

**Statement of
Investment
Policies and
Procedures**

Canadian Blood
Services Pension
Plan

November 2009

APPROVED on this *29th* day of
March, 2010



On behalf of the Board of Trustees



On behalf of the Board of Trustees

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Section 1—Overview

1.01 Purpose of Statement

This Statement of Investment Policies and Procedures (the “Policy”) provides the framework for the investment of the assets of the Canadian Blood Services Defined Benefit Pension Plan, registration number 1048800 (the “Plan”). The administrator of the Plan is the Canadian Blood Services Defined Benefit Pension Plan Board of Trustees (the “Board”). The Board has established a Pension Plan Committee (the “Committee”) to assist with the administration of the Plan.

This Policy is based on the “prudent person portfolio approach” to ensure the prudent investment and administration of the assets of the Plan (the “Fund”) within the parameters set out in the *Pension Benefits Act, (Ontario)* and the Regulations .

1.02 Background of the Plan

The Plan is a defined benefit plan requiring both employer and member contributions. In addition, members used to contribute to a money purchase option within the plan Contributions to this voluntary contribution component of the Plan ended in 2004. However, contribution balances continue to earn interest in the plan until members leave the plan.

The Plan is open to both unionized and non-unionized employees. The Plan was established effective September 28, 1998, and since this date, all contributions have been made to the Plan. The pension assets and entitlements for active Canadian Blood Services employees that were earned prior to September 28, 1998 were transferred from the Red Cross Pension Plan to the Plan on June 13, 2003. In addition, the Plan assumed responsibility for the liability of any member who has retired or terminated with a deferred defined benefit entitlement since November 1, 1997. The liability for Red Cross Pension Plan members who retired prior to this date has remained with that plan.

Throughout this investment policy, the total assets comprised of the defined benefit component and the voluntary contribution component of the plan shall be referred to as the “Plan”.

1.03 Plan Profile

i) *Eligibility*

Employees who were members of the DB component of the Canadian Red Cross Society (“CRCS”) Plan are automatically enrolled in the Plan. New regular full-time employees may join after 3 months of continuous service, and must join after two years of continuous service unless they join the Canadian Blood Services Defined Contribution Pension Plan. Employees other than regular full-time employees may join the Plan after three months of continuous service.

ii) **Contributions**

Contributions to the defined benefit component of the Plan are as follows:

	Employee	Employer	Total
Contribution rate (effective March 1, 2003)	5.00%	7.00%	12.00%
(effective Jan. 1, 2009)	5.15%	7.15%	12.30%

Members could contribute up to 2% of pay to the voluntary money purchase component of the Plan until November 30, 2004. The Employer matched 50% of the employee contributions. These contributions are invested in the Fund, and provide additional benefits on a money purchase basis.

iii) **Benefits**

The Plan provides a pension, at age 65, equal to 2.0% times the member's best five consecutive years' earnings for each year of pensionable service to November 1, 1997 plus 1.6% times the member's best five consecutive years' earnings for each year of pensionable service since November 1, 1997. If the member retires early, the pension amount will be reduced. Other benefits are paid from the Plan, based on this formula, upon the death or termination of a plan member.

Pensions in payment are increased each year to 75% of the increase in the Consumer Price Index (CPI) in excess of 2%, subject to a maximum increase of 5.5%.

In addition, the pensions in pay have been periodically increased on an ad hoc basis to bring total indexing to 100% of the increase in the CPI since retirement.

Members who contributed to the money purchase component of the plan will, at retirement, termination or death, be entitled to the accumulated contributions and associated investment earnings. This balance can be used to purchase a pension from an insurance company or transferred to an approved investment vehicle.

iv) **Liabilities**

As of the most recent actuarial valuation of the Plan as at December 31, 2007, the going-concern liability of the Plan was \$132.3 million compared to the actuarial value of assets of \$139.7 million. The market value of the assets was \$ 139.7 million. Slightly over 75% of the accrued going-concern liability was related to active members, with the balance allocated to retirees, deferred vested members and money purchase plan participants.

The Board does not bear the risk of market fluctuations for the contributions made to the voluntary money purchase component of the Plan.

1.04 Objective of the Plan

The objective of the Plan is to provide members of the Plan with retirement benefits prescribed under the terms of the plan text.

1.05 Investment and Risk Philosophy

The Board recognizes that, based on historical data, the asset classes most likely to produce the greatest return in excess of inflation over time are also likely to exhibit the most volatility. Conversely, the asset classes likely to be the least volatile are likely to produce the lowest returns over time. Therefore, the investment philosophies and strategies must take into account both return and risk objectives.

Based on the following considerations, the Board can tolerate a moderate amount of risk while striving to maximize investment returns (i.e. a minimum return of CPI +3.5% (net of expenses)):

- (i) The Board will address the responsibilities for financing any unfunded liabilities emerging because of poor investment returns. Therefore, the Board has direct exposure to investment risk. While it is important to avoid excessive volatility in investment returns, the Board can tolerate some volatility risk.
- (ii) Employer (CBS) and plan members contribute to the Plan at a level sufficient to finance the defined benefits. The Board will establish these contributions based on the advice of an actuary. However, periodic increases in pension contributions, to finance unfunded liabilities emerging from poorer than expected investment performance, should not significantly affect Canadian Blood Services' overall cash flow. Therefore, the Board can tolerate some volatility of investment returns.
- (iii) The Plan is managed on a going concern basis, including management of the assets. In the foreseeable future, it is unlikely that there will be any special liquidity demands on the Plan. Thus, short-term fluctuations in security values will not have a significant adverse impact on the financial stability of the Plan. Therefore, the Board can tolerate some volatility of investment returns.

1.06 Implementation Issues

With the completion of the transfer of assets from the Red Cross Plan in June 2003, the asset mix strategy and management structure mandated in this Policy has been fully achieved. The Plan's manager structure since inception has been outlined in Appendix C.

1.07 Administration

The Board is the legal administrator of the Plan and is therefore responsible for all matters relating to the administration, interpretation and application of the Plan, including developing, monitoring and amending this Policy. An Investment Committee (the "Committee") has been formed for the purpose of assisting the Board with the administration of the Plan. More details regarding the role and responsibilities of the Committee is provided in Appendix A.

Section 2—Asset Mix and Diversification Policy

2.01 Portfolio Return Expectations

The investment manager(s) appointed by the Board to arrange the investment of part or all of the Fund is directed to achieve a satisfactory long-term real rate of return through a diversified portfolio, consistent with acceptable risks and prudent management. The long-term investment objective of the Fund is to achieve a minimum rate of return, net of all expenses, of 3.5% greater than the annual increase in the Consumer Price Index, measured over ten-year cycles. A long-term asset mix policy has been established in order to provide a reference for long-term return requirements which are consistent with the actuarial valuation assumptions at a risk level acceptable to the Committee.

2.02 Expected Volatility

The volatility of the assets is directly related to its asset mix, specifically, the balance between Canadian bonds, Canadian equities and foreign equities. Since the investment managers do not have the authority to make any type of leveraged investment on behalf of the Fund, the volatility of the Fund should be similar to the volatility of the Benchmark Portfolio set out in Section 4.02 (Performance Measurement).

2.03 Asset Mix

Taking into consideration the investment and risk philosophy of the Plan, the following asset mix has been established:

Assets	Minimum %	Maximum %	Target Mix %
Cdn Equities	25	45	35
Active	25	45	35
Foreign Equity	20	30	25
U.S.	12	18	15
Non-North American Active	8	12	10
Fixed Income	30	50	40
Active Canadian Bonds	6	18	12
Passive Canadian Bonds	24	32	28
Short Term Investments	0	12	0

For purpose of the total asset mix described above, the investment managers' asset class pooled funds are deemed to be 100% invested, even though these funds may contain a portion held in cash & cash equivalent instruments.

The Fund is being actively managed, and therefore the asset mix may deviate from the above mix, within the limits prescribed in the Policy.

2.04 Investment Manager Structure

The Board will select the most appropriate investment manager or managers for each asset class of the Fund. The investment managers may manage the assets either as a segregated fund or by investing in one or more pooled or mutual funds.

The Board may add or change investment managers as assets or circumstances change.

A hybrid management structure has been adopted for the Plan consisting of:

- (i) Two active domestic balanced managers;
- (ii) An active foreign equity manager; and
- (iii) An index manager.

The Fund employs a mix of active and passive management styles. Active management has been adopted for a portion of the assets as it provides the opportunity to outperform common market indices over the long-term, with minimum degree of excess risk. Passive management has been adopted for a portion of the assets as it minimizes the risk of underperformance relative to a benchmark index and is generally less expensive than active management.

Specialty managers have been employed in addition to using a balanced manager as it is difficult for an investment management firm to maintain expertise in all asset classes.

The Balanced Managers' mandates include Canadian equities and bonds managed through the use of pooled funds. The index bonds, U.S. equities, and non-North American equities are also held in pooled funds.

The table below presents the normal allocation by market value of the assets between the Balanced Manager and the specialty managers, as well as maximums and minimums.

Manager Mandate	Minimum	Normal	Maximum
Balanced	39%	47%	55%
U.S. Equity	12%	15%	18%
Bond Index	24%	28%	32%
Non-North American Equity	8%	10%	12%

The following tables present the asset mix policy for the Balanced Managers component of the portfolio. These limits are necessary to ensure that the total fund asset mix remains within the ranges established in Section 2.03 above (Asset Mix):

Asset Class	Minimum	Normal	Maximum
Canadian Equity	60%	75%	85%
Canadian Bonds	15%	25%	40%
Short Term Investments	0%	0%	20%

The guidelines are based on the market values of the assets. Should the Balanced Managers wish to deviate from or revise these guidelines, a written request should be forwarded to the Chair of the Investment Committee who will solicit Committee consensus and report with recommendations to the Board of Trustees as soon as possible.

As part of its ongoing monitoring process, the Committee will consider the appropriateness of the current management structure as set out in the above section.

Section 3—Permitted and Prohibited Investments

3.01 General Guidelines

The investments of the Plan's assets must comply with the requirements and restrictions set out in the *Income Tax Act* and the *Pension Benefits Act (Ontario)* and their respective Regulations.

3.02 Permitted Investments

In general, and subject to the restrictions in this Section 3, an investment manager may invest in any of the following asset classes and in any of the investment instruments listed below:

- (a) **Canadian and Foreign Equities**
 - (i) Common and convertible preferred stock;
 - (ii) Debentures convertible into common or convertible preferred stock;
 - (iii) Rights, warrants and special warrants for common convertible preferred stock;
 - (iv) Instalment receipts, American Depository Receipts and Global Depository Receipts;
 - (v) Units of real estate investment trusts (REITs);
 - (vi) Units of income trusts domiciled in jurisdictions that provide limited liability protection to unitholders; and
 - (vii) Exchange traded index-participation units (i.e. iUnits, and SPDRs).
- (b) **Bonds**
 - (i) Bonds, debentures, notes, non-convertible preferred stock and other evidence of indebtedness of Canadian issuers or developed market foreign issuers whether denominated and payable in Canadian dollars or a foreign currency, provided such instruments are traded on a recognized public exchange or through established investment dealers, subject to Section 3.04 below;
 - (ii) Federal real return bonds;
 - (iii) Mortgages secured against Canadian real estate subject to Section 3.05 below;
 - (iv) Mortgage-backed securities, guaranteed under the *National Housing Act*;
 - (v) Term deposits and guaranteed investment certificates; and
 - (vi) Private placements of bonds subject to Section 3.03 below;

- (c) **Cash and Short Term Investments**
 - (i) Cash on hand and demand deposits;
 - (ii) Canadian and U.S. Treasury bills and bonds (with remaining maturities not exceeding 365 days) issued by the federal and provincial governments and their agencies;
 - (iii) Obligations of trust companies and Canadian and foreign banks chartered to operate in Canada, including bankers' acceptances; and
 - (iv) Commercial paper and term deposits.
- (d) **Other Investments**
 - (i) Deposit accounts of the custodian used to invest surplus cash holdings;
 - (ii) Currency forward and future contracts; and
 - (iii) Exchange-traded S&P Index futures contracts.
- (e) **Derivatives**

The use of derivatives (such as options, swaps, futures and forward contracts) is permitted to protect against losses from changes in exchange rates, interest rates and market indices; and for non-hedging purposes, as a substitute for direct investment. Sufficient assets or cash must be held to cover commitments due to the derivatives transactions. No derivatives can be used for speculative trading or to create a portfolio with leverage.
- (f) **Pooled Funds**
 - (i) Investments in open-ended or closed-ended pooled funds provided that the assets of such funds are permissible investments under this Policy.

While the guidelines in this Policy are intended to guide the management of the Fund, it is recognized that, due to the use of pooled funds, there may be instances where there is a conflict between this Policy and the investment policy of a pooled fund. In that case, the pooled fund policy shall dominate. In addition, the Investment Manager(s) will ensure that the Committee has received a copy of the most recent versions of the pooled fund policy/guidelines and of any amendments made to the pooled fund policy/guidelines. These policies/guidelines and amendments will be attached to this Policy in Appendix B.

3.03 Minimum Quality Requirements

- (a) **Quality Standards**

Within the investment restrictions for individual portfolios, all portfolios should hold a prudently diversified exposure to the intended market.

 - (i) The minimum quality standard for actively managed individual bonds and debentures is 'BBB' or equivalent as rated by at least two of the three Recognised Bond Rating Agencies operating in Canada, at the time of

purchase. The minimum quality standard for the passively managed bond mandates for individual bonds and debentures remains at “A” or equivalent.

- (ii) The minimum quality standard for individual short term investments is ‘R-1’ or equivalent as rated by at least two of the three Recognised Bond Rating Agencies operating in Canada at the time of purchase.
- (iii) The minimum quality standard for individual preferred shares is ‘P-1’ or equivalent as rated by at least two of the three Recognised Bond Rating Agencies operating in Canada at the time of purchase.
- (iv) All investments shall be reasonably liquid (i.e. in normal circumstances they should be capable of liquidation within 3 months).

(b) **Downgrades in Credit Quality**

A Manager will take the following steps in the event of a downgrade in the credit rating of a portfolio asset by a Recognized Rating Agency to below the purchase standards set out in Section 3.03 (a) Quality Standards:

- (i) The client will be notified of the downgrade by telephone at the earliest possible opportunity;
- (ii) Within ten business days of the downgrade, the Manager will advise the Client in writing of the course of action taken or to be taken by the Manager, and its rationale; and
- (iii) Immediately upon downgrade, the Manager will place the asset on a Watch List subject to monthly review by the Manager with the Client until such time as the security matures, is sold or until it is upgraded to a level consistent with the purchase quality standards as expressed in the above guidelines.

(c) **Split Ratings**

In cases where the Recognized Bond Rating Agencies do not agree on the credit rating, the bond will be classified according to the methodology used by Scotia Capital, which states:

- (i) If two agencies rate a security, use the lower of the two ratings;
- (ii) If three agencies rate a security, use the most common; and
- (iii) If all three agencies disagree, use the middle rating.

(d) **Rating Agencies**

For the purposes of this Policy, the following rating agencies shall be considered to be ‘Recognized Bond Rating Agencies’:

- (i) Dominion Bond Rating Service (Canadian issuers only);
- (ii) Standard and Poor’s;

- (iii) Moody's Investors Service; and
- (iv) Fitch Ratings (foreign issuers only),
- (e) **Private Placement Bonds**
Private placement bonds and asset-backed securities are permitted subject to **all** of the following conditions:
 - (i) The issues acquired must be 'A' or equivalent rated;
 - (ii) The total investment in such issues must **not** exceed 10% of the market value of the investment manager's bond portfolio;
 - (iii) The investment manager's portfolio may **not** hold more than 5% of the market value of any one private placement;
 - (iv) The investment manager must be satisfied that there is sufficient liquidity to ensure sale at a reasonable price; and,
 - (v) The minimum issue size for any single security must be at least \$300 million.

3.04 Maximum Quantity Restrictions

(a) Total Fund Level

No one equity holding shall represent more than 10% of the total book value of the Plan assets.

(b) Individual Investment Manager Level

The investment managers shall adhere to the following restrictions:

(i) *Equities*

- (A) No one equity holding shall represent more than the greater of 10% of the total market value of any one manager's equity portfolio or in the case of a Canadian stock, of its weight in the S&P/TSX Composite Index to a maximum of 15% of the market value of the manager's equity portfolio.
- (B) No more than 10% of the Canadian equity portfolio shall be invested in income trusts.
- (C) No one equity holding shall represent more than 30% of the voting shares of a corporation.

(ii) *Bonds and Short Term*

- (A) Except for federal and provincial bonds having at least an 'A' credit rating, no more than 10% of a manager's bond portfolio may be invested in the bonds of a single issuer and its related companies.
- (B) Except for federal and provincial bonds, no one bond holding shall represent more than 10% of the market value of the total outstanding for that bond issue.

- (C) No more than 20% of the market value of a manager's bond portfolio shall be invested in bonds denominated in a currency other than Canadian dollars.
- (D) No more than 10% of the bond portfolio by market value may be held in real return bonds.
- (E) No more than 15% of the bond portfolio may be held in foreign issuer bonds.
- (F) No more than 10% of the market value of an active manager's bond portfolio shall be invested in "BBB" rated bonds.

(iii) ***Pooled Fund Investment***

An investment by the Fund in a single pooled fund should not exceed 10% of the market value of that fund unless provision has been made to transfer assets out of the fund "in kind" should a significant redemption of the pooled fund's unit occur.

(iii) ***Other***

The use of derivative securities shall be supported at all times by the explicit allocation of sufficient assets to back the intended derivative strategy. For greater certainty, Investment Managers are not permitted to leverage the assets of the Fund. The use of derivative securities is only permitted for the uses described in this Policy. Purchase or sale of any of these instruments for speculative purposes is prohibited.

3.05 Prior Permission Required

The following investments of the Fund are permitted **provided that** prior permission for such investments has been obtained from the Board:

- (a) purchase any asset or security previously disqualified by the Committee by written notice to the investment manager;
- (b) investments in private placement equities;
- (c) direct investments in a Canadian resource property that has a book value less than or equal to 5% of the book value of the Plan assets. The aggregate book value of all investments in Canadian resource properties shall not exceed 15% of the book value of the Plan assets;
- (d) direct investments in mortgages;
- (e) direct investments in any one parcel of real property that has a book value less than or equal to 5% of the book value of the Plan assets. The aggregate book value of all investments in real property and Canadian resource properties shall not exceed 25% of the book value of the Plan assets;
- (f) direct investments in venture capital financing; and

- (g) investments in a pooled fund that conflicts with this Policy.

3.06 Prohibited Investments

The investment managers shall not:

- (a) invest in companies for the purpose of managing them;
- (b) purchase securities on margin, engage in short sales, purchase options (calls or puts) and other similar investment activity;
- (c) make any investment not specifically permitted by this Policy; or
- (d) make any investment not specifically permitted by the investment manager's investment policy for the fund in question.

3.07 Securities and Cash Lending

The investments of the Fund may be loaned, for the purpose of generating revenue for the Fund, subject to the provisions of the *Pension Benefits Act* (Ontario), the *Income Tax Act* (Canada) and their applicable Regulations.

Such loans must be secured by cash and/or readily marketable government bonds, treasury bills and/or letters of credit, discount notes and banker's acceptances of Canadian banks. The amount of collateral taken for securities lending should reflect best practices in local markets. In Canada, the current market practice is to obtain collateral of at least 105% of the market value of the securities lent. This market relationship must be calculated at least daily.

The terms and conditions of any securities lending program will be set out in a contract with the Custodian. The Custodian shall, at all times, ensure that the Committee has a current list of those institutions that are approved to borrow the Fund's investments. If the Fund is invested in a pooled fund, security lending will be governed by the terms and conditions set out in the pooled fund contract.

3.08 Borrowing

The Fund shall not borrow money, except to cover short-term contingency and the borrowing is for a period that does not exceed ninety days, subject to the *Pension Benefits Act* (Ontario), the *Income Tax Act* and the written permission of the Board.

Section 4—Monitoring and Control

4.01 Delegation of Responsibilities

Overall responsibility for the Plan ultimately rests with the Board of Trustees. From time to time, the Board may form and delegate responsibilities to sub-committees of the Board of Trustees.

The Board has delegated certain functions relating to the management and administration of the Plan's assets to third-party agents, as described below.

(a) **Investment Managers**

The investment managers will:

- (i) invest the assets of the Plan in accordance with this Policy;
- (ii) notify the Committee, in writing, of any significant changes in the Investment Manager(s)' philosophies and policies, personnel or organization and procedures.
- (iii) meet with the Committee as required, but at least annually, and provide written reports regarding their past performance, their future strategies and other issues requested by the Committee; and,
- (iv) file quarterly compliance reports where required by Section 4.06 (Compliance Reporting by Investment Manager).

(b) **Custodian/Trustee**

The custodian/trustee will:

- (i) maintain safe custody over the assets of the Plan;
- (ii) execute the instructions of the Board, the Committee and the investment managers; and,
- (iii) record income and provide monthly financial statements to the Board or as required.

(c) **Actuary**

The actuary will:

- (i) perform actuarial valuations of the Plan as required; and,
- (ii) advise the Committee on any matters relating to Plan design, membership and contributions.

- (d) **Investment Consultant**
The investment consultant will:
- (i) assist in the development and implementation of this Policy;
 - (ii) monitor the performance of the Fund and the investment managers on a regular basis;
 - (iii) support the Committee on matters relating to investment management and administration of the Plan assets; and,
 - (iv) meet with the Committee as required.
- (e) **Accountant**
The accountant will provide annual audited financial statements of the Plan.

4.02 Performance Measurement

- (a) **Generally**
For purposes of evaluating the performance of the Fund, and the investment managers, all rates of returns are time-weighted, and measured over moving four-year periods. Return objectives are net of fees and include realized and unrealized capital gains or losses plus income from all sources.

- (b) **Total Fund**
The primary objective for the Fund is to earn a rate of return that exceeds the rate of return earned on a benchmark portfolio, comprising:

Benchmark	%
S&P/TSX Composite Capped Index*	35
DEX Universe Bond Index	40
Standard & Poor's 500 Hedged Index	15
Morgan Stanley Capital International Europe Australasia and the Far-East Index (\$ Cdn)	10

*The S&P/TSX Composite Capped Index limits the benchmark weight of any single stock of the Total Fund Portfolio to a maximum of 10%

- (c) **Individual Manager Component**
Investment weightings and results of the Fund are to be tested regularly.

- (i) **Domestic Balanced Managers**
The primary objective for the domestic balanced managers is to earn a rate of return that exceeds the rate of return earned on a benchmark portfolio by 150 basis points over a four year market cycle, comprising:

Benchmark	%
S&P/TSX Composite Capped Index*	75
DEX Universe Bond Index	25

(ii) **International Equities Manager**

The return objective for the international equity manager is to add 200 basis points over the MSCI EAFE Index return over a four year market cycle.

(iii) **Index Manager**

The primary objective for the Index manager is to earn a rate of return that approximates the rate of return earned on the relevant market index as follows:

	Tracking Error
Ex-BBB Universe Bond Fund	
DEX Universe Bond Index	+/- 25 BP
Hedged Pension U.S. Equity Index Fund	
S&P 500 Hedged Index	+/- 15 BP

4.03 Selecting Investment Managers

In the event that a new investment manager must be selected or additional investment manager(s) added to the existing investment managers, the Committee will undertake an investment manager search with the assistance of a third-party investment consultant. The criteria used for selecting an investment manager will be consistent with the investment and risk philosophy set out in Section 1.05 (Investment and Risk Philosophy).

4.04 Monitoring of Asset Mix

If the market value of the Fund assets causes the target asset mix set out in Section 2.03 (Asset Mix), to vary by more than the breach limits set out below, the Committee will initiate action as soon as possible following notification, but at the latest, within a six-month time period.

	Target	Breach Limit
Canadian Equities	35%	+/- 5%
Total Equities	60%	+/- 10%
Fixed Income	40%	+/- 10%

The Committee has determined that the most desirable action would be to first re-direct contributions for a period of time and to closely monitor the impact on the asset mix. If redirecting contributions fails to achieve the desired effect, then purchase and sale instructions will be sent to the affected Investment Manager(s) and Custodian in order to re-establish the long-term asset mix.

4.05 Monitoring of Investment Managers

At least quarterly, the Committee will monitor and review the:

- (a) assets and net cash flow of the Plan;
- (b) investment manager's financial stability, staff turnover, consistency of style and record of service;
- (c) investment manager's current economic outlook and investment strategies;
- (d) investment manager's compliance with this Policy; and,
- (e) investment performance of the assets of the Plan in relation to the rate of return expectations outlined in this Policy.

4.06 Compliance Reporting by Investment Managers

The investment managers of the Fund are required to complete and deliver a compliance report to the Committee and the Fund's investment consultant each quarter. The compliance report will indicate whether or not the investment manager was in compliance with this Policy, or in the case of pooled funds in compliance with the pooled funds' own guidelines, during the quarter.

In the event that an investment manager is not in compliance with this Policy, the investment manager is required to advise the Committee immediately, detail the nature of the non-compliance and recommend an appropriate course of action to remedy the situation.

The Plan invests in pooled funds with separate investment policies. While the guidelines in this Policy are intended to guide the management of the Plan, it is recognized that, due to the use of pooled funds, there may be instances where there is a conflict between this Policy and the investment policy of a pooled fund. In that case, the pooled fund policy shall dominate. In addition, the investment manager will ensure that the Committee has received a copy of the most recent version of the pooled fund investment guidelines and of any amendments made to the pooled fund policy. See Appendix B.

4.07 Standard of Professional Conduct

The investment managers are expected to comply, at all times and in all respects, with the Code of Ethics and Standards of Professional Conduct as promulgated by the CFA Institute.

The investment managers will manage the Fund with the care, diligence and skill that an investment manager of ordinary prudence would use in dealing with pension plan assets. The investment manager will also use all relevant knowledge and skill that it possesses or ought to possess as a prudent investment manager.

Section 5—Administration

5.01 Conflicts of Interest

(a) **Responsibilities**

This standard applies to the members of the Board and the members of the Committee, as well as to all agents employed by them, in the execution of their responsibilities under the *Pension Benefits Act (Ontario)* (the “Affected Persons”).

An “agent” is defined to mean a company, organization, association or individual, as well as its employees who are retained by the Committee to provide specific services with respect to the investment, administration and management of the assets of the Plan.

(b) **Disclosure**

In the execution of their duties, the Affected Persons 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 administration of the Plan assets.

Further, it is expected that no Affected Person shall make any personal financial gain (direct or indirect) because of his or her fiduciary position. However, normal and reasonable fees and expenses incurred in the discharge of their responsibilities are permitted if documented and approved by the Board.

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 employee deals in the course of performance of his or her duties and responsibilities for the Plan.

It is incumbent on any Affected Person who believes that he or she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation to the attention of the Committee immediately. The Committee, in turn, will decide what action is appropriate under the circumstances but, at a minimum, will table the matter at the next regular meeting of the Committee.

No Affected Person who has or is required to make a disclosure as contemplated in this Policy shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure, unless otherwise determined permissible by unanimous decision of the Committee.

5.02 Related Party Transactions

The Board, on behalf of the Plan, may not enter into a transaction with a related party unless:

- (a) the transaction is both required for operation and or administration of the Plan and the terms and conditions of the transaction are not less favourable than market terms and conditions; or,
- (b) the combined value of all transactions with the same related party is nominal or the transaction(s) is immaterial to the fund.

The Board, on behalf of the Plan, may not invest the monies of the Plan in the securities of a related party unless those securities are acquired at a public exchange, as defined in the Regulations to the Pension Benefits Standard Act (Canada).

For the purposes of this Section 5.02, only the market value of the combined assets of the Plan shall be used as the criteria to determine whether a transaction is nominal or immaterial to the Plan. Transactions less than (0.5%) of the combined market value of the assets of the Plan are considered nominal.

A “related party” in respect of the Plan, means:

- (a) the board of trustees or other body that is the administrator of the Plan;
- (b) an employee of the board of trustees;
- (c) a person responsible for holding or investing the assets of the Plan, or any officer, director or employee thereof;
- (d) an association or union representing employees of Canadian Blood Services, or an officer or employee thereof;
- (e) a member of the Plan;
- (f) the spouse or child of any person referred to in any of paragraphs (a) to (f);
- (g) an affiliate of Canadian Blood Services;
- (h) a corporation that is directly or indirectly controlled by a person referred to in any of paragraphs (a) to (g); and,
- (i) an entity in which a person referred to in paragraph (a), (b), or (f), or the spouse or a child of such a person, has a substantial investment.

Related party does not include government or a government agency, or a bank, trust company or other financial institution that holds the assets of the Plan, where that person is not the administrator of the Plan.

5.03 Investment Dealers Servicing the Fund

A variety of brokers should be used in order to gain maximum utilization of the services available. It is the responsibility of the Investment Managers to ensure that the commission distribution to brokers is representative of the services rendered.

5.04 Dismissal of an Investment Manager

Reasons for considering the termination of the services of an investment manager include, but are not limited to, the following factors:

- (a) performance results which are below the stated performance benchmarks over an appropriate time period;
- (b) changes in the overall structure of the Plan assets such that the investment manager's services are no longer required;
- (c) change in personnel, firm structure or investment philosophy which might adversely affect the potential return and/or risk level of the portfolio; and/or
- (d) failure to adhere to this Policy.

5.05 Voting Rights

The Board has delegated voting rights acquired through the investments held by the Plan to the custodian of the securities to be exercised in accordance with the investment manager's instructions. Investment managers are expected to exercise all voting rights related to investments held by the Fund in order to protect the interests of the Plan and its members, and to vote according to the terms of any Proxy Voting Policy that may be established by the Manager.

The Investment Managers are required to maintain records and periodically report to the Board of Trustees on how they voted proxies. A brief explanation should also be given if they voted against management's recommendations.

The Board reserves the right to take-back voting rights of assets held in segregated portfolios for specific situations.

5.06 Valuation of Investments Not Regularly Traded

The following principles will apply for the valuation of investments that are not traded regularly:

- (a) **Equities**
Average of bid-and-ask prices from two major investment dealers, at least once every month.
- (b) **Bonds**
Same as for equities.

(c) **Mortgages**

Unless in arrears, the outstanding principal plus/minus the premium/discount resulting from the differential between face rate and the currently available rate for a mortgage of similar quality and term, determined at least once every month.

(d) **Real Estate**

A certified written appraisal from a qualified independent appraiser at least every three years. In addition, an internal evaluation will be conducted on an annual basis with due regard given to the location and nature of the real estate investment as compared to similarly situated investments or holdings which have recently sold or been traded.

5.07 Directing Brokerage Commissions

Investment Managers may use directed brokerage to pay for research and other investment related services with prior approval of the Board of Trustees provided they comply with, and provide the disclosure required by, the Soft Dollar Standards promulgated by the CFA Institute and any applicable legislative or regulatory requirements regarding soft dollars.

Annually, the Investment Managers shall provide a written report detailing all soft dollar transactions involving the assets, including the services received by the Investment Manager through soft dollars, total commissions represented by soft dollars and total soft dollars used in the year.

5.08 Policy Review

This Policy shall be reviewed, and either confirmed or amended, by the Board, or the Committee, at least annually.

Appendix A – Investment Committee—Terms of Reference

(A) Purpose

The purpose of the Investment Committee (“Committee”), which reports to the Board of Trustees (“Board”), is to provide investment direction in accordance with the Statement of investment policies and goals adopted and modified, from time to time, by the Board on recommendation of the Committee, to oversee the Investment Manager(s) and to provide recommendations to the Board with respect to other Pension Plan Investment matters.

(B) Duties and Responsibilities

Subject to the powers and duties of the Board, the Board assigns to the Committee the following duties and responsibilities:

- (i) Review and recommend investment and administration mandates, including the Statement of Investment Policies and Procedures (“Policy”) covering such matters as:
 - categories of investment loans;
 - diversification of the investment portfolios;
 - asset mix and rate of return expectations;
 - liquidity of investments;
 - the lending of cash securities;
 - the retention or delegation of voting rights acquired through plan investments;
 - the method of, and basis for, the valuation of investments that are not regularly traded at a public exchange, and
 - related party transactions permitted by law;
 - propose, review at least annually and recommend changes to the Policy to the Board for the investment of assets of the Pension Plan.
- (ii) Develop and recommend investment policies and investment managers’ mandates in accordance with the Policy;
- (iii) Recommend the selection, retention and change of investment managers to executive investment decisions, and monitor their performance;
- (iv) Oversee investment performance and report thereon to the Board;
- (v) Review and report to the Board on compliance in the investment of assets of the Pension Plan with requirements in the Pension Plan texts, other documents which create and support the Pension Plan, and applicable law;
- (vi) Report and make recommendations to the Board on any other matters affecting the investment of assets of the Pension Plan;
- (vii) Review the performance of the Custodian and report thereon to the Board;

- (viii) Review proxy voting policies and the record of proxy votes themselves and report thereon to the Board;
- (ix) Review general investment issues, including new investment initiatives and market trends (based on information to be requested and received from the investment managers);
- (x) Periodically review these terms of reference to ensure that they continue to be appropriate and make recommendations to the Board for improvements; and
- (xi) Perform such other functions as may be assigned from time to time by the Board.

Appendix B – Pooled Fund Investment Guidelines



Leith Wheeler Canadian Equity Investment Policy Statement

Investment Return Objectives

- The first return objective is to achieve, over moving four-year time periods, the annualized total return of the Canadian Stock Index selected by the client plus 1.50%.
- The second return objective is to rank, over moving four-year time periods, in the top quartile of a universe of similar funds as measured by a recognized performance measurement service.

Permitted Canadian Equities

- Equities will include common shares, special warrants, units and securities convertible into units of listed royalty trusts, real estate investment trusts (REITS), income trusts, limited partnerships and other similar flow-through entities, convertible debentures and convertible preferred shares.
- Investments in trusts will be limited to those registered in provinces which have passed legislation clarifying that unitholders of publicly traded trusts will not be liable for the activities of the trust.
- Under normal conditions, the portfolio will not invest in S&P/TSX 60 I-Units or similar securities designed to parallel TSE stock indices. However, when large cash flows or major sales of portfolio holdings result in a portfolio being "underexposed" to equities, a temporary investment in such securities may be made.

Investment Guidelines

- All securities held in the portfolio will be publicly traded securities with the exception of special warrants, private placements and initial public offerings which are intended to be converted into publicly traded securities within six months of time of purchase. Special warrants, private placements and initial public offerings will not, in total, comprise more than 10% of the maximum allowable Canadian equity portion of the total fund.

- The portfolio will normally hold between 25 and 55 stocks.
- Under normal conditions, the maximum position size of any single stock will be 8% of the market value of the maximum allowable Canadian equity portion of the total fund, at the time of purchase. To allow for the impact of market appreciation, this maximum position size could rise to as much as 10% of the market value of the maximum allowable Canadian equity portion of the total fund before the position size is reduced.
- The maximum position size of any stock that exceeds 10% of the S&P/TSX Composite Index will be determined after discussion with the client.
- An effort will be made to diversify the portfolio among various industry sectors. For clients using the S&P/TSX Composite Index as their benchmark, the percentage of the market value of the portfolio invested in any single sector will not exceed the greater of 20%, the sector weight plus 10 percentage points, or 1.5 X the weight of the sector, using the most recent quarter-end data. As well, the portfolio will hold securities representing a minimum of 6 of the current 10 sectors.
- No more than 10% of the maximum allowable Canadian equity portion of the total fund will be invested in companies having market capitalizations of less than \$100 million, at time of purchase.
- If for any reason the portfolio deviates from the above-mentioned guidelines, position sizes will be adjusted within a period of 20 trading days to bring the portfolio back into compliance.

Constrained Fixed Income Fund Policy Statement 2008

Investment Return Objectives

- The primary return objective is to achieve, over moving four-year time periods, the annualized total return of the Scotia Capital Markets Universe Bond Index plus 0.35%.
- The secondary return objective of the Fund is to rank, over moving four-year time periods, above median in a universe of similar funds as measured by a comparative measurement service.

Investment Guidelines

- The portfolio shall be diversified appropriately, subject to the constraints listed below. All percentage limits apply to the fixed income content of a fund. Debt quality ratings refer to the Dominion Bond Rating Service (DBRS), Standard & Poor's, Moody's, Fitch or equivalent, unless explicitly rated otherwise by the Manager. If a rating change causes the maximum to be exceeded, the Manager should normally return the portfolio to compliance within a reasonable time period.

- Normal average credit quality for the fund (market value weighted) "AA"
- Minimum credit rating by at least one rating agency at time of purchase "BBB (low)"
- Maximum exposure to securities with a credit rating less than "A (low)" 10%
- Maximum exposure to the following type of securities:

Canada	Provincial	Corporate	Municipal	Mortgage-backed	Foreign Currency Bonds
100%	60%	50%	5%	20%	10%

- Maximum exposure to a single provincial with a rating of "A (low)" or higher 25%
- Maximum exposure to a single provincial with a rating less than "A (low)" 10%
- Maximum exposure to a single corporate with a rating of "A (low)" or higher 10%
- Maximum exposure to a single corporate with a rating less than "A (low)" 5%
- Maximum exposure to investment grade private placements (Excluding Maples) 15%
- Normal deviation in duration from the benchmark Index \pm 1 year
- Maximum exposure to Maples 20%

THE JF POOLED FUNDS

INVESTMENT POLICY GUIDELINES

Minimum Initial Investment of \$150,000 - For Canadian Resident Plans

The investment committee meets at least weekly to evaluate the market, existing security selections in the funds and prospective new additions to the funds. The Funds invest in various industries where the committee sees growth and reasonable valuations. The Funds also tend to avoid highly cyclical industries. If at any time an investment or group of investments within the Funds does not conform with the limitations set out below, the investment committee shall exercise its best judgment as to the action required to correct the situation. If it appears that the situation will be corrected within a short period through deployment of new contributions to the Fund, it may elect not to liquidate the non-conforming investments. Under normal circumstances, the liquidity reserve of each Fund will be between 0% and 10% of the Fund's market value.

SECURITIES LENDING:

Jarislowky Fraser Pooled Funds' Trust Agreements permit securities lending for the benefit of the Funds.

DERIVATIVES:

The Jarislowky Fraser Pooled Funds are authorized to acquire and retain as investments any other property including, without limitations, puts, calls, options, option contracts, forward currency contracts, futures or options on future contracts. Historically, and at the present time, none of the funds is invested in any of these types of investments.

JF BOND FUND

- The DEX Universe Index serves as the benchmark for the Fund.
- The Fund shall be diversified between Industrial, Utility and Financial Bonds. Government Bonds will be used primarily for purposes of adjusting duration, bearing in mind that their yields are lower than those in the previous categories.
- The average quality rating of all of the holdings in the Fund shall be A or better.
- The minimum quality rating of any bond purchased in the Fund shall be BBB.
- The maximum aggregate holdings of A, AA and AAA rated corporate bonds of any one issuer shall be 8% of the total market value of the bond section.
- The maximum aggregate holdings of BBB rated bonds shall be 10% of the total market value of the Fund.
- The Fund may be invested up to 100% in corporate issues.
- Not more than 20% of the total market value of the Fund shall be invested in any one generally recognized industry group, except Utilities 40% and Finance 40%.
- Not more than 20% of the total market value of the Fund shall be invested in private placements.
- Not more than 20% of the market value of the Fund shall be invested in foreign currency issues of Canadian borrowers.
- The Fund may invest in the JF Special Bond Fund — up to a maximum of 10%.

JF SPECIAL BOND FUND

- The maximum aggregate holdings of any one corporate issuer shall be 25%.
- The minimum quality rating is BBB^{^^}, up to a maximum of 10%.
- The Fund will be permitted to invest in fixed income securities of domestic or foreign issuers, private placements and fully hedged foreign pay securities, some of which may not be included in the Dex Universe.

^{^^}As rated by DBRS. In the event of a non rated security, the lowest rating of an issue from the same issuer will be used.

JF CANADIAN EQUITY FUND

- The S&P/TSX Composite Index serves as the benchmark for the Fund.
- Securities of the Fund shall be categorized as follows with the holdings limited to the ranges set forth.

Securities of the Canadian Equity Fund

	<u>Minimum</u>	<u>Maximum</u>
Group I - High Quality Growth	50%	100% at market
Group II - Cyclical	0%	35% at market
Group III - Junior Growth	0%	15% at market

- No more than 20% of the total market value of the Fund shall be invested in equity or quasi-equity securities of companies within any one generally recognized industry group*. For industry groups* with a market weight of greater than 10% in the index, the Fund may invest up to a level of no more than the index industry group* weight plus 10%. (i.e. If the index industry group* weight = 15%, Fund limit = 25%)
- No more than 10% of the total market value of the Fund shall be invested in the equity or quasi-equity securities of any one Company.
- The Fund may invest in the JF Special Equity Fund – up to a maximum of 10%.
- The Fund may invest up to 20% in non-Canadian North American equities.

JF SPECIAL EQUITY FUND

- The companies selected will typically have a public market float between \$25Mil-\$1Bil.
- A typical holding will be between 1-10% of the fund.
- Not more than 10% of the fund in companies with a public market float below \$25 million.
- Companies listed on the exchange.
- No single client may hold more than 10% of the fund.

have received a copy of the JF Pooled Fund statement of Policies and Guidelines.

(Client)

(Client's Signature)

Date

BLK Ex BBB Universe Bond Index Fund Profile

Fund Information	
<i>Effective date of profile</i>	January 1, 2009
<i>BLK fund number</i>	299185
<i>Fund inception</i>	May 2002
<i>BLK ticker symbol</i>	UNIEXBBB
<i>Tax status</i>	RI QMFT 204.4 (2)(d)
<i>Eligible investors</i>	All types except non-residents
<i>Valuation and trading frequency</i>	Daily
<i>Notification deadline</i>	One Canadian business day before trade date by noon eastern time
<i>Settlement date</i>	Three Canadian business days after trade date
<i>Expenses paid by fund</i>	Fund administration and operational expenses
<i>Income distribution frequency</i>	Semi-annual (June and December); reinvested in fund
<i>Gains distribution frequency</i>	Annual (December); reinvested in fund
<i>Securities lending</i>	Permitted
<i>Proxy voting</i>	BLK votes proxies on behalf of the pooled fund based on what BLK believes to be the best economic interests of all pooled fund participants
<i>Minimum contribution</i>	BLK reserves the right to implement minimum/maximum contribution amounts
Investment Guidelines	
<i>Investment objective</i>	To track the return and risk profile of the benchmark
<i>Benchmark</i>	A custom benchmark calculated using the DEX Universe Bond Index and excluding all bonds rated BBB or lower thereafter.
<i>Expected return versus benchmark</i>	0% annualized over four years
<i>Expected risk (standard deviation)</i>	0.25% annualized over four years (actual versus expected return)
<i>Investments</i>	This fund invests primarily in Canadian bonds and debentures; this fund may also use any other investments, including exchange traded funds and pooled funds, which when included in the fund help achieve the objective of tracking the return and risk profile of the benchmark providing the overall duration of the fund remains within 0.1 years of the benchmark
<i>Cash and money market</i>	Small amounts of cash (generally less than 1%) may be held for liquidity or pending investment; money market securities generally include government guaranteed paper, bankers acceptances, bankers deposits, commercial paper, and floating rate notes
<i>Credit quality for money market</i>	Average of R1-mid or better, with select R1-low issues (or equivalent)
<i>Credit quality for bonds</i>	Minimum A rating; bonds which are downgraded below A will be sold as soon as practicable
<i>Currency exposure</i>	Canadian dollar denominated investments
<i>Sector weights</i>	Within benchmark weight plus/minus 1.0% for each sector (Canada, provincial, municipal, corporate)
<i>Security weights</i>	No restrictions in relation to benchmark (not a fully replicated fund); no single issuer to exceed 10% of the market value of the fund except for securities issued by governments or government guaranteed agencies; no corporate issuer rated less than A to exceed 5% of the market value of the fund
<i>Use of derivatives</i>	Permitted to equitize cash and to replicate securities or strategies that are consistent with the fund's investment objective and return and risk profile
<i>Use of leverage</i>	Not permitted

BLK Hedged Pension U.S. Equity Index Fund Profile (new)

Fund Information	
<i>Effective date of profile</i>	January 1, 2009
<i>BLK fund number</i>	299220
<i>Fund inception</i>	July 2005
<i>BLK ticker symbol</i>	HUSEQ
<i>Tax Status</i>	Unit Trust 108(2)(a)
<i>Eligible Investors</i>	Canadian pension plans only
<i>Valuation and trading frequency</i>	Valued daily, traded monthly – last business day of the month
<i>Notification deadline</i>	Two Canadian business days before trade date by noon EST
<i>Settlement date</i>	Three Canadian business days after trade date
<i>Expenses paid by fund</i>	Fund administration and operational expenses
<i>Income distribution frequency</i>	Semi-annual (June and December); reinvested in fund
<i>Gains distribution frequency</i>	Annual (December); reinvested in fund
<i>Securities lending</i>	Permitted
<i>Proxy voting</i>	BLK votes proxies on behalf of the pooled fund based on what BLK believes to be the best economic interests of all pooled fund participants
<i>Minimum contribution</i>	BLK reserves the right to implement minimum/maximum contribution amounts

Investment Guidelines	
<i>Investment objective</i>	To track the return and risk profile of the benchmark
<i>Benchmark</i>	S&P 500 Index (total return hedged to Canadian dollars)
<i>Expected return versus benchmark</i>	0.00% annualized over four years
<i>Expected risk (standard deviation)</i>	0.15% annualized over four years (actual versus expected return)
<i>Investments</i>	This fund invests primarily in currency forwards, futures and BLK Pension US Equity Index Pooled Fund units; this fund may also invest in US equities that are included in the benchmark, exchange traded funds and pooled funds, which when included in the fund help achieve the objective of tracking the return and risk profile of the benchmark
<i>Cash and money market</i>	Small amounts of cash (generally less than 1%) may be held for liquidity or pending investment; money market securities generally include government guaranteed paper, bankers acceptances, bankers deposits, commercial paper, asset-backed securities and floating rate notes
<i>Credit quality for money market</i>	Average of R1-low or equivalent
<i>Credit quality for bonds</i>	N/A
<i>Currency exposure</i>	Fund is exposed to US dollar denominated investments; currency exposure is hedged to Canadian dollars
<i>Sector weights</i>	Within benchmark weight plus/minus 0.10%
<i>Security weights</i>	Within benchmark weight plus/minus 0.10%
<i>Use of derivatives</i>	Permitted to equitize cash and to replicate securities or strategies that are consistent with the fund's investment objective and return and risk profile
<i>Use of leverage</i>	Consistent with benchmark methodology, notional currency exposure may exceed the value of physical securities intra-month. Any such leverage will be removed as soon as practicable.
<i>Minimum contribution</i>	BLK reserves the right to implement minimum/maximum contribution amounts

Appendix C – History of Management Structure

Dates	Manager	Fund
Prior to March 2001	Royal Trust	STIF
March 2001 to November 2006	McLean Budden Limited McLean Budden Limited	Canadian Equity Fixed Income
November 2002 to November 2007	Aberdeen Asset Management	SRI NNA Equity
November 2002 to March 2006	Barclays Global Investors	Synthetic Hedged U.S. Equity
November 2002 to present	Barclays Global Investors	Universe Ex-BBB Bond Index
March 2006 to October 2009 November 2009 to present	Barclays Global Investors BlackRock Asset Management Canada Limited*	Hedged U.S. Alpha Tilts Hedged Pension U.S. Equity Index Fund
November 2006 to present	Jarislowsky Fraser Ltd. Jarislowsky Fraser Ltd.	Canadian Equity Bond
November 2006 to present	Leith Wheeler Investment Counsel Ltd,	Bond
November 2006 to present	Leith Wheeler Investment Counsel Ltd,	Canadian Equity
November 2007 to present	Grantham, Mayo, Van Otterloo (GMO)	International Intrinsic Value
January 2008 to present	Leith Wheeler Investment Counsel Ltd,	Constrained Bond

*reflects the merger of Barclays and BlackRock; effective December 1, 2009. The Canadian firm is now called BlackRock Asset Management Canada Limited.

Investment objective

High total return. The Fund seeks to achieve its objective by outperforming its benchmark.

Principal investment strategies

The Fund typically makes equity investments in companies from developed countries, other than the U.S.

The Manager relies principally on proprietary quantitative models to evaluate and select individual stocks, countries, and currencies. In addition, the Manager may, on occasion, employ fundamental investment techniques in selecting stocks, countries, and currencies for the portfolio.

In selecting stocks for the portfolio, the Manager seeks to identify stocks it believes (i) are undervalued (generally, stocks trading at prices below what the Manager believes to be their fundamental value), (ii) have improving fundamentals, and/or (iii) have positive market sentiment. The Manager uses momentum measures to evaluate stocks that have been prescreened for value characteristics. In selecting countries in which to invest and determining the Fund's currency exposures, the Manager considers many factors, which may include aggregate stock market valuations, global competitiveness, market rebound potential, and market sentiment.

The Manager also uses proprietary techniques to adjust the composition of the portfolio for other factors such as position size, country, industry and sector weights, and market capitalization. The factors considered and the models used by the Manager may change over time.

The Fund generally seeks to be fully invested and normally does not take temporary defensive positions through investment in cash and cash equivalents. To the extent the Fund takes temporary defensive positions, it may not achieve its investment objective. In pursuing its investment objective, the Fund may (but is not obligated to) use a wide variety of exchange-traded and over-the-counter derivatives, including options, futures, and swap contracts, to (i) hedge equity exposure; (ii) replace direct investing (e.g., creating equity exposure through the use of futures contracts or other types of derivatives); (iii) manage risk by implementing shifts in investment exposure; and/or (iv) adjust its foreign currency exposure. The Fund's foreign currency exposure may differ from the currency exposure represented by its equity investments. In addition, the Fund may take active overweighted and underweighted positions in particular currencies relative to its benchmark.

Benchmark

The Fund's benchmark is the S&P/Citigroup Primary Market Index ("PMI") Europe, Pacific, Asia Composite ("EPAC") Value Index, an independently maintained and published index composed of those stocks in the EPAC regions of the PMI that have a

value style. The PMI is the large-capitalization stock component of the S&P/Citigroup Broad Market Index ("BMI") (which includes listed shares of companies from developed and emerging countries with total available market capitalization (float) of at least the local equivalent of \$100 million), representing the top 80% of available market capitalization (float) of the BMI in each country. On an annualized basis, the Fund seeks to outperform its benchmark by 3%, net of fees, over a complete market cycle.

Principal risks of investing in the Fund

The value of the Fund's shares changes with the value of the Fund's investments. Many factors can affect this value, and you may lose money by investing in the Fund. Following is a brief summary of the principal risks of an investment in the Fund. For a more complete discussion of these risks, see "Description of Principal Risks."

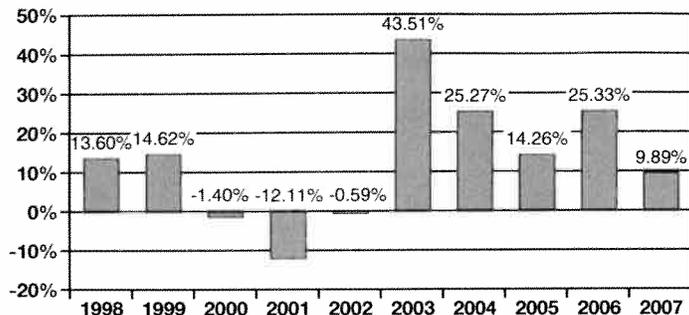
- *Market Risk – Equity Securities* – Equity securities may decline in value due to factors affecting the issuing companies, their industries, or the economy and equity markets generally. The Fund does not attempt to time the market. As a result, declines in stock market prices in general over short or extended periods can result in declines in the value of the Fund's investments.
- *Foreign Investment Risk* – The market prices of foreign securities may fluctuate more rapidly and to a greater extent than those of U.S. securities. Foreign markets may be less stable, smaller, less liquid, and less regulated, and the cost of trading in those markets may be higher than in U.S. markets. Changes in investment, capital, or exchange control regulations may adversely affect the value of the Fund's foreign investments.
- *Currency Risk* – Fluctuations in exchange rates may adversely affect the U.S. dollar value of the Fund's foreign currency holdings and investments denominated in foreign currencies.
- *Market Risk – Value Securities* – The Fund purchases some equity securities at prices below what the Manager believes to be their fundamental value. The Fund bears the risk that the market may not recognize the value of such securities while they are held by the Fund. Thus, the prices of these securities may decline or the securities may fail to deliver the return that the Manager anticipates.

Other principal risks of an investment in the Fund include *Derivatives Risk* (use of derivatives by the Fund may involve risks different from, or potentially greater than, risks associated with direct investments in securities and other investments by the Fund), *Credit and Counterparty Risk* (risk of default of a derivatives counterparty or borrower of the Fund's securities), and *Smaller Company Risk* (greater price fluctuations and liquidity risk resulting from investments in companies with smaller market capitalizations).

Performance

The bar chart and table below provide some indication of the risks of investing in the Fund by showing changes in the Fund's annual total returns from year to year for the periods shown, and by comparing the Fund's average annual total returns for different calendar periods with those of a broad-based index. After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on your tax situation and may differ from those shown, and after-tax returns shown are not relevant if you are tax-exempt or if you hold your Fund shares through tax-deferred arrangements (such as a 401(k) plan or individual retirement account). After-tax returns are shown for Class III shares only; after-tax returns for other classes will vary. Performance results in the table reflect payment of Fund expenses; returns for the comparative indices do not reflect payment of any fees, expenses, or taxes. Past performance (before and after taxes) is not an indication of future performance.

Annual Total Return/Class III Shares
Years Ending December 31



Highest Quarter: 21.54% (2Q2003)
Lowest Quarter: -15.14% (3Q1998)
Year-to-Date (as of 3/31/08): -8.16%

Average Annual Total Returns
Periods Ending December 31, 2007

	1 Year	5 Years	10 Years	Incept.
Class II				9/26/96
Return Before Taxes	9.84%	23.04%	12.15%	11.35%
S&P/Citigroup PMI EPAC Value Index ^a	12.52%	23.95%	10.84%	10.11%
MSCI EAFE Index ^b	11.17%	21.59%	8.66%	8.02%
Class III				3/31/87
Return Before Taxes	9.89%	23.12%	12.24%	11.04%
Return After Taxes on Distributions	7.34%	21.78%	10.53%	9.20%
Return After Taxes on Distributions and Sale of Fund Shares	9.42%	20.44%	10.08%	8.93%
S&P/Citigroup PMI EPAC Value Index ^a	12.52%	23.95%	10.84%	N/A
MSCI EAFE Index ^b	11.17%	21.59%	8.66%	7.23%
Class IV				1/9/98
Return Before Taxes	9.95%	23.19%	N/A	12.65%
S&P/Citigroup PMI EPAC Value Index ^a	12.52%	23.95%	N/A	11.18%
MSCI EAFE Index ^b	11.17%	21.59%	N/A	8.98%

^a Fund's benchmark.

^b The MSCI EAFE Index (Europe, Australasia, and Far East) is a large capitalization international stock index that is independently maintained and published by Morgan Stanley Capital International.

Fees and expenses

The table below shows, for each class of shares, the expected cost of investing in the Fund.

Annual Fund operating expenses

(expenses that are paid from Fund assets as a percentage of average daily net assets)

	Class II	Class III	Class IV
Management fee	0.50% ¹	0.50% ¹	0.50% ¹
Shareholder service fee	0.22%	0.15%	0.09%
Other expenses	0.05% ²	0.05% ²	0.05% ²
Total annual operating expenses	0.77%	0.70%	0.64%
Expense reimbursement	(0.05%) ³	(0.05%) ³	(0.05%) ³
Net annual expenses	0.72%	0.65%	0.59%

¹ Effective June 30, 2008, the Fund's management fee was reduced from 0.54% to 0.50%. The amounts set forth above have been restated to reflect the new management fee.

² "Other expenses" do not include expenses associated with investments in the securities of unaffiliated issuer unless such issuers hold themselves out to be investment companies.

³ The Manager has contractually agreed to reimburse the Fund through at least June 30, 2009 to the extent the Fund's total annual operating expenses (excluding shareholder service fees, investment-related costs, and other expenses described on page 100 of this Prospectus) exceed 0.50% of the Fund's average daily net assets.

Example

This example helps you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The example assumes that you invest \$10,000 in the Fund for the time periods indicated, regardless of whether or not you redeem your shares at the end of such periods. The example also assumes that your investment has a 5% return each year, that the Fund's operating expenses remain the same as those shown in the table, and that all dividends and distributions are reinvested. Your actual costs may be higher or lower.

	1 Year*	3 Years	5 Years	10 Years
Class II	\$74	\$241	\$423	\$949
Class III	\$66	\$219	\$385	\$866
Class IV	\$60	\$200	\$352	\$794

* After reimbursement