



Management Employees Pension Plan

Investment Policy

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Table of Contents

1	Overview	3
1.1	Background	3
1.2	Plan Profile	3
1.3	Purpose of the Fund	3
1.4	Purpose of the Investment Policy	3
1.5	Governance	4
2	Investment Beliefs	5
2.1	Purpose	5
2.2	Investment Beliefs	5
2.3	Review and Approval	7
3	Asset Mix	7
4	Investment Objectives	9
5	Risk Tolerance	11
6	Permitted Investments	12
6.1	Permitted Investments and Constraints (asset class descriptions)	12
6.1.1	Permitted Investments	12
6.1.2	Maximum Quantity Restrictions	12
6.1.3	Securities Lending	12
6.1.4	Currency Hedging	12
6.1.5	Hedge Funds	12
6.1.6	Opportunistic Investments	12
6.2	Leverage, Permitted Borrowing and Derivatives	13
6.2.1	Leverage	13
6.2.2	Derivatives	13
7	Accountabilities	13
7.1	Reporting Requirements	13
7.2	Investment Manager Responsibilities	13
7.3	MEPB Roles and Responsibilities	13
7.4	Investment Consultant Responsibilities	14
7.5	Actuary Responsibilities	14
8	Administration	14
8.1	Related Party Transactions	14
8.2	Valuation of Investments Not Regularly Traded In A Market Place	14
8.3	Soft Dollars	14
9	Environmental, Social and Governance	15
10	Proxy Voting	15
11	Conflicts of Interest	15
	Appendix 1—Table of Benchmark Descriptions	16
	Appendix 2—Glossary	18
	Appendix 3—Investment Committee Terms of Reference	22
	Appendix A – Transition Plan	24

1 Overview

1.1 Background

The Management Employees Pension Plan (**MEPP** or the **Plan**) was originally established in 1972 as the Public Service Management Pension Plan for managers within the public service of Alberta and approved agencies, boards and commissions. In 1992 this plan was divided into two separate plans: members who left the plan or retired prior to August 1, 1992 and those who had 35 years of pensionable service by this same date became members of the Public Service Management (Closed Membership) Pension Plan (the **Closed Plan**); active members as at August 1, 1992 became members of MEPP. Funding for the Closed Plan is the responsibility of the Government of Alberta. This Investment Policy (the **IP** or the **Policy**) applies only to the assets held under MEPP.

1.2 Plan Profile

The Plan is a contributory defined benefit pension plan financed by mandatory Plan member and employer contributions and investment earnings. Plan members are eligible to retire under the Plan once they have attained age 55 and have at least 5 years of pensionable service. The normal form of the annual unreduced pension is 2.0% of the member's highest 5 consecutive years of pensionable salary multiplied by the number of years of pensionable service. The Plan also provides an annual cost-of-living adjustment based on 60% of the Alberta Consumer Price Index (CPI) to both deferred pensions and pensions-in-pay.

1.3 Purpose of the Fund

The purpose of the Plan's assets (the **Fund**) is to fulfill the pension obligation to current and future retirees, which includes an annual cost of living adjustment. The risk is that the Fund is insufficient to meet the Plan's liabilities and that contribution rates which exceed the current service costs may be required. The Plan is expected to continue in the long term and therefore can tolerate some volatility in the short and medium term. In the long term, investment returns and member contributions are expected to provide sufficient assets for current service and unfunded liabilities, to meet future pension payments and Fund expenses.

1.4 Purpose of the Investment Policy

The primary purpose of this IP is to clearly outline the policies, procedures and goals as established by the Management Employees Pension Board (the **Board**), in order to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted pension governance practices incorporating an appropriate level of risk.

This IP, along with the Funding Policy and the Risk Management Policy, provides a framework for the Board's oversight of the Plan.

The President of Treasury Board and Minister of Finance (the **Minister**) is the Trustee and Administrator of the Plan and holds the fiduciary obligation to act in the best interest of the Plan's members and beneficiaries and to exercise the highest standard of care and diligence. The Board, in fulfilling its delegated role holds similar obligations.

1.5 Governance

The Plan is established and operates under the following legislation:

- the *Public Sector Pension Plans Act (Alberta)* (the **Act**)
- the Public Sector Pension Plans (Legislative Provisions) Regulation (the **Regulation**)
- the Management Employees Pension Plan Regulation
- the *Financial Administration Act (Alberta)* (the **FAA**)
- the *Income Tax Act (Canada)* and *Regulations* thereunder (the **ITA**)
- the *Employment Pension Plans Act (Alberta)* and *Regulations* thereunder (the **EPPA**)
- the *Alberta Public Agencies Governance Act*

The Minister is the Trustee and Administrator of the Plan and holds, in trust, the Fund for the sole purpose of providing benefits pursuant to the Plan and meeting plan costs. The creation of the Board, its structure and its objectives, are provided in the Act and the Regulation. The Board is responsible for establishing the general policy guidelines on the investment and management of the Fund.

The Board is responsible for oversight of the investments of the Fund. In 2000, the Board established its Investment Committee (the **Committee**) to monitor the investment performance of the Fund and to make recommendations to the Board. The Board and its Committee operate within set terms of reference, as outlined in Appendix 3.

The Investment Management Agreement (IMA) between the Province and Alberta Investment Management Corporation (AIMCo or the **Investment Manager**) delegates to AIMCo responsibility for providing investment management services to the Minister as Trustee of the Fund. AIMCo invests and manages the assets of the Fund in accordance with the MEPP IP, the Investment Management Agreement between the Minister and AIMCo, and the investment provisions of the EPPA, ITA and FAA, as appropriate.

No part of the Fund shall be loaned to any person, partnership or association except as may be determined permissible by the Board in Section 6 of this IP (Permitted Investments) or as eligible investments as described in Section 6.1.3 (Securities Lending).

In 2017, the Board formalized the Risk Management Policy, which provides the framework and process for identifying and managing key risks, both investment and non-investment, to MEPP. The Risk Management (RM) Policy and Framework will be updated periodically, and the Board should undertake a review of its Risk Appetite Statement to confirm the level and type of risks that are acceptable for MEPP. The investment risk appetite is a key consideration when reviewing the Fund's investment policies, including the target asset mix. A Funding Policy is also established to provide guidelines on funding requirements and guidance for making actuarial valuation and contribution recommendations. The IP aims to ensure alignment with these policies.

2 Investment Beliefs

2.1 Purpose

The purpose of Investment Beliefs are to provide the basis for the IP of the Plan.

The Board reviews its Risk Management Policy annually and provides direction on risk appetite and tolerance. The Investment Beliefs aim to align the Board's risk appetite and tolerance for systematic risks, with the implementation of the IP.

2.2 Investment Beliefs

2.2.1. Mission, Objectives & Governance

- The purpose of investing the portfolio is to grow the asset base and to generate a cash flow to support the Plan's current and future benefit obligations.
- The Plan has a long-term investment time horizon, and the Fund should be managed accordingly.
- The primary investment objective of the Fund is to achieve a real return which keeps pace with the growth in the Plan's benefit obligations.
- The secondary investment objective is to exceed the return of the policy benchmark.
- Achieving the Board's mission involves the successful deployment of governance resources and risk budgets.

2.2.2. Risk

- The long-term asset mix policy should provide for the prudent management of the Fund, be dependent on the funded status and liabilities of the Plan and provide a return of at least equal to the long-term increase in the Plan's liabilities.
- Asset mix decisions are the primary determinant of risk and return. Maintaining a well-diversified portfolio is the cornerstone of the Plan's risk management program. Effective diversification by asset class and geographic regions can provide superior risk-adjusted investment returns.
- Managing risk is critical to achieving our objectives. There is a relationship between risk and return; to achieve higher returns usually requires taking higher risk.
- Quantification of returns, risks and correlations are important management information. However, estimation of future returns, risk and correlations is difficult and limitations of assumptions should be recognized.
- Risk measurement of appropriate risk metrics is useful but not a complete substitute for risk management. A compliant investment risk measure, for example value at risk, should be viewed as one part of a much broader risk management process that looks to encompass all risks faced by the organization.
- Fixed income assets provide liquidity and cash flow and assist with reducing the volatility of investment returns.
- The Board also manages risk of the Fund by establishing the maximum risk to which the Fund should be exposed through both active management of the asset mix and other active management decisions made by AIMCo.
- Long term investors can exploit different risk premia beyond the equity risk premium to add value and/or improve diversification, such as credit, illiquidity, and skill risk, for example holding alternatives.
- Performance and risk of the Fund should be monitored through a regular review of performance, investment management fees and costs.

- In addition to considering quantitative measures of risk, the Board may factor in qualitative assessments of risk when developing investment policy and monitoring ongoing performance of the Fund.

2.2.3. Tactical Asset Allocation & Rebalancing

- AIMCo should be able to opportunistically manage the asset mix in accordance with the minimum and maximum ranges contained in the IP by being delegated the authority to make tactical decisions with respect to the investment of the Fund.
- In the long-term, asset class prices tend to mean revert, so regular rebalancing can help to reduce exposure to extreme market valuations and enhance long term returns.
- In order to ensure that the portfolio risk does not drift above or below the intended risk level, regular rebalancing to the asset mix is necessary.

2.2.4. Liabilities

- Understanding the nature and variability of the Plan's liabilities is critical to devising an appropriate investment strategy.
- Inflation-sensitive assets are seen as an appropriate alternative to traditional fixed income assets, given the low interest rate environment, risk tradeoffs and because they provide a partial hedge of the Plan's inflation sensitive liabilities.
- Returns from equities will outperform fixed income investments over a full market cycle; this will compensate for the mismatch in risk versus the Plan's liabilities.

2.2.5. Currency

- Over the short term, currency exposure can increase the volatility of returns but also act as a diversifier.
- AIMCo should be permitted to engage in currency hedging for defensive purposes, when it is concerned about the risks associated with a specific currency.

2.2.6. Active versus Passive

- Active management should only be undertaken when there is a reasonable expectation of generating higher returns net of fees than a passive investment alternative for that asset class.
- Investing in active strategies can provide value through added return and downside protection.
- Passive investment pools may reduce costs and be used for operational purposes. AIMCo may use passive pools to facilitate portfolio transitions and minimize expenses where possible.

2.2.7. Investment Styles

- There are systematic market factors that enhance risk-adjusted returns (e.g. value, low volatility, size, momentum and growth).
- No one investment style will consistently produce higher returns.

2.2.8. Mandate Design

- Effective implementation strategies can improve net returns and reduce the risk of the Fund.

2.2.9. Costs and Fees

- Investment management fees, transaction and administration costs impact returns and require effective management.

2.2.10. Responsible Investment

- Adopting responsible investment practices is an important part of our role as governors.
- AIMCo considers ESG factors to enable better informed investment decisions.

- AIMCo (and any external managers which they employ) should be encouraged to engage with the companies with sub-standard ESG issues to promote change or substantial improvement and incorporate ESG considerations into their proxy voting.

2.2.11. Monitoring

- AIMCo is expected to manage the Fund in accordance with the provisions of the IP.
- AIMCo's performance should be assessed by its value-added investment performance and achievement of other objectives.
- While investment performance is monitored quarterly, an assessment of whether performance meets expectations should be based on longer term trends (typically rolling 4-year results).
- Emphasis should be placed, not only on the level of returns, but also on the amount of risk taken to achieve those returns.

2.3 Review and Approval

The Board believes that the long-term asset mix policy should be dependent on the funded status and liabilities of the Plan, and that the Policy should be reviewed annually to ensure that it reflects the beliefs of the Committee and the Board.

3 Asset Mix

The normal mix of the Fund and the range for strategic deviation at any time based on market values is provided in the table below:

Asset Mix Table – Long-Term	Interim Policy Mix as at June 30, 2024	(% of Market Value of Fund Assets)		
		Minimum	Long Term Policy Mix	Maximum
Fixed Income	22.75	15.0	20.0	30.0
Cash	0.5	0.0	0.5	5.0
Universe Bonds	13.25	5.0	10.0	25.0
Mortgages	4.0	0.0	4.5	7.0
Private Debt & Loan	5.0	0.0	5.0	10.0
Equities	47.5	30.0	45.0	55.0
Canadian Equity	7.5	0.0	7.5	12.5
Active Canadian Equity		0.0	7.5	12.5
Passive Canadian Equity		0.0		5.0
Global Equity	25.0	10.0	22.5	40.0
Active Global Equity		10.0	22.5	40.0
Passive Global Equity		0.0		5.0
Emerging Market Equity	5.0	0.0	5.0	10.0
Private Equity	10.0	2.5	10.0	15.0
Inflation Sensitive	29.5	22.5	35.0	47.5
Real Estate	14.5	10.0	17.5	22.5
Canadian Real Estate	9.25	7.5	11.0	17.5
Foreign Real Estate	5.25	3.0	6.5	10.0
Infrastructure & Renewable Resources	15.0	7.5	17.5	22.5
Infrastructure	12.0	7.5	14.0	20.0
Renewable Resources	3.0	0.0	3.5	6.0
Opportunistic Investments	0.25	0.0	0.0	2.0
Total	100%		100%	

AIMCo will transition to the new asset mix as per timelines noted in Appendix A – Transition Plan

For the purposes of implementing the asset mix, Infrastructure and Renewable Resources are considered sub-categories of Infrastructure & Renewable Resources; and Canadian Real Estate and Foreign Real Estate are sub-categories of Real Estate. Target allocations have been specified for these sub-categories. The Board sets and allows AIMCo to allocate within the minimum and maximum allocations for these sub-categories, where applicable.

AIMCo is permitted to operate within the ranges provided for the equity pools provided that the business use benefits the overall expected return for the Plan while making efficient use of the Plan's active risk.

The Board annually commissions actuarial cash flow projections which become the Plan Liability Proxy against which the asset mix is formally reviewed. AIMCo's expected return and risk assumptions, which include risk considerations for the Plan assets and liabilities, are used to formulate the target asset mix. The target asset mix is provided in the table above and will be the policy against which AIMCo is expected to manage (the **Policy Mix**). The Board has allocated to AIMCo the strategic decision of the management structure of the portfolio, with constraints noted by the minimum and maximum ranges in

the asset mix policy. The Board expects that AIMCo may tactically adjust the asset mix to increase returns within established risk limits.

During periods of asset mix transition, deviation from the Policy Mix is expected.

4 Investment Objectives

The IP is directed toward long-term growth of the Fund in order to meet the pension obligation. In order to pay Plan benefits as described based on the liability cash flows provided by the Plan actuary, the Plan may fund the payments through contributions, investment income, or asset sales. AIMCo will regularly report portfolio yield by total fund and the policy asset classes. (*Yield is the income percentage generated by the portfolio, coupon interest and dividends received from investments plus distributions from alternative investments such as Real Estate, Infrastructure, etc.*)

As the Plan matures, the Board manages the risk of not having sufficient cash on hand to meet current Plan benefit payments by holding at least 35% of the Fund in liquid assets. Liquidity requirements will be reviewed annually upon the receipt of cash flow projections from the Plan's Actuary. These are used in the process to review and set the asset mix.

- The primary investment objective is to achieve a long-term rate of return of the Canadian Consumer Price Index + 4.5% (CPI + 4.5%). This objective should be viewed as an average annual compound rate over one or more capital market cycles, i.e. over a four-year period.
- The secondary investment objective is to add value over the return that could have been earned from a portfolio of passive investments of 75 basis points (bps) net of fees. This will be measured over moving four-year periods by comparing the Fund return to the Composite Benchmark (the **Fund Benchmark**) return which is based on the normal allocation to the benchmark index of each asset class. Any value-added target, net of fees, for each asset class should be clearly identified by AIMCo.

The return on each asset class is measured against a market benchmark for that asset class. The returns of the Fund are calculated using market values derived from independent pricing sources, namely the Fund's custodian. Returns are daily time-weighted so that cash flows have a minimal effect on return numbers. All income is included on an accrued basis. Return calculations should be consistent with the Global Investment Performance Standards (GIPS) as established by the CFA Institute.

Benchmarks for Asset Classes:

		<u>Benchmarks</u>
Security Class		AIMCo Benchmark
Money Market and Fixed Income		
Money Market	FTSE Canada 91-Day T-Bill Index	
Universe Bonds	FTSE Canada Universe Bond Total Return Index	
Mortgages	Custom Mortgage Benchmark: 60% FTSE Canada Short Term Overall Bond Index and 40% FTSE Canada Mid Term Overall Bond Index + 50 basis points (bps)	
Long-Term Bonds	FTSE Canada Long-Term All Government Bond Total Return Index	
Private Debt	40% S&P/LSTA Leveraged Loan Index and 40% S&P European Leveraged Loan Index + 90bps (CAD hedged)	
Inflation Sensitive and Alternative		
Real Estate	Private Real Estate (PREP-GV/PX): MSCI REALpac/ Canadian All Property Index – Large Institutional Subset	
	Foreign Real Estate Pool (FREP-GV/PX): Global Region Property Index	
	MSCI Global Quarterly Property Index (gross of fees) effective January 1, 2025	
Infrastructure and Renewable Resources	Consumer Price Index (CPI) plus 450 basis points (bps) (5-year Rolling Average)	
Real Return Bonds	FTSE Canada Real Return Bond Index	
Equities		
Canadian Public	S&P/TSX Composite Total Return Index	
Global Public	MSCI World Net Total Return Index	
Emerging Markets Public	MSCI Emerging Markets Free Net Total Return Index	
Private Equity	MSCI World Net Total Return Index + 200bps*	
Total Fund	Composite Benchmark	

* AIMCo is required to report private equity performance under both CPI + 650 bps (5-year rolling average) and MSCI All Country World Net Total Return Index

- As aligned with AIMCo, the Fund's relative performance objective is to rank top quartile or better when compared to a representative sampling of funds.
- An overall analysis of Fund performance and risk characteristics shall be prepared and reviewed by the Board quarterly. This will include an evaluation by total Fund, asset class and mandates against objectives, the overall level of investment risk and the use of investment risk to earn reward. It will be expected that the investment returns for each component should consistently add value to the appropriate index return on a four-year moving average basis; and
- Results below the minimum, or consistently below the secondary investment objective, will require detailed explanation by the Manager.

5 Risk Tolerance

- Risk management involves both qualitative and quantitative assessments and decision-making. The use of quantitative tools for measuring and reporting on risk is only one part of the overall risk management program. Value at Risk (**VaR**), Surplus at Risk (SaR) and Active VaR (**aVaR**) are used as risk management tools by the Board and AIMCo, and they are used to supplement—not replace—other risk management activities.
- VaR at a 95% confidence level, is a metric that provides a measure of the minimum potential loss that could occur with a 5% likelihood over a one-year period. This metric is used for compliance purposes. VaR at a 99% confidence level is also monitored, supplemented by Expected Tail Loss (ETL) measures at 95% and 99% confidence levels.
- SaR is a metric that provides a measure of the extent of the investment risk mismatch between the assets and liabilities of the Fund. This metric is the relationship between the actual Fund investment risk and the investment risk of the Fund's liability proxy portfolio. The liability proxy portfolio is constructed from the liability cash flows calculated by the Plan actuary for an actuarial valuation using market interest rates.
- Active VaR is a metric that provides a measure of the extent of the investment risk mismatch between the assets of the Fund and the Fund Benchmark.
- AIMCo is responsible for monitoring and reporting the VaR, SaR, and aVaR at which the portfolio is being operated, to the Board.
- Risk limit ranges are specified to AIMCo on VaR and aVaR at 95% confidence levels, including green (desirable), yellow (warning) and red (requires action) ranges. Funding and affordability risks are monitored in more detail in the Plan's long-term balance sheet risk reporting, therefore risk limit ranges are not specified on the SaR measure.

When AIMCo considers it appropriate, AIMCo is permitted to operate the portfolio in the VaR and aVaR yellow ranges. If the portfolio's VaR or aVaR is in the yellow range, AIMCo will provide an explanation to the Board as to why the portfolio is being operated in the yellow range at the next regular reporting point.

AIMCo should not operate the portfolio's VaR or aVaR beyond the limits of the yellow range, and will promptly notify the Board whenever the portfolio's VaR or aVaR exceed that range, the prudence of doing so at this point together with an estimate as to when the portfolio will be within the green or yellow range, and an assessment of the financial risks to the Plan for being outside of the yellow range. If in the opinion of AIMCo, within a reasonable time frame or given market circumstances, AIMCo cannot or should not operate the portfolio in the yellow or green range, then AIMCo will promptly notify the Board and will recommend an appropriate course of action.

Risk Limit Ranges at 95% Confidence Interval:

95%	VaR Range	aVaR Range
Green – Desirable	Less than 9.0%	Less than 6.4%
Yellow – Warning	9.0% to 9.9%	6.4% to 7.1%
Red – Requires Action	Greater than 9.9%	Greater than 7.1%

- For the purpose of this IP, investment risk is being defined in terms of the potential for possible losses and not the volatility of return. VaR is a metric that provides a measure of possible losses and VaR will be used to report and monitor investment risk. The Plan investment risk will be monitored on an absolute and relative basis.

- The risk parameters are set based on a review of outputs from AIMCo's risk system. These parameters shall be reviewed regularly or whenever AIMCo implements significant changes to its risk methodology as well as part of MEPP's asset mix study.

6 Permitted Investments

6.1 Permitted Investments and Constraints (asset class descriptions)

Permitted Investments are qualified investments under the prudent person rule. Pursuant to the FAA, the Minister may make investments on behalf of the Fund, and when doing so, "adhere to investment and lending policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and obtain a reasonable return." The investments of the Fund must also be in compliance and recognized as qualified investments under the applicable legislative provisions.

6.1.1 Permitted Investments

Permitted Investments include investments through units of any AIMCo investment fund as approved by the AIMCo Board of Directors, provided that such vehicles conform to this Policy. The Fund invests in several investment funds, which have separate and independent investment policies. Should a conflict arise between the provisions of this Policy, and the provisions of the investment fund's investment policy, the investment fund's investment policy shall apply. However, AIMCo is required to promptly notify the Board in writing, detailing the nature of the conflict and AIMCo's recommended course of action.

6.1.2 Maximum Quantity Restrictions

It is expected that when making tactical investments, AIMCo will take into consideration diversification, factor exposures, liquidity and credit quality within the context of both specific markets and of the total Fund.

6.1.3 Securities Lending

The investments of the Fund may be loaned for the purpose of generating revenue for the Fund, provided the loaned investments are secured by approved collateral, that is in excess of 100% of the value of securities loaned, and maintained daily.

6.1.4 Currency Hedging

The Board has a non-hedged benchmark for foreign investments. This is in accordance with Section 6(3), Schedule 5 of the Act. It is expected that when making tactical investments, AIMCo will consider the impact of foreign currencies based on AIMCo's analysis on diversification, factor exposures, liquidity, and credit quality within the context of both specific markets and of the total Fund.

6.1.5 Hedge Funds

Hedge fund investments are considered part of public equity and are included in the allocation to Active Global Equity. The investment manager will adhere to the limits approved in the product description.

6.1.6 Opportunistic Investments

There may be opportunities available for the Investment Manager to fund certain investments with an attractive risk/return profile that are outside the asset classes listed in Section 3.0 (Asset Mix). The Board provides the Investment Manager with the discretion to make these

opportunistic investments and recognizes that they will displace the asset allocation of Section 3.0 (Asset Mix), and that these opportunistic securities will inherit the benchmark of the displaced asset. All opportunistic securities will be within the limits of the equity sector class asset guidelines, unless specifically agreed to by the Board. AIMCo will notify the Board whenever such a transaction occurs. The Board further recognizes that the Investment Manager may not be able to readily dispose of these opportunistic investments due to the potential illiquid nature. A maximum of allocation at the market value of **2.0%** of the total Fund is set for these opportunistic investments.

6.2 Leverage, Permitted Borrowing and Derivatives

6.2.1 Leverage

Leverage may be employed in connection with the investment of the Funds, provided that:

- a) such leverage may only be employed insofar as permitted by applicable laws and regulations, including without limitation the EPPA (Alberta);
- b) AIMCo has given due consideration to the risks associated with the use of leverage in the circumstances;
- c) AIMCo has established appropriate risk control measures in respect of the use of leverage; and
- d) the employment of leverage does not violate the risk constraints for the Plan.

6.2.2 Derivatives

The use of derivatives and synthetic securities is permitted for the purpose of managing risk, liquidity and transaction costs, or enhancing returns in a manner consistent with the overall investment policies, risk tolerance of the Fund and all applicable legislation.

7 Accountabilities

7.1 Reporting Requirements

Periodic reporting requirements and ad hoc reporting as warranted are set out in the IMA, section 7. Additionally, when the Province or the MEP Board requests any other information in respect of a pension fund, the IMA notes that AIMCo shall respond in a timely manner.

AIMCo will direct all communications to the Board's office through the Plan Board Director. The Plan Board Director will then disseminate the information to the Board in a timely manner.

7.2 Investment Manager Responsibilities

Responsibilities of the Investment Manager, AIMCo, are set out in the IMA, including the specific services outlined in section 4.

7.3 MEPB Roles and Responsibilities

The Minister is the administrator of the MEPP and has delegated certain functions in relation to the administration of the MEPP to APS including support services to the Board. The Minister is responsible for investing the Fund after taking into consideration the general policy guidelines established by the Board, including this IP, and the applicable provisions of the EPPA. The Minister has entered into an Investment Management Agreement with AIMCo to provide investment management services to the Minister with respect to the Fund.

7.4 Investment Consultant Responsibilities

- Assist in the preparation and ongoing review of this Statement.
- On a periodic basis, provide the Board with assessment and evaluation, both quantitatively and qualitatively, of the Investment Manager's performance and risk.
- Assist in reviewing the asset allocation of the Plan and any proposed changes.
- Advise the MEP Board of any changes in the Plan, market environment or governing legislation that may affect the Plan's investment policy.

7.5 Actuary Responsibilities

- Perform actuarial valuations of the Plan as directed by the MEP Board.
- Advise the MEP Board on such matters as Plan design, membership and administration which may affect the Plan's investment policy.

8 Administration

- Policy Revisions – the Board will review the Policy annually.
- Frequency of ALM studies – the Board generally conducts an asset liability review annually, with the option to complete a full asset liability study as needed.
- Availability to Members and Stakeholders – the Board will send a copy of the MEPP IP to the Minister, AIMCo, and the Office of Auditor General, and post it on the MEPP website (www.mepp.ca).

8.1 Related Party Transactions

AIMCo will not enter into a transaction with a related party unless the transaction is permitted by the EPPA, is required for the operation or administration of the Plan, and the terms and conditions of the transaction are not less favorable to the Plan than market terms and conditions. Investments in any securities of a related party must be permitted by the EPPA and any such securities must be acquired at a public exchange.

8.2 Valuation of Investments Not Regularly Traded In A Market Place

MEPP's investment portfolio includes non-publicly traded investments, such as private equity limited partnerships, joint ventures, other limited partnerships, and certain fixed income securities. AIMCo should use appropriate valuation methodologies to report these non-publicly traded investments at estimated fair value. These non-publicly traded investments should be valued based on factors such as management judgment, recent financial information and other market data and audited by an external auditor on an annual basis.

8.3 Soft Dollars

AIMCo acknowledges that soft dollars belong to the Fund, may only purchase research with soft dollars if the primary use is in the investment decision making process, not firm management, and must disclose all relevant benefits they receive through client brokerage.

9 Environmental, Social and Governance

The Fund is to be invested over the long-term in order to meet the pension obligation. This requires both a long-term perspective as an investor and a deep consideration of risk. The asset manager should consider environmental, social, and governance factors when evaluating investments to enable better informed decisions. Where appropriate, the analysis should include ESG risk factors and their integration into investment decision making processes in an effort to uncover opportunities and ensure the Fund is well positioned against potential future risks. It is expected that the asset manager will regularly update its Responsible Investing policy and related guidelines and will regularly update the Minister on its ESG performance and implementation strategies. The Minister commits to engaging with the asset manager to understand the policy and will indicate when and where there are concerns with the policy and its implementation. In those cases, further engagement with the asset manager regarding a specific investment or the approach to a certain risk factor will be undertaken.

10 Proxy Voting

The responsibility of exercising and directing voting rights acquired through Fund investments shall normally be delegated to the Investment Manager, who shall at all times act prudently and in the best interest of the Fund.

AIMCo is to annually present to the Board on the proxy voting activities of the previous year, highlighting when proxies cast were against management for material positions or considered to have been controversial.

11 Conflicts of Interest

The Board shall, in the execution of their responsibilities, adhere to the Board's Code of Conduct policy and Conflict of Interest policy, as amended from time to time.

Appendix 1—Table of Benchmark Descriptions

4-Year Rolling Average CPI + 450 bps: The real return target for the MEPP Pension Plan is the 4-year rolling average Canadian Consumer Price Index (CPI) plus 450 basis points. CPI measures the rate of inflation of a basket of consumer products as published by the Bank of Canada.

5-Year Rolling Average CPI + 450 bps: AIMCo's Board approved 5-year rolling average Canadian Consumer Price Index (CPI) plus 450 basis points as the pool benchmark for AIMCo Infrastructure and Renewable Resources Strategies, effective January 1, 2015. CPI measures the rate of inflation of a basket of consumer products as published by the Bank of Canada.

5-Year Rolling Average CPI + 650 bps: AIMCo's Board approved 5-year rolling average Canadian Consumer Price Index (CPI) plus 650 basis points as the pool benchmark for AIMCo Private Equity strategies, effective January 1, 2016. CPI measures the rate of inflation of a basket of consumer products as published by the Bank of Canada.

FTSE Canada 30-Day T-Bill Index: An index maintained by FTSE Canada that generally reflects a cash return as measured by investments in 30 day Government of Canada Treasury Bills.

FTSE Canada 91-Day T-Bill Index: An index maintained by FTSE Canada that generally reflects a cash return as measured by investments in 91 day Government of Canada Treasury Bills.

FTSE Canada Long-Term All Government Bond Total Return Index: This index includes bonds issued by the Government of Canada (including crown corporations), provincial governments (including provincially guaranteed securities), and municipal governments. The index consists of semi-annual pay fixed rate bond issues in Canada and denominated in Canadian dollars, with a remaining term to maturity of greater than ten years. Total returns are calculated daily and are weighted by market capitalization. Bonds included in the index must meet minimum liquidity requirements, as defined by FTSE Canada.

FTSE Canada Mid Term Overall Bond Index: An index maintained by FTSE Canada that covers marketable, domestically issued, Canadian bonds with terms to maturity between five to ten years. This index is comprised of Federal, provincial, municipal and corporate issues rated BBB or higher, weighted on a market basis including accrued interest. The index is calculated on a total return basis including capital gain (loss) as well as interest income earned on each debt category and sub-category.

FTSE Canada Real Return Bond (RRB) Index: An index maintained by FTSE Canada that tracks the performance of non-corporate real return (inflation-linked) bonds issued in Canada with terms to maturity of more than one year and a minimum credit rating of BBB (low).

FTSE Canada Short Term Overall Bond Index: An index maintained by FTSE Canada that covers marketable, domestically issued, Canadian bonds with terms to maturity between one to five years. This index is comprised of Federal, provincial, municipal and corporate issues rated BBB or higher, weighted on a market basis including accrued interest. The index is calculated on a total return basis including capital gain (loss) as well as interest income earned on each debt category and sub-category.

FTSE Canada Universe Bond Index: An index maintained by FTSE Canada that covers marketable, domestically issued, Canadian bonds with terms to maturity of more than one year. This index is comprised of Federal, provincial, municipal and corporate issues rated BBB or higher, weighted on a market basis including accrued interest. The index is calculated on a total return basis including capital gain (loss) as well as interest income earned on each debt category and sub-category. The purpose of

this index is to reflect performance of the broad Canadian bond market in a manner similar to the way the S&P/TSX Composite Index represents the Canadian equity market.

S&P/LSTA Leveraged Loan Index: A market value-weighted index designed to measure the performance of the U.S. leveraged loan market based upon market weightings, spreads and interest payments.

S&P European Leveraged Loan Index: A market-value-weighted index designed to measure the performance of the European institutional leveraged loan market. Tracks the current outstanding balance and spread over EURIBOR for fully funded term loans. Represents a broad cross section of leveraged loans syndicated in Europe.

MSCI Emerging Markets Free Net Total Return Index: An index, maintained by MSCI, is a free float-adjusted market capitalization index that is designed to measure the large and mid-cap equity market performance of emerging markets. It is often used as a benchmark for pools with a primary focus on global investments in developed markets. The index goes through a review process every quarter to accommodate any changes to the holdings.

MSCI Global Region Property Index : An index produced by MSCI as a custom report, this index measures the total return of all directly held real estate investment assets from data participants such as institutional pension funds, insurance companies and segregated managed funds consisting of 33.3% weight to Western Europe (France, Germany, Italy, Netherlands and Spain); 33.3% weight to United Kingdom and 33.3% weight to United States of America.

MSCI/REALpac Canadian All Property Index – Large Institutional Subset: An index maintained by MSCI that measures the total return to directly held standing property investments from large Canadian funds, including institutional pension funds, insurance companies and segregated managed funds, which individually have real estate portfolios valued at greater than \$1.5 billion.

MSCI World Net Total Return Index: An index, maintained by MSCI, is a free float-adjusted market capitalization weighted index that is designed to measure the large and mid-cap equity market performance of developed markets. The index is calculated on a total return basis, which includes re-investment of net dividends after deduction of withholding tax. It is often used as a benchmark for pools with a primary focus on global investments in developed markets. The index goes through a review process every quarter to accommodate any changes to the holdings.

S&P/TSX Composite Total Return Index: the headline index for the Canadian equity market. The index is float-weighted and calculated on a total return basis with dividends reinvested. It is the broadest in the S&P/TSX family and is the basis for multiple sub-indices including but not limited to equity indices, Income Trust Indices, Capped Indices, GICS Indices and market cap-based indices. The S&P/TSX indices are calculated and managed by S&P Dow Jones Indices. The TMX Group Inc. (TMX) is the owner and distributor of all S&P/TSX equity index data.

MSCI Global Quarterly Property Index: An index maintained by MSCI that measures the total return to directly held standing property investments from over 100 global property funds, which individually have real estate portfolios valued at greater than US\$400 billion and invested across the Americas, Europe and Asia-Pacific.

Appendix 2—Glossary

Agent: a person, company, or business representative retained and entrusted by the Board or Alberta Investment Management Corporation to perform business related to the Plan or the Fund.

Appraisal: a determination of the value, as of a given date, of an investment or investment portfolio.

Assets: everything a pension fund owns or has ownership in. Asset value grows with successful investment activities, and investment returns are required to successfully fund Plan benefits.

Asset Allocation: the decision to allocate the Fund among various asset classes such as fixed income, Canadian equities, foreign equities, etc.

Asset Class Weights: the specific relative proportion of each type of asset represented among the asset classes in the Fund's investment portfolio.

Asset Mix: the percentage distribution among various classes of assets such as bonds, real estate, Canadian equity, and foreign equity.

BB: BB credit rating indicates higher credit risk than a BBB rating and is considered to be below the investment-grade category. BB rated Bonds are less vulnerable in the near-term but face major ongoing uncertainties to adverse business, financial and economic conditions.

BBB: BBB credit rating indicates that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate; however, adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category for bonds.

Basis Point (bps): a basis point is a hundredth of one percent.

Benchmark: a standard, usually an index such as the Standard & Poor's/Toronto Stock Exchange (S&P/TSX,) against which performance is measured.

Benefit Obligations: the obligation of the Plan to pay benefits earned by members and/or their beneficiaries.

Bonds: certificates of indebtedness issued by corporations, municipalities or governments on which the issuer promises to pay a specified amount of interest for a specified length of time and, to repay the loan on maturity or expiration date. A bond purchaser is lending money to the issuer.

Book Value: the value for which an asset was acquired.

Canadian Equities: All securities of publicly traded companies that are listed on the Toronto, Montreal, or Canadian Venture stock exchanges.

Capital Gain: the excess of market value over book value.

Capitalization: the value of a company or index based on the most recent price of one share, times the number of shares outstanding. Companies are sometimes classified according to size of capitalization: large cap, mid cap, small cap. There is no fixed definition of the break points between each of these, and it varies by country. (For example, a large cap company in Canada could be classified as mid or small cap

in the United States.)

Cash: Cash or money market securities with a term to maturity less than one year.

Collateral: property or anything considered to have value, pledged by a borrower to secure a loan.

Currency Overlays: Investments that generate income through active currency trading (primarily utilizing forward contracts) and management. Participation in this investment vehicle is on an unfunded basis. Investments are based on notional amounts where small capital commitment is required for "margin" account only.

Debentures: corporate debt obligations sold as an investment, dated 10 to 40 years to the future. Debentures are usually secured against assets of the company.

Derivative: is a financial obligation that derives its value from the value of one or more other financial instruments.

EAFE (Europe, Australia, and the Far East) Equity: Securities of publicly traded companies located in Europe, Australasia and the Far East.

Emerging Market: an economy in the earlier stages of development whose stock market is not yet of a size to be included in the major International market indices. Examples include China, Turkey and Brazil.

Emerging Markets Public Equity: all securities of publicly traded companies in economies that are in their earlier stages of development. Emerging markets economies have sufficient size and liquidity for institutional investments and are receptive to foreign investments. Examples include Brazil, Russia, India and China.

Fiduciary: a relationship of trust and confidence where one person (the fiduciary) holds or controls property for the benefit of others. The Board holds a fiduciary relationship with respect to Plan members and beneficiaries.

Fixed Income: Fixed income investments have low absolute volatility and high correlation to the interest rate risk of the Plan's liabilities. Investments include, but are not exclusive to, short-term securities, universe bonds, long bonds and Canadian and US mortgages. Investments may be publicly traded or privately held.

Fixed Income Securities: all bonds, debentures, notes and other debt instruments over one year in term with at least investment grade rating at the time of purchase. The debt issues may be either public offerings, or private placements restricted to institutional investors.

Fund Managers: the entity or body is responsible for investing a pension fund's assets. Alberta Investment Management Corporation, an Alberta Crown Corporation, has been delegated responsibility for managing the Fund. They in turn may hire external managers to manage some pools.

Hedge Funds: encompass a wide variety of investments and trading strategies in private and publicly traded securities with the objective of realizing positive returns independent of market direction.

High Yield: High yield companies have credit ratings below BBB, as determined by the rating agencies. High yield debt can include public and private unsecured notes or debentures, and secured term or bank loans. The low correlation of high yield debt with government and investment grade debt makes high yield a significant portfolio diversifier for fixed income portfolios.

Index: a basket of securities traded on a particular market, as defined by the administrators of that market index. It is often used to measure the total return of the market (capital appreciation and income). Market index can be used as one standard for measuring performance. Many indices are investable.

Inflation: a rise in the general level of prices of goods and services in an economy over a period of time.

Inflation Sensitive: Any publicly traded or privately held investment (both foreign and domestic) whose rate of return or cash flows tend to be positively correlated to an economy's rate of inflation. Commonly cited inflation sensitive assets include, but are not limited to, inflation-linked bonds, private debt, infrastructure, renewable resources, commodities, and real estate. As a result, it will be positively correlated with the inflation risk of the Fund.

Investment Earnings: earnings on investments held in the Fund including income and realized gains or losses.

Investment Policy: a comprehensive document that conveys the policies for the investment of the Fund. Topics include the asset mix of the Fund with allowable ranges and the benchmarks for measuring performance.

Liability Proxy: A liability proxy is a set of liquid, capital market instruments that react to market events, such as interest rate and inflation changes, in a manner thought to be similar to long-term obligations of the Fund. MEPP updates the proxy annually and uses the 70 year going concern cash flow projections calculated at the end of the previous calendar year as the liability proxy. For asset modeling, the 50-year proxy is used.

Market Value: the price that would be obtained in the purchase or sale of the asset in an open market under conditions requisite to a fair transaction between parties who are at arm's length and acting prudently, knowledgeably, and willingly.

Money Market Security: a fixed income security that matures within one year from the date of acquisition.

Mortgages: Investments secured directly by real estate, such as conventional mortgages, second mortgages, mezzanine (a loan that is below the first mortgage in priority) investments in real estate projects, subordinated and non-investment grade tranches of commercial mortgage-backed securities (CMBS) offerings, B-notes and junior tranches of whole mortgage loans, non-investment grade mortgage bonds and distressed mortgages.

Overlay: A portfolio construction technique where the return and risk of an overlay strategy are added to another portfolio's returns without needing to transact in the underlying investments. To achieve this, the overlay strategy is usually executed with derivative securities on an unfunded basis, where notional exposure exceeds the invested capital. The overlay strategy modifies the risk exposure of the underlying investments.

Passive Management: passive management involves investing to replicate the performance of a given market index such as the S&P/TSX for Canadian stocks.

Private Equities: Institutional offering or private equity placements of companies that appear to have attractive growth prospects and do not exceed a reasonable level of risk.

Private Placements: private placement of securities between parties, that is, with an institutional investor such as a pension fund or insurance company and a corporation. Private placements are not offered to the general public and are not traded on a public exchange.

Portfolio: all of the investments in either the Total Fund or a specifically defined part of it. For example, the Management Employees Pension Plan portfolio includes everything, the Canadian equity portfolio would only include those specific Canadian Equity pools, and the ABC Management portfolio would only be those stocks held by the external manager ABC.

Public Offerings: the sale of securities, such as stocks and bonds, which have been registered with government agencies, to the public.

Real Estate: investments in the operation of and creation of income producing properties with a long-term focus.

Renewable Resources: The renewable and sustainable resource allows unit holders to participate in renewable resources investment opportunities on a global basis. These investments are expected to provide unit holders with diversification, an inflation hedge, and relatively high yield over long investment horizons.

Return: the change in value of an investment or group of investments expressed as a percentage of the investment at the beginning of the time period under consideration; may be either positive or negative.

Risk: exposure to the chance of loss. Common measures of risk include volatility and Value at Risk (VaR). AIMCo's Pooled Fund will be exposed to a number of risks including, but not limited to market risk, performance risk, regulatory risk, information risk, financial risk, leverage risk, currency risk, liquidity risk, operating risks, valuation risk, credit risks, tax risk, tracking error, and counterparty exposure.

Risk/Return: the investment principle that incremental anticipated rewards are accompanied by incremental increases in risk. A variety of ratios of return to risk are used to determine whether the investor has been rewarded for the risk taken.

Security: any document as evidence of loan or ownership (e.g. note, stock, bond, debenture).

Security Lending: the practice of lending securities to third parties in return for a small fee. Collateral is required and the custodian will maintain the liquidity of the original portfolio and provide all administration.

Valuation: an appraisal or a determination of the value, as of a given date, of an investment portfolio. Investments held by the Plan are valued at market value when periodic valuations of the Plan are performed.

Appendix 3—Investment Committee Terms of Reference

The Management Employees Pension Board (the Board) has established an Investment Committee (the Committee) which operates within the following terms of reference. The Committee will:

- Monitor and evaluate the investment performance, both returns and risk, of Management Employees Pension Plan's (MEPP or the Plan) assets (the Fund) on a comprehensive basis once each quarter, by using Performance Investment Reports provided by Alberta Investment Management Corporation (AIMCo or the Investment Manager) and/or external advisors;
- Undertake assessment of AIMCo on an annual basis;
- Assess the cost effectiveness of investment strategies, structures, and processes;
- Review reporting on investment compliance with the Board's Investment Policy (the IP or the Policy), the Investment Management Agreement, and with applicable laws and regulations;
- Monitor changes in the Plan's membership characteristics, liability structure and contribution flows that may impact the Plan's investment strategies;
- Commission analysis or reviews of specific investment issues related to the Plan;
- Make recommendations to the Board on matters within the Board's mandate;
- Complete an annual review of the Board's IP; and
- Advise and make recommendations to the Board on matters within the Board's mandate, including:
 - (i) The IP;
 - (ii) Strategies, practices and processes to manage the investment risks of the Plan or to improve the effectiveness of investment governance;
 - (iii) Any other investment-related matter as requested by the Board or deemed appropriate by the Committee.

Composition and Term Length

All voting Board members are voting members of the Committee.

The Committee will elect its Chair and Vice-Chair from among those members who are also voting members of the Board. The Chair and Vice-Chair will be elected for a 2-year term.

Consistent with provisions in the *Public Sector Pension Plans (Legislative Provisions) Regulation*, the Board may appoint to the Investment Committee an individual or individuals who, in the opinion of the Board, possess specialized skills that will contribute to the work of the IC. The Regulation further articulates remuneration and indemnification provisions applicable to such appointments.

Quorum

Quorum will require a majority of members of the Committee, present either in person or via voice technology.

Member Qualifications

The Board will maintain a skills matrix identifying the key competencies of the Committee members. The Committee members will complete the skills matrix on an annual basis, and results will be used to identify any missing competencies, develop individual and group education plans.

Code of Conduct and Ethics

All members of the Committee will be bound by the Code of Conduct and Ethics policy that applies to members of the Board.

Review

The Investment Committee Terms of Reference will be reviewed on an annual basis.

Effective: November 2000

Revised: May 2002, March 2003, September 2003, November 2004, June 2005
April 8, 2011 (M11:04:04)
June 25, 2012 (M12:06:03)
September 5, 2013 (M13:09:03)
July 15, 2015 (M15:07:02)
September 9, 2016 (M16: 09:03)
December 7, 2017 (M17:12:05)
April 12, 2018 (M18:04:03)
December 18, 2018 (M18:12:13)
December 4, 2019 (M19:12:03)
December 3, 2020 (M20:12:04)
June 16, 2022 (M22:06:03)
September 15, 2022 (M22:09:04)
September 11, 2024

**MEPP Asset Mix Transition Plan –
Investment Policy effective July 1, 2022**

**MEPP Asset Mix Transition Plan –
Investment Policy effective July 1, 2022**



September 1, 2022

Naz Qureshi
A/Plan Board Director
Management Employees Pension Plan
c/o Alberta Pension Services Corporation
5103 Windermere Boulevard SW
Edmonton, AB T6W 0S9

Dear Ms. Qureshi,

Re: Strategic Asset Mix Transition Plan

We are pleased to share the transition plan for the new asset mix effective July 1, 2022. The attached document details each asset class and the proposed implementation plan.

We have also included details on the suggested banking allocations which will be utilized as we pivot to the new targets over the term of the transition.

We expect the liquid asset classes to achieve target in the shorter term of approximately 6 months with the majority of the transition completed in 2 years with a small tail of illiquid assets hitting target in 3-4 years subject to deal flow.

AIMCo will use its discretion to ensure best execution of the plan subject to the market environment and opportunities.

If you have any questions or comments, please feel free to contact me by phone at 587-921-9677 or by email at kathy_marshall@aimco.ca.

Yours sincerely,

Kathy Marshall
Director, Client Relations

cc: Kelly Featherstone, VP Client Investment Strategy & Investment Product Management
Brittany Jones, Senior Manager Portfolio Analytics and Research, Government of Alberta
Shannon Patershuk, Chair, MEPP Investment Committee

EDMONTON [1.780.392.3600](tel:17803923600)
1600 - 10250 101 Street NW
Edmonton, AB T5J 3P4
Canada

TORONTO [1.647.789.5700](tel:16477895700)
First Canadian Place
100 King Street West, Suite 5120,
P.O. Box 51 Toronto, Ontario
M5X 1B1, Canada

LONDON [+44 \(0\)20.3102.1909](tel:4402031021909)
4th floor, 72 Welbeck Street
London, UK W1G 0AY

LUXEMBOURG [+352 26.73.65.42](tel:+35226736542)
17A rue des Bains (Geiben House)
L-1212 Luxembourg
Grand-Duchy of Luxembourg

aimco.ca



MEPP Asset Mix Transition Plan

September 1, 2022

Executive Summary

AIMCo has developed the following transition plan for the Management Employees Pension Plan's (MEPP's or the Plan's) new asset mix. We would be able to continue implementing this transition plan following a letter of direction to implement as the new target weights for some illiquid assets were already reset at the end of Q2 2022.

There are several factors that need to be considered for the transitional period. Although assets can be bought or sold in liquid asset classes, such as global equity, quickly, the changes proposed include significant policy weight increases to illiquid asset classes. Opportunities in these asset classes will have the largest impact on the timing to implement the new policy asset mix. In the interim, we recommend a banking system approach where funds earmarked for illiquid asset classes are deposited in liquid public markets (a combination of Universe Bonds and Global Equities) and then drawn down as the appropriate illiquid opportunities become available. Under this schedule, we expect to reach the interim benchmarks in three to six months including the purchase of Universe Bonds and to a lesser extent Global Equities funded by the sale of Real Return Bonds and Canadian Equities. Over time, Global Equities, Universe Bonds and Emerging Market equity allocations will be reduced as illiquid allocations are filled to bring MEPP towards the Plan's new long term target allocations.

The macroeconomic environment right now is fast moving. We will use our skills to navigate and change allocations toward the long-term target tactically but within the defined parameters.

In the following transition plan, we discuss each individual asset class transition and then the recommended structure for banking the illiquid assets. As there are several moving parts, we have summarized these in the transaction summary table.

Discussion

ASSET CLASS VIEW

Here we discuss changes to each asset class individually and propose an implementation plan. The plan we are proposing is relatively specific, however, the plan should be considered provisional and based on the prevailing market conditions, discretion of portfolio managers, and other opportunities or complications that may arise.

Universe Bonds – AIMCo recognizes that MEPP would like to increase its policy exposure in Universe Bonds from 5.5% to 10.0%. The new interim policy is expected to increase to 17.25%. The interim policy is comprised of the new Long-Term policy of 10.0% and banked assets from Private Debt & Loan (1.0%), Mortgages (1.5%), Real Estate (1.25%) and Infrastructure (3.5%). The purchase of Universe Bonds to achieve the new interim policy is estimated to be ~\$675 million. This will be funded from the sale of Canadian Equity and Real Return Bonds.

Real Return Bonds – AIMCo recognizes that MEPP would like to decrease its policy exposure in Real Return Bonds from 5.0% to 0%. Currently, MEPP holds approximately ~\$250 million of Real Return Bonds. While Real Return Bonds are marketable securities, in practice, they are less liquid than their nominal bond counterparts. AIMCo will look for opportunities where other clients are seeking to increase their Real Return Bonds exposure and perform internal trading. Otherwise, AIMCo will sell the Real Return Bonds over-the-counter (OTC).

Mortgages – AIMCo recognizes that MEPP would like to increase its policy exposure in Mortgages from 4.0% to 4.5%. Currently, MEPP's actual weight to Mortgages is approximately 3.0%. In order to achieve the new Long-Term policy weight, approximately ~\$100 million of Mortgages exposure needs to be added, given the MEPP's current Asset Under Management. Due to the illiquid nature of Mortgages, the desired allocation cannot be reached immediately, and instead it is recommended that the difference of 1.5% be banked in Universe Bonds and drawn from as deals occur. Mortgages is a constrained open pool, and MEPP's new policy mix target would be reflected when client allocations are adjusted quarterly. AIMCo has already reflected MEPP's increased allocation to the Mortgages pool for Q3 2022.

Private Debt & Loan – AIMCo recognizes that MEPP would like to increase its policy exposure to Private Debt & Loan from 2.5% to 5.0%. Given the deal pipeline and expected trajectory of funding in Private Debt & Loan, we expect the target allocation for Private Debt & Loan to be reached in approximately 3-6 months.

Canadian Equity – AIMCo recognizes that MEPP would like to decrease its policy exposure in Canadian Equity from 15.0% to 7.5%. Given the liquid nature of the asset class, under normal market conditions we expect to sell Canadian Equity down to the new target allocation quickly. The sale of Canadian Equity to achieve the new interim policy is estimated to be ~\$450 million. The proceeds will be used to purchase exposure in Universe Bonds and Global Equity.

Global Equity – AIMCo recognizes that MEPP would like to decrease its policy exposure in Global Equity from 25.0% to 22.5%. The new interim policy is expected to increase to 28.25%. The interim policy is comprised of the new Long-Term policy of 22.5% and banked assets from Private Equity (1%), Real Estate (1.25%) and Infrastructure (3.5%). The purchase of Global Equity to achieve the new interim policy is estimated to be ~\$75 million. This will be funded from the sale of Canadian Equity.

Emerging Market Equity - AIMCo recognizes that MEPP would like to keep its policy exposure in Emerging Market Equity at 5.0%. AIMCo is recommending MEPP to update its current banking policy of Private Equity assets. Currently, Private Equity assets are banked 50% in Global Equities and 50% in Emerging Market Equity. The recommended policy would have Private Equity assets banked 100% in Global Equities going forward, after 1% Private Equity is deployed and 1% Emerging Market Equity is sold to fund the new deployment. As a result, the new interim policy is expected to decrease from 6.0% to 5.0%. The sale of Emerging Market Equity is estimated to be ~\$60 million.

Real Estate – AIMCo recognizes that MEPP would like to increase its policy exposure to Real Estate from 15.0% to 17.5% with separate allocations to Canadian and Foreign Real Estate at 11.0% and 6.5% respectively. Currently, MEPP's actual weight to Real Estate is approximately 15.0%. In order to achieve the new Long-Term policy weight, approximately ~\$150 million of Real Estate exposure needs to be added, given the MEPP's current Asset Under Management, \$90 million of Canadian and \$60 million to Foreign Real Estate. Due to the illiquid nature of Real Estate, the desired allocation cannot be reached immediately, and instead it is recommended that the difference of 2.5% be banked 50% in Universe Bonds and 50% in Global Equity and drawn from as deals occur. Canadian Real Estate (PREP) and Foreign Real Estate (FREP) are constrained open pools, and MEPP's new Long-Term policy target would be reflected when client allocations are adjusted quarterly. AIMCo has already reflected MEPP's increased allocation to Real Estate for Q3 2022.

Infrastructure and Renewable Resources – AIMCo recognizes that MEPP would like to increase its policy exposure to Infrastructure and Renewable Resources from 12.5% to 17.5% with separate allocations to Infrastructure and Renewable Resources at 14.5% and 3.0% respectively. Currently, MEPP's actual weight to Infrastructure is approximately 8.7% and for Renewable Resources - approximately 1.8%. In order to achieve the new Long-Term policy weights, approximately ~\$355 million of Infrastructure and \$75 million of Renewable Resources exposures need to be added, given the MEPP's current Asset Under Management. Due to the illiquid nature of Infrastructure and Renewable Resources the desired allocation cannot be reached immediately, and instead it is recommended that the difference of 7% be banked 50% in Universe Bonds and 50% in Global Equity and drawn from as deals occur. Private Infrastructure Pool (PIP7) and Renewable Resources Pool (TLP4) are constrained open pools with client allocations adjusted annually. Clients' allocations for both pools are expected to be restruck in the first half of 2023.

BANKING STRUCTURE

When MEPP designates an allocation to an illiquid asset class, opportunities to either buy or sell may not be immediately available and consequently it may take several years to reach the new policy allocations. During this transitional period, a decision needs to be made regarding how to invest assets earmarked for the illiquid asset classes. This is the case for all investment policies that hold illiquid assets; they must anticipate holding liquid assets in lieu of those illiquid assets to some degree. AIMCo recommends a banking system approach that invests unallocated assets earmarked for illiquid investments in liquid assets. This approach is expected to create a more optimal portfolio, consistent with client risk tolerances, during the transition period. The banked assets will be drawn down as investments become available in the illiquid asset classes.

The table below outlines the recommended banking allocations

Asset Class	Banking Assets
Mortgages	100% Universe Bonds
Private Debt & Loan	100% Universe Bonds
Real Estate	50% Universe Bonds/ 50% Global Equities
Infrastructure	50% Universe Bonds/ 50% Global Equities
Renewable Resources	50% Universe Bonds/ 50% Global Equities
Private Equity	100% Global Equities*

*For new allocations only. MEPP's existing Private Equity allocation is banked using 50% Global Equity/ 50% Emerging Market Equity

AIMCo will be revisiting the banking allocations soon given changes to the product platform over the next few years. Guiding principles for revisited banking will be based on matching risk/return profiles, correlations and macro sensitivities to the extend possible and practical and using indexed products as they become available.

NOTE ON INTERIM TO LONG-TERM POLICY ALLOCATIONS

Moving from the interim policy allocations to the long-term allocations will take place incrementally over the corresponding period according to how quickly deals are made and funded. When a deal team needs to provide funding, they will reach out to the rebalancing team, who will then coordinate with various teams as per the banking schedule to sell assets to cover the fund. The interim policy allocations will be incrementally adjusted closely in tandem with this funding activity. For example, if MEPP needs to provide C\$40 million dollars for a Real Estate deal, the rebalancing team will coordinate the sale of C\$20 million of each of Global Equity and Universe Bonds and use it to fund the Real Estate investment. The rebalancing team will then observe if the move in assets was enough to cause a discrepancy between the actual allocation and the interim allocation greater than 0.45%. If so, then the rebalancing team will adjust the interim benchmark by 0.50% in the appropriate direction to bring the discrepancy back between +/-0.45%. In this example, the actual weight for both Universe Bonds and Global Equity will have decreased, and so the interim policy allocation will also decrease. The opposite is true for Real Estate. These transactions are expected to take place regularly over the next several years, and each will move the interim policy allocations in the direction of the long-term allocations and eventually converge.

TRANSITION SUMMARY

After considering the banking system, asset class liquidity, and the suggested policy changes, we expect to attain the interim policy mix within three to six months of implementing the transition. The completion of the transition to the proposed policy mix is expected to take three to four years, although most of the transition should be completed in two years. In the table below, the interim benchmarks imply that the liquid asset class transactions take place simultaneously and immediately, although as outlined in the previous section we wish to implement these transactions incrementally over the next three to six months.

Asset Class	Current LT Policy Mix	New LT Policy Mix	Change in LT Policy	Interim Policy Mix	Execution Plan
Fixed Income	17.50%	20.00%	2.50%	24.75%	
Cash	0.50%	0.50%	0.00%	0.50%	No Change
Mortgages	4.00%	4.50%	0.50%	3.00%	Funding will come from Universe Bonds
Real Return Bonds	5.00%	0.00%	-5.00%	0.00%	Sell in the near-term. Proceeds used to fund Universe Bonds
Private Debt and Loan	2.50%	5.00%	2.50%	4.00%	Expected to reach new LT policy in 3-6 months, funding from Universe Bonds
Universe Bonds	5.50%	10.00%	4.50%	17.25%	Purchase in the near-term using proceeds from Real Return Bonds and Canadian Equity
Equities	55.00%	45.00%	-10.00%	49.75%	
Canadian Equity	15.00%	7.50%	-7.50%	7.50%	Sell in the near-term. Proceeds used to fund Universe Bonds and Global Equity
Global Equity	25.00%	22.50%	-2.50%	29.25%	Purchase in the near-term using proceeds from Canadian Equity and Emerging Market Equity
Emerging Market Equity	5.00%	5.00%	0.00%	5.00%	Sell the previously banked Emerging Market Equity as 1% Private Equity is deployed and Private Equity banking is moved to Global Equity going forward
Private Equity	10.00%	10.00%	0.00%	8.00%	Funding will come from Global Equity
Alternatives	27.50%	35.00%	7.50%	25.50%	
Real Estate:	15.00%	17.50%	2.50%	15.00%	Equal funding from Universe Bonds and Global Equity
• Canadian Real Estate		11.00%		9.50%	
• Foreign Real Estate		6.50%		5.50%	
Infrastructure & Renewable Resources:	12.50%	17.50%	5.00%	10.50%	Equal funding from Universe Bonds and Global Equity
• Infrastructure		14.50%		9.00%	
• Renewable Resources		3.00%		1.50%	
Total	100.00%	100.00%	0.00%	100.00%	

ASSET CLASS RANGES

MEPP's asset class ranges should also be updated to reflect changes in asset class targets as well as the impact of banking on the interim policy mix. Proposed Ranges are included below for consideration.

Asset Class	Current Min	Current LT Policy Mix	Current Max	Interim Policy Mix	Proposed Min	New LT Policy Target	Proposed Max	Discussion
Fixed Income	10.0%	12.5%	25.0%	24.75%	15.0%	20.0%	30.00%	Parallel shift, widened to allow for banking and market movements
Cash	0.0%	0.5%	5.0%	0.5%	0.0%	0.5%	5.0%	No change proposed
Mortgages	0.0%	4.0%	6.0%	3.0%	0.0%	4.5%	7.0%	increase max based on increased Long Term Target
Private Debt and Loan	0.0%	2.5%	7.5%	4.0%	0.0%	5.0%	10.0%	increase max based on increased Long Term Target
Universe Bonds	0.0%	5.5%	15.0%	17.25%	5.0%	10.0%	25.0%	shift range to new target, increase to provide some additional space on the upper end to allow for space around new interim policy.
Equities	40.0%	55.0%	62.0%	49.75%	30.0%	45.0%	55.0%	Parallel shift but with small adjustment to upper range based on banked mix and to allow for market movements.
Canadian Equity	5.0%	15.0%	25.0%	7.5%	0.0%	7.5%	10.0%	shifted and narrowed previous range to reflect lower LT target.
Global Equity	10.0%	25.0%	40.0%	28.25%	10.0%	22.5%	40.0%	minimal change since original range is wide to allow for market volatility and interim banking. No need to change given small change in LT target.
Emerging Market Equity	0.0%	5.0%	10.0%	6.0%	0.0%	5.0%	10.0%	No change proposed
Private Equity	2.5%	10.0%	15.0%	8.0%	2.5%	10.0%	15.0%	No change proposed
Inflation Sensitive	20.0%	32.5%	45.0%	25.5%	22.5%	35.0%	47.5%	Parallel shift
Real Return Bonds	0.0%	5.0%	10.0%	0.0%	0.0%	0.0%	7.5%	revised upper limit to allow space for transition from current allocation with some wiggle room for market volatility
Real Estate: - Canadian Real Estate - Foreign Real Estate	7.5%	15.0%	20.0%	15.0% 9.5% 5.5%	10.0% 7.5% 3.0%	17.5% 11.0% 6.5%	22.5% 17.5% 10.0%	parallel shift of range, separate allocations to Canadian and Foreign Real Estate
Infrastructure & Renewable Resources: - Infrastructure - Renewable Resources	5.0%	12.5%	17.5%	10.5%	7.5% 7.5%	17.5% 14.0%	22.5% 20.0%	roughly a parallel shift in range, separate allocations to Infrastructure and Renewable Resources
Total	100.0%		100.0%		100.0%			

Note: Given the changes in allocations, some asset classes (e.g. Canadian Equities) and Asset Class Categories (e.g. Equities), may be outside the proposed ranges during the transition to the interim policy mix which is expected to occur over a period of three to six months.