

**Statement of Investment Policy and Goals
(SIP&G)**

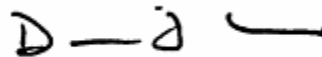
Local Authorities Pension Plan Board of Trustees

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Date



Darren Sander, Chair
Local Authorities Pension Plan
Board of Trustees

Statement of Investment Policy and Goals

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SECTION 1 – PURPOSE AND PLAN OVERVIEW

1.1 PURPOSE

The Local Authorities Pension Plan (the “Plan”) Board of Trustees (the “Board”) has developed this Statement of Investment Policy and Goals (the “SIP&G”) to establish the investment principles, policy guidelines and manner in which the assets of the Plan shall be invested and managed. Investments shall be selected and held in accordance with the criteria and limitations set forth herein and in accordance with all applicable legislation.

In determining these policies, the Board considered the funding status and financial needs of the Plan as well as the risk tolerance of the Board for volatility in the Plan’s funded status.

1.2 PLAN DESCRIPTION

The Plan is a multi-employer pension plan created in 1962 by an Act of the Alberta Legislature. The Plan’s members are mainly employees of Alberta Health Services and Alberta municipalities, colleges and school boards.

The Plan is a contributory defined benefit pension plan funded by employers and employees at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. Pension benefits are based on a final average earnings formula. The Plan is integrated with the Canada Pension Plan (CPP) and pension benefits are indexed to 60% of Alberta’s Consumer Price Index.

1.3 FUNDING

An actuarial valuation is required to be completed at least every three years to:

- determine the actuarial gain or loss arising since the last valuation;
- determine the normal cost contributions needed to fund the plan; and
- determine the unfunded liability contribution rates required, if any.

Because contributions form only a small percentage of the Plan’s total assets (i.e. the Plan is “asset driven”), increased contributions will only eliminate a funding shortfall over a long period of time. As the Plan matures, increasing contribution rates will be even less effective in addressing any funding deficiency. Consequently, investment earnings will be the primary means of funding the Plan in the future and a source of funding volatility. The Board has established a Funding Strategy and in terms of managing funding volatility, under certain circumstances may consider reducing risk.

1.4 INVESTMENT BELIEFS

Investment Beliefs are the foundation of investment policy. They form the basis for developing asset mix policy and investment manager structure. The Board’s Investment Beliefs are contained in Appendix 1.

SECTION 2 – FUND GOVERNANCE AND STRUCTURE

2.1 GOVERNANCE

The Plan is established and governed under the *Public Sector Pension Plans Act* (the “Act”). Pursuant to the Act, the Alberta Minister of Finance and Enterprise (the “Minister”) holds as trustee the assets of the Plan. The Act also provides for the establishment of the LAPP Board of Trustees and sets out the duties of the Board.

The Board has responsibility to set general policy guidelines (this SIP&G) on the investment and management of the assets of the Plan. The Minister in turn has a duty to invest the assets in accordance with the Board’s SIP&G and applicable legislation. The investment functions of the Minister are performed through Alberta Investment Management Corporation (AIMCo) (the “Investment Manager”) which is an Alberta Provincial Corporation. The Province will enter into an investment management agreement with AIMCo to provide investment management services to the Minister of Finance as trustee of the Plan effective January 1, 2008.

2.2 BOARD RESPONSIBILITIES

The Board is responsible for establishing a SIP&G that sets forth general policy guidelines for the investment and management of Plan assets. The Board may delegate certain investment duties and responsibilities to the Plan’s Chief Executive Officer with the power to sub-delegate.

The Alberta Local Authorities Pension Plan Corp. (“the Corporation”) on behalf of the Board has entered into a memorandum of understanding (the “Operating Protocol”) with the Minister on behalf of AIMCo’s predecessor, Alberta Investment Management, that outlines the mutual understandings of the Corporation and the Province of Alberta and addresses the operational details of the investment services the Minister is required by statute to provide in relation to the Plan. The Operating Protocol remains in effect with the transition to AIMCo through the Transaction Investment Management Agreement between the Minister and AIMCo, and the Province requires AIMCo to work with the Board accordingly.

2.3 AIMCO’S RESPONSIBILITIES AND MANAGEMENT STRUCTURE

AIMCo manages and invests the Plan’s assets as a separate and distinct portfolio, within the guidelines of this policy, using a multi-product platform, which may utilize both internal AIMCo staff as well as external fund managers.

The Investment Manager has sole discretion to determine the manner in which the Plan’s assets are invested in specific pools and strategies, provided that the investment products and strategies conform to this policy.

The Plan invests in several pooled funds, which have separate and independent investment policies. Should a conflict arise between the provisions of this policy and the provisions of a pooled fund’s investment policy, the pooled fund’s investment policy shall apply in the interim. However, the Investment Manager must notify the Corporation promptly in writing, detailing the nature of the conflict and the Investment Manager’s recommended course of action that will resolve the conflict. Ultimately the SIP&G is paramount to the pooled fund’s investment policy.

Both active and passive management techniques are used. A passive product will replicate an index and is expected to approximate the same average return with minimal tracking error relative to the index. An active product is expected to have a higher average return and tracking error relative to the index.

AIMCo's multi-product platform makes extensive use of pooled funds, which provides cost savings, diversification, access to non-traditional asset classes such as private equity, private income and timberland, and consistency of return to client participants. Within each asset class, products are defined and performance is measured relative to the asset class benchmark index.

AIMCo is responsible to maintain an ongoing investment research function and to bring recommendations for changes to this policy to the Corporation and the Board.

SECTION 3 – OBJECTIVES AND ASSET MIX

3.1 INVESTMENT OBJECTIVES, RETURN EXPECTATIONS AND RISK APPETITE

To keep the pension promise and meet the Plan's obligations, the Plan's assets must grow at least in tandem with the liabilities (accrued pension benefits) over the long-term. The Board's practice is to complete an actuarial valuation annually, although one is only required to be filed at least every three years. The long term return expectations are reviewed annually as part of the annual valuation. The funding strategy of the Board utilizes the management of margin (difference between the long term expected return based on the long term asset mix policy and the discount rate) to manage funding risk and contributions. The Board believes that asset mix policy will be a key determinant in the funding risk/return trade-off or asset/liability mismatch accepted to fund the plan. The long term asset mix, the benchmarks for the respective asset classes, the investment objectives of the Plan's assets and the volatility expectations all form and communicate the risk appetite of the Board.

3.2 VOLATILITY EXPECTATIONS

To achieve its long-term investment objectives, the Board has adopted an asset mix that includes asset classes with volatile annual returns. To mitigate volatility, the Plan invests in a broadly diversified investment portfolio. To monitor that the Plan is being managed consistent with the Board's risk appetite, portfolio value at risk (VaR) is calculated over a one year time horizon with 5% probability using the AIMCo risk system. A number of thresholds have been created to monitor risk over time and provide triggers to initiate reporting by AIMCo and review by the Board. Risk and the Board's aggregate risk appetite is measured against the following thresholds.
Portfolio Value at Risk (Portfolio VaR) Guidelines

<u>Portfolio VaR</u>	<u>Action</u>
Over 9.5%	Red Zone
8.5% to 9.5%	Amber Zone
6.0% to 8.5%	Green Zone
Under 6.0%	Lower Amber Zone

AIMCo will strive to operate the portfolio in the Green Zone.

When AIMCo considers it appropriate, AIMCo is permitted to operate the portfolio in the Upper Amber Zone. If the portfolio's VaR is in the Amber Zones, AIMCo will provide an explanation to the Corporation in the next quarterly report.

AIMCo will strive to avoid operating the portfolio's VaR beyond the limits of the warning range (i.e., in the Red Zone). If the portfolio's VaR is in the red zone, then AIMCo will promptly notify the Corporation and will recommend an appropriate course of action.

In addition, AIMCo will also track and report any other risk measure (such as Expected Tail Loss) that the Board considers appropriate and relevant.

3.3 PORTFOLIO DIVERSIFICATION

The Board follows a prudent asset diversification policy, consistent with its investment beliefs and applicable legislation to reduce exposure to any single investment risk and stabilize total fund investment returns. The Board, through its asset allocation, and by delegation to AIMCo, constructs an optimal portfolio that is broadly diversified by:

- i) asset classes;
- ii) countries;
- iii) issuers and credits;
- iv) individual securities;
- v) currencies; and
- vi) investment products and managers

3.4 LIQUIDITY OF INVESTMENTS

The investment portfolio contains assets with sufficient liquidity to meet the Plan's financial obligations as they become payable. The Plan is in a positive cash flow position with contributions and investment income exceeding pension payments.

3.5 LONG-TERM ASSET MIX – WEIGHTS AND RANGES

In determining the long-term asset mix, the Board considered the following factors:

- i) the Plan's liability structure and obligations;
- ii) the risk/return expectations and correlations among Plan assets and liabilities; and
- iii) the Board's investment objectives and risk tolerance.

Asset Mix Table
Policy Weight and Ranges¹
(% of Market Value of Fund
Assets)

Asset Category	Policy Weight	Min.	Max.	Wei- ght ²	Benchmark
					Name
FIXED INCOME	30.5	20.0	40.0	30.5	
Short Term and Cash		0.0	10.0	0.5	FTSE TMX 91-Day T-Bill
Long Term					
Universe Bonds		5.0	25.0	15.0	FTSE TMX Universe Bond Index
Long Bonds		5.0	25.0	15.0	FTSE TMX Long-Term All Government Bond Index
Mortgages ³		0.0	10.0	-	-
Private Debt & Loan		0.0	60	-	-
INFLATION SENSITIVE/ ALTERNATIVES	32.0	20.0	50.0	30.0	
Real Return Bonds		0.0	10.0		FTSE TMX RRB Index
Private Income		5.0	25.0	15.0	CPI plus 450 bps (using a 5 year rolling average for CPI)
/Infrastructure					
Timberland		0.0	3.0		CPI plus 450 bps (using a 5 year rolling average for CPI)
Real Estate		10.0	25	15.0	IPD Canadian Large Institutional All Property Index
SHORT HORIZON (SH)⁴	31.5	25.0	50.0	33.5	
Canadian Equity		5.0	20.0	8.0	S&P/TSX Capped Composite Index (for large cap)
Global Developed Equity		10.0	40.0	15.0	MSCI World Index
Emerging Market Equity		0.0	10.0	5.5	MSCI Emerging markets Index
Small Cap Equity		0.0	10.0	5.0	MSCI World Small Cap Index
LONG HORIZON (LH)⁵	6.0	3.0	9.0	6.0	
Private Equity		3.0	9.0	6.0	CPI plus 650 bps (using a 5 yr rolling average CPI)
TOTAL PHYSICAL ASSETS	100.0				

¹ AIMCo has discretion to make tactical asset allocations within these ranges.

² This is the long term target and due to limited supply for some investments may result in an extended transition period during which an interim benchmark will be used to measure performance.

³ Mortgages and Private Debt and Loan are opportunistic investments and are for reporting purposes measured against the Universe Bond benchmark.

⁴ Short horizon investing focuses on trading in securities to produce value-added returns against a benchmark over shorter time horizons.

⁵ Long horizon investing focuses on longer term less liquid assets that produce long horizon expected returns with high risk premiums.

3.6 ASSET MIX REBALANCING

The Plan's specific mix within the ranges shall be determined at the discretion of the Investment Manager. In the event that AIMCo is not in compliance with the Asset Mix Policy, AIMCo is required to advise the Corporation's management in a timely manner, detailing the nature of the non-compliance and describing the action taken or recommending a course of action to either remedy the situation or revisit the policy, as appropriate.

3.7 INTERIM POLICY ASSET MIX

Given the illiquid nature of private investments, the actual weighting may deviate from the policy asset mix. This may be due to transition to a new asset mix policy or due to relative market performance. In general the intent will always be to move towards the long term policy allocations for private investments. To minimize the impact on measuring performance and the implementation of AIMCo's strategic asset allocations, an interim policy asset mix may be used to manage unintended deviations from the long term policy allocation. For the purposes of calculating the interim policy asset mix, adjustments will usually be made in 0.5% increments of total Plan assets. AIMCo will advise in writing the Corporation's management when a change is made subject to standing instructions provided by the Board as to where unintended over/under weights of private investments will be re-allocated. Changes will be reported as information at the next scheduled meeting of the Board and the use of the interim benchmark and standing instructions will be reviewed by the Board as part of the annual SIP&G review. In some cases, AIMCo may wish to reflect a market change or the impact of a transaction (sale during a transition or a purchase or sale once at the long term policy allocation) as an intended under or overweight. To do so, there would be no adjustment made through the interim benchmark.

3.8 FOREIGN CURRENCY EXPOSURE MANAGEMENT

In general the LAPP's foreign currency policy is not to hedge its non-Canadian public market exposure. However, non-Canadian currency exposure that results from private investments should be hedged to the extent practical. This will include (but not be exclusive to) investments in private equity, real estate, private income, and timberland.

AIMCo will have the discretion to hedge the non-Canadian currency exposure in private investments either at the pool or total fund level. In addition, AIMCo will have the discretion within an asset class to hedge any unintended currency position.

AIMCo will report on LAPP's currency exposure quarterly. Despite the general policy not to hedge, AIMCo is required to hedge foreign currency exposure at any time for that portion of the portfolio's foreign currency exposure that exceeds 40% of total assets. The policy benchmark for any assets that are hedged pursuant to this sub-section shall correspondingly be adjusted to a hedged benchmark.

The Investment Manager may engage in active currency management (or tactical currency trading) within a pool or as an overlay strategy at the total fund level in a manner consistent with the overall investment policies and provided that the total Plan risk constraints established in section 3.2 (Volatility Expectations) are not exceeded.

3.9 OPPORTUNISTIC INVESTMENTS

There may be opportunities available for the Investment Manager to fund certain investments outside the asset classes listed in section 3.5. When these alternative investments exhibit a better expected risk/return profile, the Board authorizes the Investment Manager to deploy capital more efficiently. All such investments shall not in total exceed 3% of market value of Plan assets. The Board acknowledges that due to the potentially illiquid nature of such investments, the Investment Manager may not be able to reverse such trades in a timely manner. AIMCo will advise the Corporation in a timely manner whenever such an investment is made, reporting on dollar amounts, accountability, benchmarking and where it will be allocated under section 3.5. AIMCo will also report on a quarterly basis the total allocation to opportunistic investments, the individual pools as part of the asset allocation and performance.

SECTION 4 – INVESTMENT CATEGORIES AND RESTRICTIONS

4.1 PERMITTED INVESTMENTS

Permitted investments are qualified investments under the prudent person rule defined in the *Financial Administration Act*, as amended from time to time, as investments that 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 Plan must comply with this policy and also be in compliance with and recognized as qualified investments under applicable federal and other provincial legislation.

Permitted investments include investments through units of any AIMCo pooled fund or segregated fund as approved by the Board of AIMCo, provided that such vehicles conform to this SIP&G. When a pooled fund's investment policy changes, AIMCo shall promptly provide the revised investment policy to the Corporation and shall report under section 2.3 on any conflicts that may arise.

4.2 DERIVATIVES

The use of derivatives and synthetic securities is permitted in a manner consistent with the overall investment policies, risk tolerance of the Plan and applicable legislation.

4.3 HOLDING LIMITS

Fixed income securities: Holding limits are set in accordance with AIMCo's fixed income product descriptions which limit the amount of investment based on the credit rating of an issuer except for fixed income securities rated BB or lower at time of purchase and private debt and loan investments which in aggregate cannot exceed 4% of the fund's total market value.

No individual security holding shall exceed 10% of the Canadian or Foreign equity portfolios, as applicable, unless, in the case of a Canadian security, that security exceeds 10% of the S&P/TSX Composite Index, in which case the holding of that security shall not exceed 2.5% more than the stock's weight in the S&P/TSX Composite Capped Index, with its corridor weighting of 5-15% in a single stock which is rebalanced to 10% on a quarterly basis.

Holdings in excess of 3% of total assets: the Corporation's management shall receive reporting on a quarterly basis of any single holding over 3% of the market value of the Plan's total assets.

The market value of Life Settlements shall not exceed 2.5% of the fund's total market value.

4.4 QUALITY LIMITS

In making an investment outside of AIMCo pools, the following minimum quality limits apply:

- i) cash and short-term: a rating of at least R1 low (by the Dominion Bond Rating Service or an equivalent rating by another recognized rating agency) at time of purchase;
- ii) bonds or debentures: a rating of BBB (by the Dominion Bond Rating Service or its equivalent rating by another recognized rating agency) is generally expected at time of purchase.

4.5 SECURITIES LENDING

The Plan may engage in securities lending to generate incremental income in a manner consistent with industry standards.

4.6 LOANS AND BORROWING

No part of the Plan's assets shall be loaned except as an investment permitted under this policy, or pursuant to section 4.5 (Securities Lending).

Pursuant to applicable legislation, the Plan may borrow money to meet short-term cash requirements and for the purpose of acquiring real estate. The Plan is permitted to engage in securities borrowing for purposes incidental to the activities of buying, selling, holding or exchanging investments as AIMCo deems necessary or appropriate.

4.7 LEVERAGE

Leverage may be used for the purposes of enhancing returns and/or managing risk. The Investment Manager is authorized to utilize leverage to execute investment strategies provided that the total Plan risk constraints established in section 3.2 (Volatility Expectations) are not exceeded.

4.8 RELATED PARTY TRANSACTIONS

The Plan may enter a transaction with a related party, as defined in the applicable legislation, if:

- i) the transaction is required for the operation or administration of the Plan; and
- ii) the terms and conditions of the transaction are not less favourable to the Plan than market terms and conditions.

The Plan may invest in the securities of a related party if those securities are acquired at a public exchange.

The Plan may also enter into a transaction with a related party if the value of the transaction is nominal or immaterial to the Plan. A transaction shall be considered nominal or immaterial if its value is not more than 2.5% of the market value of total Plan assets at the

time the transaction is entered into or completed. Total transactions with any one related party shall not exceed 2.5% of the market value of total plan assets.

4.9 RESPONSIBLE INVESTING (RI)

Consistent with Section 4.1, the Board's fiduciary duty is to maximize investment returns without undue risk of loss. While LAPP cannot invest based on non-financial criteria, we recognize that companies that adopt good governance and responsible practices can be expected to enhance shareholder value, which is consistent with our investment goals.

The Board's strategy with respect to responsible investing is to work with AIMCo to obtain the highest risk-adjusted return while encouraging AIMCo through shareholder advocacy and proxy voting to promote the adoption of responsible policies and practices by companies as a means of maximizing long-term shareholder value. While LAPP recognizes that Plan assets are invested primarily through pools, as much as practical, AIMCo is encouraged to invest in companies with the intent to maximize value by use of constructive policies and practices. These policies and practices may relate to environmental, social and governance (ESG) factors. On an ongoing basis, the Board will review AIMCo's responsible investment practices in respect to the voting of proxies and shareholder advocacy.

Certain investment activities by AIMCo may have a direct impact on membership of the LAPP. A loss in plan membership could negatively impact the financial status of the Plan. Where such a possibility exists, AIMCo will use reasonable efforts, to the extent legally permissible, to disclose the potential investment and the LAPP Board will assess the impact on the Plan and whether continued participation in the pool is acceptable.

4.10 HEDGE FUNDS

Hedge funds are permitted; however, AIMCo will provide the Board with a listing of external hedge funds, which will be updated on a regular basis. Hedge funds may have all or some of the following characteristics:

- An investment vehicle and a business structure that pools capital from a number of investors and invests in securities and other instruments
- Administered by a professional management firm, and often structured as a limited partnership, limited liability company, or similar vehicle
- Use some form of short asset exposure
- Use derivatives and/or more diverse risks or complex underlying products are involved
- Use some form of leverage, measured by gross exposure of underlying assets exceeding the amount of capital in the fund
- Investors are typically permitted to redeem their interest only periodically
- Generally distinct from mutual funds as their use of leverage is not capped by regulators and distinct from private equity funds as the majority of hedge funds invest in relatively liquid assets

The use of hedge funds cannot result in the total Plan risk constraints established in section 3.2 (Volatility Expectations) being exceeded.

SECTION 5 – PERFORMANCE MEASUREMENT & CONTROL

5.1 GENERAL

To discharge the Board's fiduciary responsibilities, it shall regularly assess and verify that its investment policy is being met and that the Plan is achieving an appropriate return.

5.2 REPORTING BY INVESTMENT MANAGER

On a quarterly basis, AIMCo shall provide an investment performance report and a strategy review for the portfolio. The report shall include, for both internally and externally managed products: measurement of returns, comparison of returns to the benchmark, risk analysis, a review of investment costs and if requested a complete listing of holdings. Within the report, AIMCo shall also provide attribution analysis on the investment performance. Attribution analysis estimates the impact of asset mix changes and individual security and product performance by comparing actual return to the asset mix benchmark's return.

AIMCo will from time to time enter into transactions which will require signing confidentiality agreements. While these agreements are necessary to execute transactions, as a matter of principle, the Corporation must know and understand all investments once transactions are complete.

AIMCo shall also complete and provide a compliance report each quarter that indicates whether or not the portfolio is in compliance with the SIP&G during the quarter. In the event that the portfolio is not in compliance, AIMCo shall advise the Corporation's management in a timely manner, detailing the nature of the non-compliance and recommending an appropriate course of action to remedy the situation, or an amendment to the SIP&G as appropriate.

If at any time AIMCo believes that the objectives of this policy cannot be met, or that the provisions of this policy are imprudent, or that the policy restricts performance, AIMCo will advise the Corporation in writing.

As the Board relies in this policy on AIMCo compliance with its investment compliance manual or equivalent document, as approved by the AIMCo Board and amended by the AIMCo Board from time to time, AIMCo will advise the Corporation promptly of any changes made to its investment compliance manual and shall provide a copy of that manual annually.

5.3 VALUE ADDED EXPECTATIONS

As part of a diversified mix of active and passive strategies, the Investment Manager is expected to use a range of active strategies that are expected to deliver a return of 85 basis points or 0.85% percent (net of fees) in excess of the return generated by the passively managed policy mix. A continuous rolling four-year time horizon shall be used for determining whether this objective has been met.

SECTION 6 – ADMINISTRATION

6.1 STANDARD OF PROFESSIONAL CONDUCT

The Corporation's management, AIMCo's staff and external managers engaged to manage assets are expected to comply, at all times and in all respects, with the AIMCo Investment Compliance Manual and the Code of Ethics and Standards of Professional Conduct and the Asset Manager Code of Professional Conduct as promulgated by the CFA Institute.

6.2 CONFLICT OF INTEREST

Responsibilities

This standard applies to the members of the Board, the Corporation's management, and AIMCo's staff as well as to all agents employed by them, in the execution of their responsibilities (the "Affected Persons"). An "agent" is defined to mean a company, organization, association or individual, as well as its employees, who are retained to provide specific services with respect to the investment, administration and management of the Plan.

Any Affected Person shall disclose any material conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased advice, or to make unbiased decisions, affecting the Plan.

Disclosure

Any Affected Person who believes that he, she or it may have a conflict of interest, or who is aware of any conflict of interest, shall disclose full details of the situation to AIMCo or the Board immediately, and a written record of the disclosure shall be maintained. No Affected Person who is required to make such disclosure shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which the Affected Person is required to make disclosure.

Further, it is expected that no Affected Person shall make any personal financial gain (direct or indirect) because of his, her or its fiduciary position. No Affected Person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from a person with whom the Affected Person deals in the course of performance of his, her or its duties. However, normal and reasonable fees and reimbursement for expenses incurred in the discharge of their responsibilities are permitted if properly documented and approved according to established policies.

6.3 VALUATION OF SECURITIES NOT REGULARLY TRADED

Where a public market price is not available for an asset, a suitable method of valuation shall be used including the use of: discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate. External appraisers may be used to provide independent valuations or verify the reasonableness of internal valuations.

6.4 DIRECTED BROKERAGE COMMISSION

Investment managers may use directed commissions to pay for research and other investment related services provided they comply with the Soft Dollar Standards promulgated by the CFA Institute

6.5 SIP&G REVIEW

The SIP&G may be revised by the Board at any time; however, the Board shall formally review the SIP&G at least annually.

6.6 COMMUNICATIONS PROTOCOL

AIMCo will direct all communications to the CEO of the Corporation with a copy to the LAPP Board Secretary. Those individuals will ensure that the information is provided to the Board in an appropriate and timely manner.

The Board will direct all communications to AIMCo to the Chief Executive Officer, with a copy to the head of client relations. Those individuals will ensure that the information is provided to the appropriate AIMCo staff members in a timely manner.

6.7 INVESTMENT POLICY CHANGES

The Board will consult with AIMCo regarding any proposed changes to this SIP&G. When changes are made the Corporation will advise AIMCo of the change at least sixty (60) days before the change becomes effective. During that period, AIMCo will develop and provide to the Board a written implementation plan, and proceed to transition the asset mix to new allocations, if any.

Appendix 1 Statement of Investment Beliefs

This Statement sets out the investment beliefs of the LAPP Board of Trustees. It is the foundation of the investment policies that govern the management of LAPP's trust fund. It also serves as a guide to the Board's consideration of investment issues that may arise in future. This is a living document, which may evolve over time based on a careful review of the circumstances of the plan and the investment environment.

Investment Belief

Application

1. Investment Objective

The Board believes that the investment objective of the Plan is to fund the Plan's liabilities on a going concern basis.

As a result, investment policy will be developed looking at the funded status of the plan and not just in terms of maximizing return.

Funded status is a function of both asset and liability growth rates. Given the relative volatility of asset to liability growth rates, preserving capital (or minimizing losses) can contribute to stabilizing funding.

Investment policy will be considered within the context of the Board's funding policy in particular how funding volatility will impact contribution rates.

2. Risk and risk management

The Board believes that risk must be considered in terms of the volatility of funded status and the potential impact on the Board's management of contribution rates.

Some asset returns can be more closely matched to the liability growth rate and therefore reduce funding volatility. However, reducing funding volatility may not generate sufficient long term growth to maintain reasonable contribution rates.

Key funding risk factors include interest rates, inflation, mortality, plan maturity and asset returns. Asset returns need to be considered on a risk adjusted basis.

A key parameter for the Board to establish is how much funding risk is accepted in the investment policy of the plan. As a result, this may lead to accepting an asset/liability mismatch and a certain level of funding volatility.

Asset classes have different risk and return characteristics. Risk is defined by the volatility of returns and also by liquidity, leverage and other factor exposures *including currency*.

3. Asset Mix

The Board believes that asset mix policy will be a key determinant in the funding risk/return trade-off or asset/liability mismatch accepted to fund the plan.

Asset mix will continue to be the primary tool for the Board to achieve its investment objectives. The asset mix will be established through an approach that integrates both asset and liability projections. The relationship between the asset mix and a liability proxy may be used to quantify the measure of acceptable funding risk.

The Board will take on market risk and how much risk will be determined by the Board's expectation to be compensated for the risk versus the potential variability in the Plan's funded status.

Investment Belief

Application

4. Diversification

The Board believes that diversification can to some degree mitigate risk.

Diversification can reduce funding volatility by bringing together different asset classes and strategies that are uncorrelated and generate different returns under different economic scenarios.

Diversification can be used at various levels of the fund and portfolio, and can be expressed in terms of asset mix, liquidity and other risk factors. This also supports the search for and consideration of new asset classes.

5. Investment Horizon

The Board believes that the long term nature of the Plan's liability dictates that the Board consider investment decisions over long time horizons.

This belief, however, is tempered by the fact that the Plan is required to file and fund based on actuarial valuations that must be done at a minimum every three years and the shared risk/reward nature of the Plan.

As a result, the Board will in developing its tolerance for funding risk, consider factors like plan maturity and the potential for intergenerational transfers.

This will be reflected in any limits applied to liquidity and strategic adjustments to the targeted portfolio VaR (see Section 3.2).

6.0 Active Management

The Board believes that some markets are more efficient than others and at times markets may trade more based on liquidity flows than on fundamentals. There may be opportunities for active management to add value; however, these opportunities must be considered within the overall cost structure of the plan, risk profile and its investment objectives.

The Board needs to establish a consistent framework in terms of the amount of active risk it is willing to accept and the constraints in terms of asset mix, liquidity and leverage.

The Board will monitor and evaluate active management within the Fund with a view to indexing unless active risk is expected to add value.

7.0 Responsible Investing

The Board believes that companies that adopt good governance and responsible practices can be expected to enhance shareholder value, which is consistent with our investment goals

The Board's strategy with respect to responsible investing is to work with AIMCo to obtain the highest return while encouraging AIMCo to adopt responsible policies and practices by companies as a means of maximizing long-term shareholder value.

Appendix 2 Benchmark Descriptions

CPI: Canadian Consumer Price Index measures the rate of inflation of a basket of consumer products as published by the Bank of Canada.

ICREIM/IPD Large Institutional All Property Index: An index maintained by the Institute of Canadian Real Estate Investment Managers / International Property Databank that measures the total return from six of Canada's largest funds which have real estate portfolios valued greater than \$1.5 billion.

S&P/TSX Composite Capped Index: An index maintained by the S&P/TSX Canadian Index Policy Committee that measures the return on the largest companies that trade on the Toronto Stock Exchange. The index is float-weighted and calculated on a total return basis with dividends reinvested. Any stock in the S&P/TSX Capped Composite Index whose float capitalization exceeds 10% of the Index is capped at 10% during the quarterly rebalancing process.

FTSE TMX 91 day T-Bill Index: An index maintained by PC Bond that generally reflects the performance of the Canadian money market as measured by investments in 91 day Treasury Bills.

FTSE TMX Universe Bond Index: An index maintained by PC Bond that covers most marketable domestically issued Canadian bonds with terms to maturity of more than one year. Comprised of Canada's, provincial, municipal and AA through BBB-rated corporate issuers, 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.

FTSE TMX Long Government Bond 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 PC Bond.

MSCI Emerging Markets Index: An index maintained by MSCI Inc., and used as a benchmark for pools with primary exposure to emerging markets. The MSCI Emerging Market Index uses large and mid-cap companies to create the constituents. The index goes through a review process every quarter to accommodate any changes to the holdings.

MSCI World Small Cap Index: An index maintained by MSCI Inc. and used as a benchmark for pools with a primary focus on investments of companies with smaller market capitalization. The MSCI World Small Cap Index is considered more volatile than the MSCI World Index. The index goes through a review process every quarter to accommodate any changes to the holdings.

MSCI World Index: An index maintained by MSCI Inc. and often used as a benchmark for pools with a primary focus on global investments in developed countries. The MSCI World Index represents a wide range of global equity, or 'world' markets. The index goes through a review process every quarter to accommodate any changes to the holdings.

TSE TMX: Real Return Bond Index: An index maintained by PC Bond that tracks the performance of 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).