



YUKON WORKERS'  
COMPENSATION  
HEALTH AND  
SAFETY BOARD

# *Compensation Fund*

# *Investment Policy*

*Workers' Compensation*

*Health and Safety Board*

**REVOKED**

**AUG 31 2007**

*Effective September 26, 2000*

**BOARD APPROVAL**

*Della Schenck*  
Signature Date *SEP 26 2000*

# Workers' Compensation Health & Safety Board Compensation Fund Investment Policy

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## Definitions

“Act” means the *Workers' Compensation Act*;

“Benchmark Portfolio” means a theoretical investment portfolio which is composed of different asset classes in which the Board may invest. The return of the portfolio is determined by taking the return of each asset class times its percentage weight in the theoretical portfolio. This benchmark portfolio return will be used to measure the actual investment portfolio returns;

“CEO” means the Chief Executive Officer and President of the Workers' Compensation Health and Safety Board;

“CFO” means the Chief Financial Officer of the Workers' Compensation Health and Safety Board (see Appendix A);

“Custodian” means a financial institution which holds the investments of the Compensation Fund;

“Derivative Instruments” means financial instruments which derive their value from that of another financial instrument or combination of financial instruments;

“Equities” represents partial ownership of a corporation, i.e. common stocks;

“FIAC” means the Finance, Investment and Audit Committee (see Appendix A);

“Fixed Income” means a contractual obligation of an issuer to pay interest and repay principal at maturity, i.e. bonds, mortgages;

“Investment Manager” means firm(s) responsible for managing an investment portfolio on behalf of the Workers' Compensation Health and Safety Board;

“Investment Manager Mandate” means instructions provided to an individual Investment Manager which shall be consistent with the Policy;

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“Performance Measurement Consultant” means a firm contracted to independently assess investment performance and policy compliance;

“Securities” means stocks, bonds, and notes used in financial transactions.

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| <i>Dale Schuman</i>   | <i>Sep 26/00</i> |
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# Workers' Compensation Health & Safety Board Compensation Fund Investment Policy

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## 1.0 Overview

### 1.1 Purpose

The Compensation Fund Investment Policy (Policy) applies to the assets held in trust with respect to the liabilities of the *Workers' Compensation Act* (Act). The purpose of the Policy is to formalize the investment principles and guidelines which are appropriate to the needs and objectives of the Compensation Fund (Fund). The Policy establishes risk and return parameters, governance structure and monitoring procedures. Any Investment Manager or other agent or advisor providing services in connection with the investments of the Fund shall accept and adhere to the Policy. This Policy may be changed or modified at any time by the action of the Workers' Compensation Health & Safety Board (Board). This would result in a recommendation to Cabinet pursuant to Sec. 47 of the Act. Any such change shall be promptly communicated to the Investment Manager(s) appointed by the Board.

### 1.2 Legislation

The assets of the Fund are to be managed in accordance with the Act, the *Trustee Act* and the guidelines contained in this Policy.

The operational assets of the Fund will be the responsibility of the Chief Financial Officer (CFO) of the board. These assets will be invested in accordance with the Act, the *Financial Administration Act* and this Policy.

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## 2.0 Characteristics of the Compensation Fund

- 2.1 The Act provides medical assistance, disability, rehabilitation, death and survivor benefits, and loss of earnings to workers injured at work. Most liabilities created under the Act relate to disability benefits which are short to mid-term in duration, while some are long term. Benefit levels are adjusted annually for cost-of-living increases.
- 2.2 The Act is financed through annual assessments paid by employers in the Yukon. Such assessments cover the cost of benefits occurring during the year and adjustments arising from differences between the assets and liabilities relating to benefits of prior years.

## 3.0 Administration and Responsibilities

The Board has the authority and responsibility to manage the assets of the Fund. In this capacity they have established a Finance, Investment and Audit Committee (FIAC). The duties and responsibilities of the Board, the FIAC, and the CFO are stated in Appendix A of the Policy.

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## **4.0 Asset Classes Eligible for Investment**

The Fund may be invested in any or all of the following asset categories. These assets may be obligations or securities of Canadian or non-Canadian entities. Investments in the instruments and/or asset classes below can be held either directly or through mutual, pooled or segregated funds, unit trusts or partnerships.

### **Equities**

- (a) publicly traded common and preferred stocks, convertible debentures or convertible preferred securities;
- (b) securities whose returns are linked to a stock or a group of stocks or an equity index or group of equity indexes;

### **Fixed Income**

- (c) cash or money market securities issued by governments, government agencies and corporations;
- (d) term deposits or similar instruments of trust companies, banks and other deposit-taking organizations;
- (e) guaranteed investment contracts or equivalent of insurance companies, banks or other eligible issuers, or funds that invest primarily in such investments;
- (f) bonds, debentures, mortgages, notes or other debt instruments of governments, government agencies or corporations;
- (g) mortgage-backed and asset-backed securities.

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## Derivative Instruments

- (h) These are defined as financial instruments which derive their value from that of another financial instrument or combination of financial instruments.
- (i) Derivative financial instruments may be used to provide additional income or hedging opportunities for current investments. The risk of the derivative should be no greater than the risk associated with the underlying security.
- j) Derivative financial instruments may not be used for leverage purposes.

## Yukon Investments

- (k) The Board may consider investment opportunities in the Yukon provided that they comply with the investment policy.

## Other

- (l) Annuities, deposit administration contracts or similar instruments regulated by the *Canadian and British Insurance Companies Act* (Canada) or comparable provincial law.

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## 5.0 Investment Objectives and Performance Measurement

### 5.1 Return Objectives

**Primary** Invest the total assets of the Fund to achieve a rate of return which meets or exceeds the inflation assumption of the Fund (3%) and the rate at which liabilities have been discounted (3%) over a four year period.

**Secondary** Achieve a rate of return that meets or exceeds the return achieved by the Benchmark Portfolio (as set out in the Investment Manager Mandate) for the total portfolio over a four year period.

**Tertiary** Achieve a rate of return in each asset class which ranks in the top third of a comparative measurement survey over a four year period.

### 5.2 Asset Mix

The assets of the Fund will be invested as follows:

| Asset Class          | Range<br>Min/Max % of<br>total Fund |
|----------------------|-------------------------------------|
| <b>Common Stocks</b> | <b>15/60</b>                        |
| Canadian             | 0/25                                |
| American             | 0/25                                |
| Non North American   | 0/25                                |
| <b>Fixed Income</b>  | <b>40/85</b>                        |
| Bonds                | 35/85                               |
| Short Term           | 0/5                                 |

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## 5.3 Investment Manager Structure

Investment Manager(s) will be provided with an Investment Manager Mandate that outlines their specific responsibilities.

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*Dale Schmitt*  
Signature

*Sept 26/00*  
Date

# Workers' Compensation Health & Safety Board Compensation Fund Investment Policy

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## 6.0 Investment Constraints

Investment managers who are hired to manage different asset classes of the Fund must adhere to the following constraints:

- the fixed income portfolio will not hold more than 10% AA or 5% A in a single issuer not guaranteed by the Government of Canada or Provincial governments;
- each equity portfolio will not hold more than 10% in a single stock of a corporation;
- each equity portfolio will not hold more than 25% of a single industry group;
- no more than 15% of the Fund will be held in the stock, bond and other issues of any one corporation or its affiliated companies;
- the Fund will not hold more than 20% in mortgages;
- the Fund will maintain a minimum credit rating of R1M for money market investments and A for other fixed income investments as rated by the Dominion Bond Rating Service or the equivalent by Moody's. In the case of a split rating, the lower credit rating will be used;
- the Fund will not invest in private placements;
- the Fund will not invest in commodities;
- borrowings on behalf of the Fund are only permitted with written approval of the Board;
- the Fund will not purchase securities on margin;
- the Fund will not engage in short sales.

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## **7.0 Monitoring and Compliance**

The FIAC will normally meet at intervals of not more than six months to:

- (a) review the assets and cash flow of the Fund;
- (b) review the current economic outlook and investment strategies of the managers;
- (c) review the current asset mix and take any actions necessary to ensure compliance with the Policy;
- (d) review and consider statistics on the investment performance of the total Fund, asset classes and individual managers.

The board will retain the services of a Performance Measurement Consultant to independently assess investment performance, policy compliance, and service delivery issues. The Performance Measurement Consultant will report to the board a minimum of once per year.

The FIAC will receive and review semi-annual letters of compliance from Investment Manager(s). The FIAC will also monitor the manager(s)' personnel turnover, consistency of style, discipline in portfolio construction and service.

## **8.0 Valuation of Investments**

As of the end of each month, the market value of each Fund investment is calculated by the CFO to ensure compliance with the mandate.

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| <i>Debi Schmitt</i><br>Signature | <i>Sept 24/00</i><br>Date |



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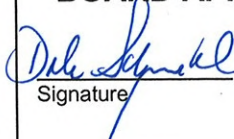
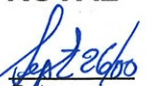
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## 9.0 Security Lending

The board may enter into a written agreement with the Custodian for securities lending provided that the loan is secured by cash or marketable securities having a market value of at least 105% of the market value of the securities lent, and this margin is maintained on a daily basis.

## 10.0 Voting Rights

- 10.1 Voting rights on Fund securities can be delegated to the Investment Manager(s).
- 10.2 The Board may inquire as to the Investment Manager's policy on voting rights. A written policy is preferred but not required.
- 10.3 The Investment Manager maintains a record of how Fund voting rights have been exercised.
- 10.4 When a voting right can be expected to have special significance to the Fund or in case of doubt as to the best interests of the Fund, the Investment Manager requests instructions from the board and acts in accordance with such instructions.
- 10.5 It is recognized however, that the above constraints and policy on voting rights are not enforceable by the board to the extent that the Fund is invested in pooled funds. Nevertheless, a pooled fund manager is expected to advise the FIAC if a significant breach of this policy is likely to occur or has occurred.

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10.6 The Board may exercise any voting right by communicating its intention to the Investment Manager.

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## 11.0 Conflicts of Interest

- 11.1 Individual members and employees of the Board and agents of the Fund including the Custodian and the Investment Manager(s) are all fiduciaries and, as such, subject to the following guidelines.
- 11.2 Fiduciaries shall not knowingly permit their interests to conflict with their duties and powers with respect to the Fund.
- 11.3 A conflict of interest is deemed to exist when private interests are of sufficient substance and proximity to their duties and powers with respect to the Fund to impair their ability to render unbiased advice or to make unbiased decisions affecting the Fund.
- 11.4 A fiduciary who wishes to make a recommendation or take action with respect to the investment of the Fund must disclose actual or perceived conflicts of interest in writing as soon as possible along with all relevant details to the CEO.
- 11.5 While every circumstance giving rise to possible conflicts of interest cannot be identified, fiduciaries shall disclose, among other things:
- (i) material beneficial ownership of investments which the Fund may be considering buying or divesting;
  - (ii) compensation received from any person other than one's employer and, in particular, from the issuer of securities which the Fund may be considering buying;

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- (iii) special compensation arrangements received from one's employer which might conflict with the Fund's best interest, such as bonuses based on short term performances; and
- (iv) consideration paid or granted to others for making a particular recommendation relating to the investment of the Fund.

11.6 Investment managers providing services to the Fund are expected to comply with the Code of Ethics and Standards of Professional Conduct adopted by the Institute of Chartered Financial Analysts.

## **12.0 Policy Review**

This Policy will be reviewed annually by the Board, but otherwise whenever a major change is apparent or necessary. Such review may be caused by:

- (a) a fundamental change in the benefit design of the Fund;
- (b) a significant change in the board's funded position;
- (c) significant revisions to the expected long term trade-off between risk and return on key asset classes;
- (d) major change in actuarial assumptions;
- (e) shortcomings of the Policy that emerge in its practical operation, or substantive modifications that are recommended to the Board by the FIAC.

As part of this process, the Benchmark Portfolio for performance measurement will also be reviewed and approved for the year.

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*Appendix A – Duties and Responsibilities*

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# Workers' Compensation Health & Safety Board Compensation Fund Investment Policy

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## Appendix A – Duties and Responsibilities

### Workers' Compensation Health & Safety Board

The Board has been given the authority to manage the Fund in the best interest of the workers and employers. The authority includes the responsibility for administration of the investments of the Fund. In that capacity, the Board:

- Appoints members to the FIAC;
- Approves the Policy on the recommendation of the FIAC. The Policy will be reviewed annually and amended as required;
- Approves agents, advisors, Investment Managers and Custodian(s) on the recommendation of the FIAC;
- Reviews the performance of appointed agents on a semi-annual basis;
- Approves financial and investment performance reports on a periodic basis;
- Approves the Benchmark Portfolio.

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# Workers' Compensation Health & Safety Board Compensation Fund Investment Policy

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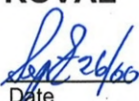
## Appendix A – Duties and Responsibilities

### Finance Investment and Audit Committee

Pursuant to the Policy the FIAC is to be the primary focal point for the investment administration of the Board. The FIAC will consist of three members of the Board who have been selected from the full Board. The CEO will also be a member of the FIAC. The Chair will be chosen by the Board members on the FIAC. In the absence of the Chair, an alternative will be chosen from among the Board members on the FIAC. A quorum will consist of two Board members. The secretary of the Board will also be the secretary of the FIAC and will record the minutes. The CFO will be a member of the FIAC and will attend all meetings. All members of the FIAC, management, advisors and agents which are part of the investment management function are subject to Section 11 of the Investment Policy (Conflict of Interest).

Pursuant to the Policy, responsibilities of the FIAC shall include:

- Review the Policy annually and put forward changes to the Board for recommendation to cabinet;
- Recommend to the Board the appointment of agents, advisors and Investment Managers and the termination of same;
- Recommend to the Board new and/or modified Investment Manager Mandates, and the Benchmark Portfolio;

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- Monitor and report to the Board quarterly the investment performance of the total Fund, Asset Classes and Investment Manager(s) to the respective benchmarks;
- Monitor compliance of Investment Manager(s) to their respective mandates and the Policy;
- Report to the Board the financial position of the Fund. This report will include the opinions of the Board auditors and the actuary.

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# Workers' Compensation Health & Safety Board Compensation Fund Investment Policy

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## Appendix A – Duties and Responsibilities

### Chief Financial Officer

The CFO is responsible for all treasury and investment operations of the board.

Responsibilities of the CFO include:

- Manage the operational cash position of the Board;
- Transfer surplus funds to the Investment Manager(s);
- Request funds from the Investment Manager(s);
- Provide financial statements to the FIAC for review on a periodic basis;
- Develop management information for the FIAC;
- Ensure that all investment activities comply with the Policy;
- Recommend Benchmark Portfolios to FIAC;
- Receive advice from various sources, including the Performance Measurement Consultant and Investment Manager(s) and submit to FIAC for consideration.

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