



**PUBLIC SECTOR PENSION INVESTMENT BOARD
(PSP INVESTMENTS)**

TERMS OF REFERENCE FOR THE BOARD OF DIRECTORS
Approved by the Board of Directors on June 7, 2018

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INTRODUCTION

The Board of Directors (the “Board”) of the Public Sector Pension Investment Board (“PSP Investments”) is responsible for managing or supervising the management of the business and affairs of PSP Investments in accordance with the *Public Sector Pension Investment Board Act* (the “Act”) and the regulations adopted thereunder (the “Regulations”).

The Board fulfils its responsibilities by the following means:

- (i) the Act provides for a number of decisions that must be made by the Board that cannot be delegated to Management. With advice from Management, where appropriate, the Board makes such decisions itself;
- (ii) the Board provides oversight by providing direction in respect of managing or supervising the management and risks of PSP Investments; and
- (iii) the Board provides insight by giving advice in respect of matters such as markets, strategy, stakeholder relations, human resources management, and negotiating tactics.

PROCEDURES AND ORGANIZATION

1. Delegation to Management

Subject to the Act and the By-laws, the Board operates by delegating to Management certain of its authority and by reserving the balance of its authority to itself. The Board has delegated to the Chief Executive Officer the authority to manage and direct the day-to-day affairs of PSP Investments. The Chief Executive Officer is directly accountable to the Board for all activities of PSP Investments that are delegated to Chief Executive Officer by the Board.

2. Delegation to Board Committees

Subject to the Act and the By-laws, the Board may constitute, seek the advice of, and delegate powers, duties and responsibilities to Board Committees.

The Board may not delegate to Board Committees or to Management the power to:

- (a) adopt, amend or repeal By-laws;
- (b) establish a Statement of Investment Policies, Standards and Procedures (“SIP&P”) for each of the Pension Plan Accounts;

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- (c) fill a vacancy on a Board Committee;
- (d) appoint Officers or fix their remuneration; or
- (e) approve PSP Investments' annual financial statements and any other financial statements issued by PSP Investments.

3. Board Committees

The Board shall have the following Committees and, after considering the recommendation of the Governance Committee, shall approve and modify their terms of reference and appoint Directors to, and fill vacancies on, these Board Committees:

- (a) Investment and Risk Committee;
- (b) Audit Committee;
- (c) Governance Committee;
- (d) Human Resources and Compensation Committee;

The Board may establish any new standing or ad hoc committee, after considering the recommendation of the Governance Committee. The Board will oversee the activities of each Board Committee through regular reporting. In addition, each member of the Board will have access to all minutes of each Board Committee meeting.

DUTIES AND RESPONSIBILITIES

4. Strategy

The Board has the responsibility to:

- (a) Oversee the general planning processes to be undertaken by PSP Investments that includes the approval of a strategic plan which takes into account the opportunities and risks of the business, asset class and business partner business plans and an annual operating and capital budget;
- (b) Review PSP Investments' Strategic Plan at least annually;
- (c) Review progress in achieving the goals established in the Strategic Plan and annual business plans;
- (d) Receive quarterly reporting on operating and capital expenses.

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5. Investment

- (a) In accordance with the Act, the Board has the responsibility to approve on an annual basis a SIP&P for each Pension Plan Account that PSP Investments manages;
- (b) The Board has the responsibility to approve on annual basis the long-term capital market assumptions which are used for the development of the Policy Portfolio included in the SIP&P;
- (c) The Board approves all asset class and Total Fund investment performance benchmarks;
- (d) The Board delegates to the Investment and Risk Committee the authority to approve all investment proposals, related borrowings and execution of instruments in relation thereto, except as otherwise provided under the Act and other delegations of authority approved by the Board; and
- (e) The Board has the responsibility to approve the appointment of one or more custodian(s) of the assets of PSP Investments, which does not include organizations whose custodial responsibilities are incidental to their principal responsibilities.

6. Governance, Policies and Procedures

The Board has the responsibility to:

- (a) Ensure that the necessary reporting and monitoring practices are established to provide the Board with the information it requires to effectively oversee the operations of PSP Investments and meet the requirements of the Act and Regulations;
- (b) Adopt, amend or repeal the By-laws governing the conduct and management of PSP Investments' business affairs;
- (c) Approve all required and appropriate policies of PSP Investments and monitor compliance therewith;
- (d) Approve a Code of Conduct for Employees and Directors which includes procedures for the identification of real or potential conflicts of interest and procedures to resolve such conflicts;
- (e) Designate a Board Committee to monitor the application of the Code of Conduct;
- (f) Approve any sanction in respect of breaches to the Code of Conduct by Directors;
- (g) Ensure that PSP Investments operates at all times within the applicable laws and regulations and appropriate ethical standards; and
- (h) Receive reports on litigation and other legal matters.

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7. Risk Oversight and Management

The Board shall ensure that risks are properly identified, evaluated, managed, monitored and reported. This responsibility has been delegated to the Investment and Risk Committee.

8. Financial and Accounting

The Board has the responsibility to:

- (a) Annually make recommendations to the Minister with respect to the appointment or reappointment of the Joint External Auditor;
- (b) Approve the annual report on the operations of PSP Investments;
- (c) Approve the consolidated financial statements of PSP Investments and the financial statements for each Pension Plan Account on a quarterly and on an annual basis and approve the annual portfolio returns and related benchmarks of PSP Investments and each Pension Plan Account;
- (d) Ensure that an annual auditors' report is prepared in accordance with the Act and applicable sections of the *Financial Administration Act* (the "FAA"), on (i) PSP Investments' annual consolidated financial statements; (ii) the annual financial statements of each Pension Plan Account; and (iii) the annual portfolio returns and related benchmarks of PSP Investments and each Pension Plan Account;
- (e) Ensure that internal audits are conducted in respect to governance, risk management and control processes for PSP Investments;
- (f) Ensure the integrity of PSP Investments' internal controls and management information systems; and
- (g) Cause a special examination to be carried out in accordance with the FAA.

9. Human Resources

The Board has the responsibility to:

- (a) Approve the general human resources-related principles that will guide the management of PSP Investments' human capital;
- (b) Approve the compensation philosophy of PSP Investments including its goals and objectives, relevant comparison groups and target compensation levels;
- (c) Select, appoint and, when necessary, replace the Chief Executive Officer and approve his or her employment terms, including severance terms and transition arrangements when applicable, and material amendments thereto;

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- (d) Approve the Chief Executive Officer's group and personal objectives to be used for determining the Chief Executive Officer's compensation;
- (e) Annually review the Chief Executive Officer's performance and after considering PSP Investments' risk adjusted performance, approve the Chief Executive Officer's total direct compensation including base salary, incentive compensation awards and incentive compensation payments;
- (f) Appoint the Officers and approve their duties and employment terms, including severance terms and transition arrangements when applicable, and material amendments thereto;
- (g) Annually approve the total direct compensation of Officers including base salary, incentive compensation awards and incentive compensation payments;
- (h) Ensure that succession planning is adequate and rigorous and review reports on succession planning for the Chief Executive Officer position and other key positions within PSP Investments;
- (i) Approve the benchmarks, threshold level of performance and the value-added objective (target) for performance measurement and incentive compensation purposes; and
- (j) Approve, amend or terminate pension plans and/or benefit plans for Employees and Officers, unless otherwise delegated to the Human Resources and Compensation Committee.

10. Corporate Communications

- (a) In accordance with the Act and FAA, the Board has the responsibility to:
 - i. Ensure that copies of PSP Investments' quarterly financial statements, prepared in accordance with the Act, be provided to the Minister, the Minister of National Defence and the Minister of Public Safety and Emergency Preparedness within 45 days after the end of each quarter;
 - ii. Ensure that an annual report on the operations of PSP Investments in that year, containing the information specified in the Act, the Regulations and the FAA, is provided to the appropriate ministers within 90 days after the end of each financial year and made available to contributors under the Superannuation Acts as soon as it is feasible to do so after it is provided to the appropriate ministers;
 - iii. Ensure that PSP Investments meets once a year with the members of the three advisory committees established under the Superannuation Acts; and
 - iv. Ensure that PSP Investments holds a public meeting every year to discuss PSP Investments' most recent annual report and to give the opportunity to interested persons to comment on it.

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- (b) The Board will approve a corporate communications policy designed to ensure effective communications by PSP Investments with its stakeholders and the general public as deemed appropriate.

11. Advice, Counsel and Service Providers

- (a) The Board and individual Directors are expected to provide advice and counsel to the Chief Executive Officer;
- (b) The Board may retain other service providers necessary to enable it to fulfil the duties of the Board set out herein and in the Act.

12. Board Compensation

The Board, after considering the recommendation of the Governance Committee, will approve any adjustments to the Directors', the Committee Chairs' and the Chairperson's compensation.

13. Board Meetings and Materials

- (a) The Chairperson, in consultation with the Chief Executive Officer and the Corporate Secretary, will develop the agenda for each Board meeting;
- (b) Meeting materials will be provided to the Directors in confidence before each Board meeting in sufficient time to ensure that there is an adequate opportunity for review. It is recognized that in some circumstances, it may not be possible, prudent or appropriate to distribute written materials in advance of a meeting;
- (c) The Chief Executive Officer will, with the concurrence of the Chairperson, invite certain members of Management to attend Board or Board Committee meetings to provide information and their views to assist the Directors in their deliberations. Management attendees will be excused for any agenda items that are reserved for discussion by Directors only;
- (d) On a regular basis as part of scheduled meetings of the Board, the Directors have an opportunity to meet separately without Management present.

- 14. The Board will approve periodically the Terms of Reference for the Board of Directors, the Board Committees, the Board Committee Chair and the Chairperson.

DEFINITIONS

In addition to terms elsewhere defined herein, the following defined terms apply to these Terms of Reference for the Board of Directors:

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“Board Committees” refers to the following committees of the Board: Investment and Risk Committee, Audit Committee, Governance Committee, and Human Resources and Compensation Committee.

“By-laws” refers to the by-laws governing the conduct and management of PSP Investments approved and amended from time to time by the Board.

“Chairperson” refers to the Chairperson of the Board appointed by the Governor in Council in accordance with the Act.

“Chief Executive Officer” refers to the Chief Executive Officer of PSP Investments duly appointed by the Board.

“Code of Conduct for Employees and Directors” refers to the code of conduct for Employees and Directors adopted and amended from time to time by the Board of Directors.

“Corporate Secretary” refers to the Corporate Secretary of PSP Investments duly appointed by the Board.

“Directors” refers to members of the Board.

“Employees” refers to all personnel employed by PSP Investments and PSP Investments’ wholly-owned entities established for the purposes of its operations including Officers, Management and other staff.

“Funds” refers to the Canadian Forces Pension Fund within the meaning of the Canadian Forces Superannuation Act, the fund established under the regulations made under section 59.1 of that Act for the Reserve Force, the Public Service Pension Fund within the meaning of the Public Service Superannuation Act and the Royal Canadian Mounted Police Pension Fund within the meaning of the Royal Canadian Mounted Police Superannuation Act.

“Joint External Auditor” refers to an external auditor of PSP Investments which, following a recommendation by the Audit Committee and approval by the Board and the Minister, has been appointed by the Governor in Council to be the external auditor of PSP Investments in addition to the Auditor General of Canada.

“Management” refers to the Officers of PSP Investments and the other senior employees of PSP Investments as may be determined from time-to-time by the Chief Executive Officer and communicated to the Board.

“Minister” refers to the President of the Treasury Board.

“Officers” refers to those employees of PSP Investments who are appointed as officers of PSP Investments by the Board in accordance with the Act and By-Law No. 1.

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“Pension Plan Accounts” refers to the four separate accounts established and managed by PSP Investments for each of the Funds and which receive such Funds’ respective transfers of amounts from the Government of Canada.

“Policy Portfolio” refers to the long-term asset-mix as defined in the SIP&P.

“SIP&P” refers to the Statement of Investment Policies, Standards and Procedures adopted and amended from time to time by the Board of Directors.

“Total Fund” refers to the composite of all assets managed by PSP Investments.

These Terms of Reference were most recently reviewed and amended by the Board on June 7, 2018.