicts of interest exists and is followed by any investment counsel appointed. As a minimum, The Code of Ethics and The Standards of Professional Conduct adopted by the CFA Institute (formerly the Association of Investment Management Research or AIMR) shall be applied to such investment counsel.

3.3 A fiduciary, according to the CFA Institute, is one who holds a position of trust or confidence. A conflict of interest is deemed to exist when a fiduciary has an interest of sufficient substance and proximity to its duties and powers with respect to the Fund to impair its ability to render unbiased advice or to make unbiased decisions affecting the Fund.

3.4 A fiduciary, as described in section 3.3, must immediately disclose any conflict of interest in writing along with all relevant details to the chairperson of the Committee who, in turn, discloses it to all Committee members at the appropriate time.

3.5 No part of the Fund shall be loaned to any member of the Board, the Committee, an employee of the Department performing duties on behalf of the Corporation, or employee of the Corporation or any legal entity owned or controlled by any of the aforementioned. In addition, the Fund may not enter into a transaction with a related party unless:

a. The transaction is required for the operation or administration of the Fund and the terms and conditions of the transaction are not less favourable to the Fund than market terms and conditions; or
b. The securities of the related party are acquired through a public exchange, with the exception of MUSH bonds as noted in section 6.5.

Related party includes any officer, director or employee of the Corporation. It also includes the investment counsels and their employees, a union representing employees of the Corporation, 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.

Section IV – Liability and Retained Earnings Characteristics

4.1 The Corporation is a Manitoba Crown Corporation and is not subject to provincial or federal income taxes.

4.2 The Corporation's liabilities include both short-term and long-term liabilities arising from its insurance business as well as pension liabilities. In its insurance business, short-term liabilities are a result of all perils coverage, which have a short time frame between claim reporting and claim settlement while long-term liabilities are a result of both PIPP coverage and tort coverage. The long-term nature of PIPP coverage arises mainly from lifetime benefits payable to eligible claimants. Tort coverage has a long-term nature mainly due to long settlement periods, which is a result of the more complicated nature of these claims. The following is a description of liabilities and retained earnings by business line:

4.2.1 **Basic Claims Liabilities** cover universal compulsory automobile insurance for Manitoban drivers. The rates for this coverage are approved by the Public Utilities Board of Manitoba. Obligations are a mix of long-term payments (typically disability claims indexed to inflation – Manitoba CPI), and short-term payments (typically physical damage repairs). Claim liability estimates have risk from mortality, asset liability mismatch, investment returns, technological improvements, and societal/legal factors. These liabilities comprise the great majority of the total business based on net claims incurred. These liabilities are long-term in nature and are subject to significant interest rate risk, while requiring a high level of liquidity to pay claims.

4.2.2 **Rate Stabilization Reserve** represents the Basic Claims investment assets in excess of liabilities, hence does not directly have backing liabilities, yet would transfer to back liabilities in the case of unfavourable Basic Claims experience. The purpose of the assets is to protect motorists from rate increases due to unexpected variances from forecasted results and non-recurring events.

4.2.3 **Special Risk Extension Liabilities** are with respect to an unregulated, competitive insurance line covering fleet insurance claims. These liabilities are short-term in nature, and are not inflation sensitive. Liabilities are subject to low interest rate risk and require a high level of liquidity to pay claims.

4.2.4 **Extension Liabilities** are with respect to unregulated, optional policies covering auto insurance claims. These liabilities are short-term in nature, and are not inflation sensitive. Liabilities are subject to low interest rate risk and require a high level of liquidity to pay claims.

4.2.5 **Employee Future Benefit Liabilities** are with respect to accrued employee pension, post-retirement and severance benefits for all lines of business in conjunction with MPI's unfunded portion of the Civil Service Superannuation Board of Manitoba ("CSSB") pension obligations. Employee Future Benefit Liabilities are subject to interest rate risk tied to high quality long-term corporate bond yields. These liabilities are long-term in nature and are subject to high interest rate risk.

4.3 The Corporation's cash needs are significant due to the uncertainties in the timing and amount of claims payments. This is offset by the high certainty of future premium income.

4.4 Benefits of the Personal Injury Protection Plan (PIPP) paid by the Corporation are indexed to inflation through the Manitoba consumer price index.

4.5 The assets supporting the Corporation's liability for the employer's portion of the employee's pension liability will no longer be co-mingled with other investments and will have their own asset allocation (see Section 7.2).

4.6 The duration of current liabilities of the Corporation are reviewed and calculated annually by MPI's Pricing and Economics Department.

Section V – Investment Objectives

5.1 To meet the Corporation's liability commitments, both short-term and long-term.

5.2 To maximize investment returns for an appropriate level of risk. Risk can be defined by the standard deviation of returns, the Sharpe Ratio, Value at Risk and other commonly used risk measures for the total MPI portfolio, or any component of the total portfolio, which are compared to the same measures for the relevant index. For more specific information on risk tolerances please see "Schedule B" of the relevant equity manager's contract.

5.3 Risk is also defined as the duration gap (or mismatch) between fixed income assets and claims liabilities. Duration is a measure of the sensitivity of the market value of fixed income assets and liabilities to changes in interest rates. Section 8.4 describes the duration bandwidth that the Corporation applies to manage its interest rate risk.

5.4 Given the different nature of liabilities, the investment objectives and risk tolerances for each portfolio backing the five segments (which are held to back liabilities, retained earnings or a combination of both) is as follows:

5.4.1 **Basic Claims Liabilities:** Objective is to back policyholder claims and ensure funds are available as liabilities come due and to minimize interest rate risk through duration matching. The funds are intended to pursue modest incremental returns while maintaining risk management as a top priority. The fund must maintain sufficient liquidity to support the Basic line of business as required. Physical damage claims are typically settled within one year and are funded by cash from premiums. Payments on PIPP claims made in the short-term (0-12 months) represent approximately 5%-10% of the overall PIPP liability and are funded from a combination of investment income and cash from premiums. The timing and amount of payments beyond 12 months are estimated and long-term investments are held to cover these liabilities.

5.4.2 **Rate Stabilization Reserve:** Objective is to ensure sufficient levels of capital are maintained such that the line of business remains healthy and in an actuarially determined state of satisfactory financial condition. The RSR portfolio must have sufficient capital to withstand plausible adverse events and to deliver rate stability and predictability. Given that there are no specific backing obligations duration management does not apply and the fund's objective is to generate real returns to facilitate stable premium rates. A moderate level of liquidity is required such that funds will be available in the event the Corporation experiences a series of adverse events and resulting financial losses which deteriorate its capital base. The RSR is currently designed to withstand adverse scenarios at the 1-in-40 year probability level

5.4.3 **Special Risk Extension:** Objective is to achieve a real return target to remain competitive in the industry and stabilize premiums payable by policyholders, with a moderate risk tolerance given the nature of liabilities. SRE claims obligations have a short duration and are funded by cash generated from ongoing operations. The majority of assets backing SRE contain strategic liquidity or funds backing surplus, therefore minimal liquidity is required.

5.4.4 **Extension:** Objective is to achieve a real return target to remain competitive in the industry and stabilize premiums payable by policyholders, with a moderate risk tolerance given the nature of liabilities. Extension claims obligations have a short duration and are funded by cash generated from ongoing operations. The majority of assets backing Extension contain strategic liquidity or funds backing surplus, therefore minimal liquidity is required.

5.4.5 **Employee Future Benefits Liabilities:** Objective is to ensure that pension and other obligations are paid as they become due. The duration of the Employee Future Benefits liability will be continually monitored to inform liquidity requirements and constraints of the pension fund. Current durations are such that minimal liquidity is required.

5.5 To protect the portfolio from loss of principal (book value).

5.6 To achieve a time weighted total return, before all investment management fees, at least equal to the following indices and according to the target allocation defined in section 7.1. Passive management strategies are not expected to earn a return above their respective benchmarks. The investment returns achieved by the investment managers will be measured and monitored on rolling four-year and ten-year periods.

Asset Class	Annual Expected Return
Cash and Equivalents	FTSE TMX 91-Day Treasury Bill Index
Canadian Bonds	
Provincial Short-term Bonds	FTSE TMX Short Term Provincial Bond Index
Provincial Mid-term Bonds	FTSE TMX Mid Term Provincial Bond Index
Provincial Long-Term Bonds	FTSE TMX Long Term Provincial Bond Index
Corporate Mid-term Bonds	FTSE TMX Mid Term Corporate Bond Index
Corporate Long-term Bonds	FTSE TMX Long Term Corporate Bond Index
Corporate Bonds	FTSE TMX Corporate Bond Index
Non-marketable (MUSH) Bonds	FTSE TMX Short Term Provincial Bond Index FTSE TMX Mid Term Provincial Bond Index
Private Debt	
Private Debt - Universe	FTSE TMX Universe Bond Index plus 75 bps over a rolling four year period annualized
Private Debt - Long	FTSE TMX Long Term Bond Index plus 50 basis points over a rolling four year period annualized

Canadian Equities	
Large Market Capitalization Equities	S&P/TSX Capped Composite Total Return Index plus 150 basis points over a rolling four year period annualized
Small to Mid Market Capitalization Equities	BMO Small Cap (Unweighted) Blended Index plus 150 basis points over a rolling four year period annualized[a]
Global Equities	
Global Equities	MSCI World Total Return Index plus 150 basis points over a rolling four year period annualized
Low Volatility Equities	MSCI World Total Return Index
Alternative Investments	
Canadian Real Estate	ICREIM/IPD Canadian Property Index
Infrastructure	CPI + 5%

[a] The unweighted index is an equally weighted average of the price of each member. The Blended index includes both equities and income trusts.

Section VI – Permitted Investments

6.1 The Investment Committee supports the Fund's annual commitment to new Manitoba School, Hospital and Municipal bonds and debentures. The Fund's annual commitment will be determined by the Department and reported to the Investment Committee.

6.2 The Investment Committee is committed to support Manitoba enterprise where, on the advice of the Minister of Finance, no degradation in investment yield or grade is evident. This mandate reflects the Investment Committee's commitment for the Fund investments to be socially responsible to Manitoba residents. The benchmark against which no degradation in yield or grade is allowed is defined as the ten-year Government of Canada bond at the time of the investment.

6.3 After meeting the commitments of 6.1 and 6.2, the Fund may only be invested in the following asset categories:

a) cash;

b) demand or term deposits, or similar instruments issued or unconditionally guaranteed by trust companies or banks;

c) short-term notes;

d) treasury bills;

e) bankers' acceptances;

f) commercial paper;

g) bonds and debentures or other debt instruments of government, government agencies, or corporations;

h) private placement bonds and debentures

i) Canadian and foreign publicly traded equities;

j) private equity and venture capital

k) real estate

l) infrastructure

m) pooled funds consisting of assets listed in a) through k) above.

6.4 Cash and equivalent investments include cash and fixed income investments having a maturity of less than one year at the time of purchase.

6.5 Bonds include all fixed income securities having a maturity of one year or more at the time of purchase and include Canada, Manitoba, provincial, municipal, corporate bonds, floating rate notes, and debentures that are tradable in the fixed income market and

Manitoba rural municipality, school division and health care facility bonds and debentures (MUSH bonds) which are not tradable in the fixed income market.

6.6 Private Debt includes investment grade debt covering private corporate debt, infrastructure debt, power & energy debt, real estate debt and other forms of private debt.

6.7 Canadian equities include securities traded on the TSX or common stocks, preferred stocks and convertible securities of Canadian issuers.

6.8 Foreign equities include common stocks, preferred stocks and convertible securities of foreign issuers.

6.9 Canadian Real Estate includes pooled funds and direct holdings of real estate.

6.10 Infrastructure includes pooled funds, segregated funds, direct holdings and co-investments.

6.11 Private Equity is an investment in an unlisted company, which is typically long-term and unregulated. Venture capital is a form of private equity which focuses on small to medium sized business with strong growth potential. Venture capital is designed to help entrepreneurs start up or develop a new business where a high degree of risk is involved. The Corporation has capped its investments in Private Equity and will make no new investments in this asset class.

6.11 The Fund may purchase derivative financial, commodity or currency related instruments such as forward contracts, options, futures or swaps provided that such participation is not for speculative purposes and are not purchased with the use of leverage. Use of derivatives should be consistent with the overall asset allocation and risk management of the Corporation. Use of a derivative is permitted only after the Working Group has reviewed the application of the derivative and determined that it meets or exceeds the defined investment objectives of this document. Derivative strategies also require the prior approval of the Committee.

6.12 Investment counsels shall not borrow money, pledge or otherwise encumber any of the Fund's assets except to the extent that a temporary overdraft may occur in the normal course of day to day portfolio management. The use of leverage associated with real estate pooled funds and infrastructure investments is acceptable and will be defined in the investment manager's contract.

6.13 The Investment Counsel shall assess the financial strength of borrowers by reference to published credit ratings and by their own analysis. The investment counsel's analysis should include all material factors relevant to assess the ability of the borrower to repay the debt instrument, to discharge interest obligations on the specified payment dates and to survive periods of financial adversity. New investments may not be made in debt obligations that are in default of principal or interest.

6.14 The Minister may enter into a written agreement with the Custodian for securities lending provided that readily marketable securities having a market value of at least 105%, of the market value of the securities lent, are maintained on at least a daily basis.

6.15 Investment counsels may use soft dollars (directed commissions) to pay for research related goods and services in accordance with the CFA Institute Soft Dollar Standards. Investment counsels shall disclose to the Corporation at least annually the total amount of commissions and the products and services obtained through soft dollar arrangements from the Corporation's account.

Section VII – Asset Allocation

7.1 Until February 28, 2019 (or any other date determined by the Investment Committee) the Fund's target asset allocation is the following:

Asset Class (Group)	**Minimum**	**Normal**	**Maximum**	Accounting Class**
Cash and short-term	0.0%	0.0%	5.0%	AFS
Fixed Income				
-Government Bonds	40.0%	45.0%	60.0%	FVTPL
-Corporate Bonds	0.0%	5.0%	10.0%	FVTPL
-Non-Marketable Bonds	15.0%	20.0%	25.0%	HTM
Total Debt	**60.0%**	**70.0%**	**80.0%**	
Public Equities				
-Canadian	7.0%	10.0%	13.0%	AFS
-U.S.	3.0%	5.0%	7.0%	AFS
Total Public Equities	**10.0%**	**15.0%**	**20.0%**	
Alternative Investments				
-Canadian Real Estate	7.0%	10.0%	13.0%	FVTPL
-Private Equity*	0.0%	0.0%	0.5%	AFS
-Infrastructure	2.0%	5.0%	8.0%	FVTPL
Total Alternative Investments	**9.0%**	**15.0%**	**21.5%**	

*represents net committed capital

**AFS – Available for Sale, HTM – Held to Maturity, FVTPL – Fair Value Through Profit and Loss.

7.2 After February 28, 2019 (or any other date determined by the Investment Committee) the target allocation for each portfolio is as follows:

Basic Claims

Asset Class	Benchmark	Minimum	Target	Maximum	Accounting Class*
Cash and Equivalents	FTSE TMX Canada 91 Day T-Bill Index	0%	0%	5%	AFS
Fixed Income					
Provincial Bonds	60% FTSE Mid Term Provincial Bond Index 40% FTSE Long Term Provincial Bond Index	50%	60%	70%	FVTPL
Corporate Bonds	50% FTSE TMX Mid Term Corporate Bond Index 50% FTSE TMX Long Term Corporate Bond Index	10%	20%	30%	FVTPL
Non-Marketable Bonds	FTSE TMX Provincial Bond Index	10%	20%	25%	HTM, FVTPL
Total Debt			100%		

*AFS – Available for Sale, HTM – Held to Maturity, FVTPL – Fair Value Through Profit and Loss.

Investment Objectives:

Objective is to back policyholder claims and ensure funds are available as liabilities come due and to minimize interest rate risk through duration matching. The funds are intended to pursue modest incremental returns while maintaining risk management as a top priority. The fund must maintain sufficient liquidity to support the Basic line of business as required. Physical damage claims are typically settled within one year and are funded by cash from premiums. Payments on PIPP claims made in the short-term (0-12 months) represent approximately 5%-10% of the overall PIPP liability and are funded from a combination of investment income and cash from premiums. The timing and amount of payments beyond 12 months are estimated and long-term investments are held to cover these liabilities.

Basic RSR, Extension, SRE

Asset Class	Benchmark	Minimum	Target	Maximum	Accounting Class*
Cash and Equivalents	FTSE TMX Canada 91 Day T-Bill Index	0%	0%	5%	AFS
Fixed Income					
Provincial Bonds	50% FTSE TMX Short Term Provincial Bond Index 50% FTSE TMX Mid Term Provincial Index	10%	20%	30%	FVTPL
Corporate Bonds	FTSE TMX Corporate Bond Index	0%	10%	20%	FVTPL
Non-Marketable Bonds	FTSE TMX Provincial Bond Index	0%	5%	10%	HTM, FVTPL
Private Debt	FTSE TMX Universe Bond Index	10%	15%	20%	FVTPL
Total Debt		40%	50%	60%	
Public Equities					
Canadian	85% S&P TSX Capped Composite Total Return Index 15% BMO Small Cap (Unweighted) Blended Index	7%	12%	17%	AFS
Global	MSCI World Total Return Index	8%	13%	18%	AFS
Global Low Volatility	MSCI World Total Return Index	5%	10%	15%	AFS
Total Public Equities		25%	35%	45%	
Alternative Investments					
Canadian Real Estate	REALPAC/IPD Canada Property Index	7%	10%	13%	FVTPL
Infrastructure	CPI +5%	2%	5%	8%	FVTPL
Venture Capital		0%	0%	1%	
Total Alternative Investments		10%	15%	20%	

*AFS – Available for Sale, HTM – Held to Maturity, FVTPL – Fair Value Through Profit and Loss.

Investment Objectives:

Rate Stabilization Reserve: Objective is to ensure sufficient levels of capital are maintained such that the line of business remains healthy and in an actuarially determined state of satisfactory financial condition. The RSR portfolio must have sufficient capital to withstand plausible adverse events and to deliver rate stability and predictability. Given that there are no specific backing obligations duration management does not apply and the fund's objective is to generate real returns to facilitate stable premium rates. A moderate level of liquidity is required such that funds will be available in the event the Corporation experiences a series of adverse events and resulting financial losses which deteriorate its capital base. The RSR is currently designed to withstand adverse scenarios at the 1-in-40 year probability level

Special Risk Extension: Objective is to achieve a real return target to remain competitive in the industry and stabilize premiums payable by policyholders, with a moderate risk tolerance given the nature of liabilities. SRE claims obligations have a short duration and are funded by cash generated from ongoing operations. The majority of assets backing SRE contain strategic liquidity or funds backing surplus, therefore minimal liquidity is required.

Extension: Objective is to achieve a real return target to remain competitive in the industry and stabilize premiums payable by policyholders, with a moderate risk tolerance given the nature of liabilities. Extension claims obligations have a short duration and are funded by cash generated from ongoing operations. The majority of assets backing Extension contain strategic liquidity or funds backing surplus, therefore minimal liquidity is required.

Employee Future Benefits

Asset Class	Benchmark	Minimum	Target	Maximum	Accounting Class*
Cash and Equivalents	FTSE TMX Canada 91 Day T-Bill Index	0%	0%	5%	AFS
Fixed Income					
Corporate Bonds	FTSE TMX Corporate Bond Index	10%	20%	30%	FVTPL
Private Debt	FTSE TSX Long Term Bond Index	10%	20%	30%	FVTPL
Total Debt		30%	40%	50%	
Public Equities					
Canadian	85% S&P TSX Capped Composite Total Return Index 15% BMO Small Cap (Unweighted) Blended Index	5%	10%	15%	AFS
Global	MSCI World Total Return Index	13%	18%	23%	AFS
Global Low Volatility	MSCI World Total Return Index	2%	7%	12%	AFS
Total Public Equities		25%	35%	45%	
Alternative Investments					
Canadian Real Estate	REALPAC/IPD Canada Property Index	12%	15%	18%	FVTPL
Infrastructure	CPI +5%	7%	10%	13%	FVTPL
Total Alternative Investments		20%	25%	30%	

*AFS – Available for Sale, HTM – Held to Maturity, FVTPL – Fair Value Through Profit and Loss.

Investment Objectives:

Objective is to ensure that pension and other obligations are paid as they become due. The duration of the Employee Future Benefits liability will be continually monitored to inform liquidity requirements and constraints of the pension fund. Current durations are such that minimal liquidity is required.

7.3 The target asset allocations have been determined in order to meet the objectives of the relevant portfolio. They reflect risk/return tradeoffs selected by the Committee.

7.4 The target allocations are different in Section 7.1 and 7.2. As a result, the Working Group may, at its discretion, authorize actual asset class weights that are outside of the minimum/maximum ranges specified in either Section 7.1 or 7.2 while transitioning towards the target asset allocations in Section 7.2.

7.5 The Working Group, at its discretion, can allocate up to 20.0% from the Canadian equity asset class to the Canadian Small to Mid Cap equity asset class.

7.6 The target allocation to illiquid growth assets (Real Estate and Infrastructure) as a proportion of total growth assets (Canadian, Global and Global Low Volatility Equity, and U.S. equity, Real Estate and Infrastructure) should not exceed 50%.

7.7 The actual allocation to non-marketable bonds (MUSH bonds and private debt) should not exceed 25% of the total fund.

7.8 The Working Group will monitor the target asset allocation of the fund on a quarterly basis, at a minimum, and rebalance if necessary in accordance with the Working Group's rebalancing policy.

7.9 Securities held in a pooled fund are classified on the basis of the assets comprising the major portion of such pooled funds.

7.10 Derivative instruments along with any collateral held thereon are included in the asset class comprising the securities whose return or price serves as the basis for the pricing of such derivative instruments.

Section VIII – Investment Risk

8.1 Diversification between asset classes is provided through the asset allocation guidelines set forth in the Statement.

8.2 Diversification within each asset class is provided by limiting to 5% or less the percentage of the book value of Fund assets invested in a single security not issued or guaranteed by the Government of Canada, charged against the Consolidated Revenue Fund, issued by a Canadian province or a guarantee of a Canadian province. Minimum and/or maximum percentage weight targets may be developed and implemented for corporate and provincial bond issuers (Province of Manitoba excluded) to assist in the diversification of the fixed income portfolio.

8.3 Diversification in equity investments is achieved by contracting with investment counsels that concentrate on specific equity market segments (large cap and small/mid cap) as well as investment style (value, growth and core). Managers will be selected based on their investment philosophy and internal investment policies.

8.4 Interest rate risk is managed by matching the duration of the fixed income portfolio, which includes marketable bonds and floating rate notes to the actuarially determined duration of the Corporation's claims liabilities. If an allocation to floating rate notes is designated by the Working Group to fund other asset classes, then the designated amount can be excluded from the duration calculation.

8.5 When investments are made outside of Canada, consideration will be given to limiting exposure to foreign exchange risk by hedging where practical.

8.6 Quality is ensured by requiring that 100% of the market value of short-term securities have a minimum credit rating of R-1 (low) as assigned by Dominion Bond Rating Service Limited (DBRS), or its equivalent, and that 100% of other fixed income securities have a minimum credit rating of BBB (low), or its equivalent, as assigned by Standard & Poor's or Moody's Investors Service, or is a security issued or guaranteed by the Government of Canada, charged against the Consolidated Revenue Fund, issued by a Canadian province or a guarantee of a Canadian province. If a security has a split credit rating from the credit rating agencies the lower rating will be accepted.

8.7 In the event of a downgrade in the credit rating of a fixed income security by a recognized bond rating agency to a credit rating below the minimum as defined in Section 8.6, the Fixed Income Manager will follow the course of action set out below:

a) The Working Group will be notified of the downgrade at the earliest possible opportunity;

b) Within five business days of the downgrade, the Investment Counsel will advise the Working Group in writing of the course of action taken or to be taken by the Investment Counsel along with the rationales; and

c) The Investment Counsel will provide regular reporting to the Working Group on the status of the asset until such time as it matures, is sold, or is upgraded to a rating consistent with the minimum rating standards as defined in Section 8.6.

8.8 Trading and execution of the Fund will be done through the investment counsels who shall utilize their best efforts to obtain best execution of orders at the most favorable prices and competitive commission rates.

Section IX – Voting Rights

9.1 The responsibility of exercising and directing voting rights acquired through Fund investments is delegated to the investment counsels, who shall at all times act prudently and in the best interests of the Fund.

9.2 In case of doubt as to the best interests of the Fund, the investment counsel must request instructions from the Working Group and act in accordance with such instructions.

9.3 Investment counsels shall maintain a record of how Fund voting rights have been exercised.

9.4 Investment counsels shall advise the Working Group and provide details when:

a) the results of the vote are contrary to the investment counsel's recommendations;

b) the vote is related to anti-takeover charter and bylaw amendments or shareholder rights;

c) the voting rights have not been exercised.

9.5 Investment counsels shall not delegate voting rights unless the policy and procedures to be used when voting has been filed with the Minister of Finance and written approval of those policies and procedures have been granted.

Section X – Monitoring

10.1 Each quarter, investment counsels shall provide a letter indicating compliance with the Statement and the investment counsel's mandate and indicating all instances where the Statement and mandate were violated.

10.2 At the end of each quarter, the market value of each Fund investment is calculated. Investments that are not regularly traded are valued by the Custodian according to a methodology acceptable to the Committee. Any such investment that may represent more than 1% of the market value of the Fund is valued by a qualified independent appraiser or by the Committee through a resolution at least every three (3) years, except for non-marketable bonds as they are reported at book value.

10.3 Fund performance is evaluated at least quarterly in accordance with current Performance Presentation Standards established by the CFA Institute. Such evaluation is focused on objectives set in this document for the Fund and for the investment counsels.

10.4 Investment counsels report to the Committee at least annually in order to:

a) provide information concerning new developments affecting the firm and its services;

b) review the transactions in the latest period and the assets held at the end of the period and explain how they relate to the strategy advocated;

c) explain the latest performance;

d) provide an economic outlook along with a strategy under such circumstances.

10.5 The Corporation has a graduated investment manager compliance policy in accordance with this Investment Policy Statement with escalating action based upon the degree of non-compliance. The Corporation monitors the compliance of its active equity managers with their internal Investment Policy Statements on a monthly basis and reports to the Investment Committee Working Group on a quarterly basis. In addition, the Corporation evaluates the compliance with the defined duration bandwidth as defined in Section 8.4 on a monthly basis and reports to the Working Group on a quarterly basis.

COMPLIANCE RULES:

1. Maximum concentration in an individual holding
2. Sector weight limits (linked to index)
3. Market capitalization limits (min & max)
4. Minimum and maximum number of holdings
5. Cash restrictions:
    a. Less than 10% of each managers portfolio
    b. Holdings rated A1 or better
    c. Short-term cash equivalents (less than 1 year)

DEFINITIONS:

Non-compliance is defined as minor if the manager is less than 10% out of compliance, for compliance rules 1, 2, 3 and 5(c). All breaches of compliance rules 4, 5(a) and 5(b) are considered major.

ACTION:

For minor instances of non-compliance the relevant external manager is notified of the non-compliance with the Investment Policy Statement. For major issues of non-compliance the relevant manager is contacted and requested to rectify the non-compliance within 30 days. Minor issues of non-compliance will be addressed internally by the Corporation. Major issues of non-compliance will be brought to the attention of the Investment Committee Working Group at its next meeting.

REPORTING

All major and minor cases of non-compliance with the Investment Policy Statement, and any related action taken, will be reported to the Investment Committee and the Investment Committee Working Group. Compliance reports will be completed at the end of each calendar month by the Investment Department.

The Investment Committee Working Group has the authority to provide exemptions to these rules and will report to the Investment Committee whenever it exercises this authority.

Section XI – Withdrawal Policy

11.1 In order to support the financial health of the Fund, ensure necessary liquidity levels are maintained and adequate diversification by asset class and by manager is adhered to, the Corporation has established the following guidelines for cash withdrawals.

11.2 Withdrawals of corporate funds to fund corporate operations are permissible, provided that pension plan assets are not affected by the withdrawals. Cash management is the joint responsibility of the Investment Department and the Risk Control and Financial Forecasting Department. The withdrawals will be reported to the Investment Committee Working Group at the Committee's next scheduled meeting. Withdrawals shall be reported to the Investment Committee at the Committee's next scheduled meeting.

11.3 The cash withdrawal guidelines are intended to assist in managing the Fund and maintaining adherence to the target policy weights, to the extent possible. The dollar amount of each withdrawal will be calculated by the Risk Control and Financial Forecasting Department and implemented by the Investment Department, which shall exercise judgment in withdrawing cash based on the following factors:

1. withdrawals are to be from retained earnings only, which represent corporate assets;
2. the market value of the fixed income portfolio (excluding cash) must match (or exceed) the present value of the claim liabilities;
3. withdrawals from each asset class/ manager will be in order of greatest variance from the target, until the withdrawal amount is satisfied;
4. each asset class must remain within its min/max range as established in Section 7.1;
5. availability of liquidity within the portfolio;
6. current market conditions; and
7. future Fund strategies, and Corporate needs.

11.4 In order to reduce cost, the number of asset classes/managers involved in the transaction should be the fewest possible to raise the necessary amount. Illiquid asset classes such as real estate, infrastructure and private equity are generally exempt from normal course withdrawals.

11.5 The Working Group is required to advise the Investment Committee of any exceptions to this policy and state the reason(s) for the exception (s).

Section XII – Review

12.1 This Statement may be changed or modified at any time by action of the Board of Directors of the Corporation in consultation with the Minister of Finance.

12.2 This Statement shall be reviewed at least annually. Such review may be caused by:

a) a fundamental change in the business of the Corporation;

b) significant revisions to the expected long-term trade-off between risk and reward on key asset classes;

c) a major change in liabilities;

d) a significant shift in the financial risk tolerance of the Corporation;

e) shortcomings of the Statement that emerge in its practical application, or substantive modifications that are recommended to the Committee by a investment counsel;

f) applicable change in legislation.

Appendix A - Definitions

Alternative Asset Classes:
There are three primary asset classes: equities, bonds, and cash. Alternative asset classes refer to any other types of investments or collections of investment strategies that can be used to diversify investment portfolios. These investment strategies are generally aimed to provide meaningful growth, low correlation and lower volatility with equity markets. Some examples of alternative investments include: hedge funds, private equity, private debt, currencies, commodities, infrastructure and real estate.

Duration:
Duration is the weighted average time until the repayment of a fixed income instrument. In addition, it is also used to measure the price sensitivity of those instruments to changes in bond yields.

Fixed Income Securities:
An investment that provides a return in the form of fixed periodic payments and the return of the principal at maturity. Unlike a variable-income security, the payment amounts and dates of a fixed-income security are known in advance.

Investment Counsel:
Investment counsels are appointed by the Province of Manitoba to invest certain funds of the Corporation in accordance with and subject to the terms of an agreement with the Provincial government.

MUSH Bonds:
MUSH bonds are Manitoba rural municipality, school division and health-care facility bonds which are not tradable in the fixed income market and are managed by the Department of Finance at the Province of Manitoba.