LONG TERM FUNDING STRATEGY OBJECTIVES

Within this long term funding strategy, the Local Authorities Pension Plan Board (the "Board") recognizes its primary responsibility of ensuring that promised benefits are delivered to plan members. The purposes of the long term funding strategy are to establish a transparent framework for Board funding decisions and to provide signals to the Board to engage stakeholders should the Board's ability to manage contribution rates be reduced.

For the purposes of this long term funding strategy, stakeholders mean employers, members, unions and other related employee and employer organizations.

This long term funding strategy does not address plan benefits.

When establishing the plan funding levels, the key objectives, in order of priority, are:

- to secure plan benefits;
- to ensure the financial sustainability of the plan, including stabilization of contribution rates whenever possible and alignment of investment policy risk to acceptable levels of stakeholder funding risk; and
- to ensure, to the extent possible, that each generation of active members funds only the benefits accruing for that generation of active members.

In outlining these objectives, the Board recognizes the prudence of keeping the plan fully funded whenever possible. Whenever circumstances arise which reduce the plan's funded position below a fully funded level, the Board shall restore the plan's funded status over an appropriate period of time that reflects these objectives.

RECOGNITION OF RISK

In establishing this long term funding strategy, the Board recognizes that the primary risks that the long term funding strategy must take into account are:

- risk that assets are not sufficient to cover the promised benefits;
- risk that investments have to be liquidated to pay for plan benefits, affecting the plan's long term investment horizon and contribution rates;

- risk that contribution rates will fluctuate with investment performance and other plan experience;
- risk that plan experience will differ from that expected, affecting contribution rates and the funded ratio of the plan;
- risk that contribution rates will be unacceptable to current active members and participating employers;
- risk that an insufficient number of new members join the plan resulting in a lower proportion of payroll relative to plan assets and a corresponding risk of higher contribution volatility; and
- risk that generations of plan members will have to contribute more (or less) than the actuarial cost of their benefits because of investment performance and other plan experience.

STATEMENT OF LONG TERM FUNDING STRATEGY

1. Actuarial Cost Method

Unless otherwise agreed by the Board, the accrued benefit actuarial cost method (otherwise known as the projected unit credit cost method) with projection of future salaries shall be the going concern actuarial cost method.

2. Asset Valuation Method

In order to increase the probability of achieving the Board's contribution stability objectives, a smoothing method will be employed to determine the actuarial value of assets.

Unless otherwise agreed by the Board, the smoothing method to determine the actuarial value of assets will recognize, over a three year period, the difference between actual equity returns in excess of fixed income returns and the assumed equity risk premium.

3. Selection of Actuarial Assumptions

Each actuarial assumption will first be determined individually as the Board's and actuary's best estimate of the plan's expected future experience on a long-term basis ("Best Estimate Assumptions"). Best estimate means that there is an equal likelihood of actual experience being higher or lower than the assumption. More specifically:

- the discount rate shall be based on the Board's long-term expected return of the invested assets of the fund considering the long-term target asset mix of the Board's investment policy, as acceptable to the plan actuary;

- the salary increase assumption shall be based on known collective bargaining agreements for the short term and on general financial and economic expectations for the long term;

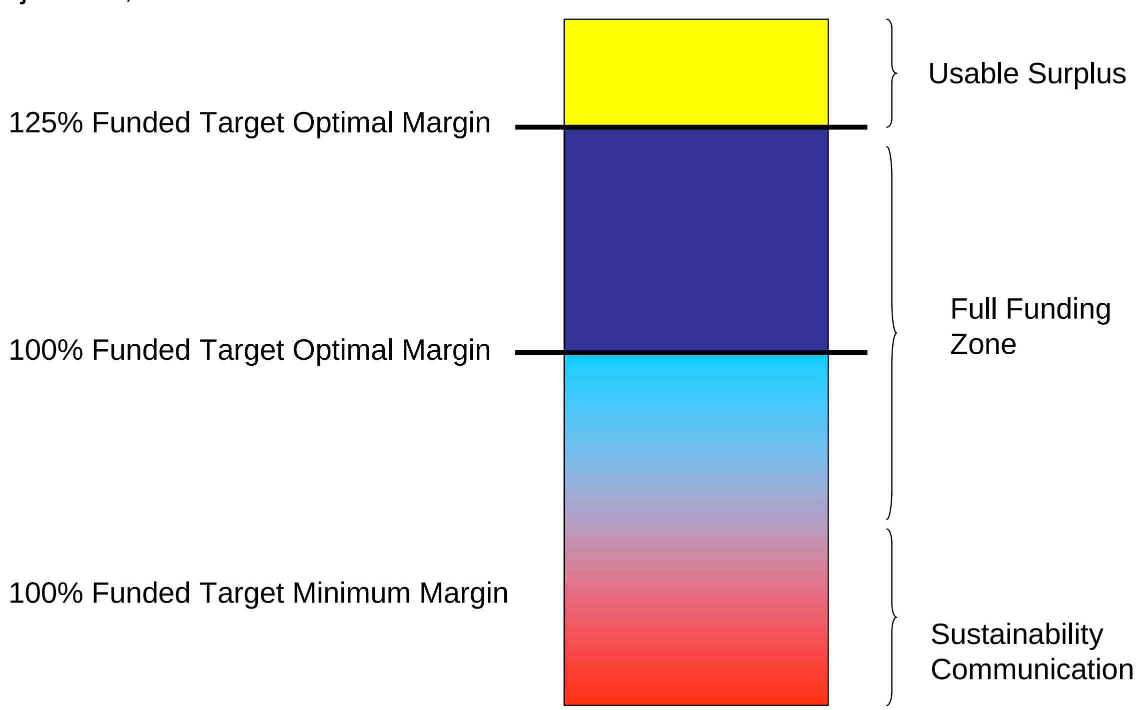
- other economic assumptions will be developed from long-term forward looking market indicators; and

- demographic assumptions shall be based on plan experience wherever possible, or general Canadian pension plan experience when actual plan experience is not sufficiently credible.

A margin for adverse deviation will be incorporated whenever possible in accordance with the funding framework by lowering the discount rate. All other assumptions, to the extent practicable, shall be Best Estimate Assumptions.

4. Funding Framework

The Board shall, to the extent possible, strive to maintain the funding ratio of the plan above 100% and shall use margin to meet the Board's contribution stability objectives, as follows:



Funded Target represents the plan's ratio of assets over liabilities where the assets include the present value of unfunded liability contributions and the liabilities are based on a discount rate inclusive of the level of margin indicated;

Minimum Margin means a 0.00% decrease in the best estimate discount rate; and

Optimal Margin means a 1.00% decrease in the best estimate discount rate.

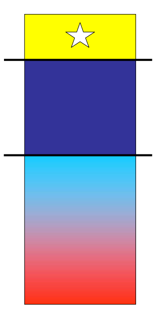
The Funded Target differs from the plan's funded ratio. The Funded Target includes the present value of unfunded liability contributions whereas the funded ratio does not (under the Board's current actuarial cost method). To illustrate, let's suppose that the funded ratio is 85% and unfunded liability contributions are scheduled to eliminate the unfunded liability over 15 years. This would be considered a 100% funded target since the expected funded ratio at the end of the amortization period is 100%.

The margin will be set to meet the Board's long term funding strategy objectives and to keep the plan's funded ratio within the Full Funding Zone. The margin shall not be less than the Minimum Margin noted above.

5. Funding Excess / Unfunded Liability Management

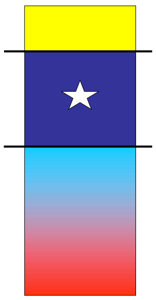
Any unfunded liability (when assets are less than liabilities) shall be amortized over a period of 15 years or lesser period from the date of the valuation as appropriate for the plan's maturity level.

Any funding excess used for contribution reductions or for future service benefit improvements shall be amortized over the expected working life of active employees.



A. If the plan's funded ratio increases to above 125% on an Optimal Margin basis, the Board shall consult with stakeholders regarding the potential use of the funding excess for contribution reductions and/or benefit improvements. Any benefit improvements under consideration should not result in a permanent significant increase in the Plan's risk structure.

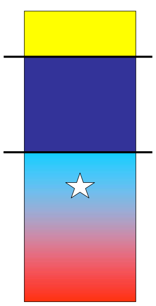
The Board shall ensure that after the implementation of any benefit improvements the plan's funded ratio on an Optimal Margin basis does not fall below 125% and the plan's solvency ratio does not fall below 100%.



B. If the plan's funded ratio is more than 100% on an Optimal Margin basis, the excess of assets over liabilities shall be used at the discretion of the Board as follows:

- to increase margin for adverse deviation;
- to maintain the funded ratio above 100% for potential adverse future experience, up to the maximum level of 125%;
- to reduce investment risk in the Board's investment policy;
- to adjust contributions to meet the Board's long term funding strategy objectives; or
- any combination of the above,

provided that the plan's funded ratio after utilization of any funding excess does not fall below 100% on an Optimal Margin basis or on a solvency basis.



C. If an actuarial valuation reveals that a 100% Funded Target cannot be met without either increasing contributions or reducing margin below Optimal Margin levels, the Board shall decide whether to increase contributions, reduce margin (if possible), or some combination thereof. The resulting contribution rates will then be communicated to plan stakeholders.
If the Board considers that contributions are reaching unacceptable levels, the Board will communicate further with stakeholders regarding future contribution volatility and the potential impact of eroding margins.

LINK TO ACTUARIAL VALUATION POLICY

Actuarial valuations of the plan shall be performed in accordance with the Board's written Actuarial Valuation Policy. The Long Term Funding Strategy and Actuarial Valuations Policy are interlinked and intended to be applied together for each actuarial valuation of the Plan.

Risk Analysis

Each actuarial valuation shall include sensitivity analysis illustrating the potential impact of adverse experience on the financial position of the plan, including contribution rates. This analysis will provide stakeholders with important information regarding plan risks, particularly plan demographic changes, investment returns and interest rate changes that could materially affect the funded status of the plan and, as a result, the security of benefits.

Solvency Valuation

In conjunction with the actuarial valuation, the actuary will determine the financial position of the plan on a solvency basis, in accordance with the requirements of the Public Sector Pension Plans Act and the Employment Pension Plans Act. Any solvency deficiency will be disclosed in the actuarial funding valuation report, but is not required to be funded.