WorkplaceNL

Health | Safety | Compensation

Policy Number: **IF-03**
Subject: **Long-term Investments**
Chapter: **Injury Fund and Reserves**

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## Policy Statement

WorkplaceNL administers a variety of programs designed to assist both injured workers and employers within the Province of Newfoundland and Labrador. Accordingly, WorkplaceNL has accumulated, over the years, a fund (the Injury Fund) to pay benefits to injured workers. The fund assets serve as security that awarded benefits will be met and are, in effect, held in trust for injured workers and employers.

The Injury Fund consists of an investment portfolio which is a key component of WorkplaceNL's funding strategy. The returns earned on WorkplaceNL's investment portfolio over the long term will have an impact on the funding of the liabilities, and ultimately on the annual assessment rates levied by WorkplaceNL. WorkplaceNL's goal is to ensure that the assets of the Injury Fund, together with expected investment returns and contributions, are invested in a prudent manner to meet existing and future liabilities of the workers' compensation system in the province.

## Overview of the Liabilities of the Injury Fund

The liabilities of the Injury Fund consist of the following major categories:

1. **Long-term Disability**
   This category of benefits includes the liability for capitalized and outstanding pre-1984 disability life pension awards, capitalized and outstanding extended earnings loss awards generally for workers up to the age of 65, who are determined to have a loss of earnings capacity and permanent functional impairment awards. It also includes replacement of lost pensions benefits (PRB) (Canada Pension Plan, Quebec Pension Plan or Employer Sponsored Registered Pension Plan) for the workers who demonstrate a pension loss as a result of their work-related injury, and retirement benefits, which replaced the PRB effective January 1, 2019. The liability for PRBs and capitalized pre-1984 disabilities is expected to gradually decline over the long term since those programs are essentially closed to new entrants. Benefits are awarded from time to time for previously inactive pre-1984 injury claims. Permanent functional impairment recognizes non-economic loss, as opposed to loss of earnings capacity and is based on measurable loss of bodily function. Long-term disability benefits are fully indexed to the annual change in the Consumer Price Index for Canada.

2. **Survivor Benefits**
   These liabilities are long term in nature and include monthly payments to surviving spouses and dependent children of workers who have died as a result of a compensable injury or illness. These payments may be indexed to the annual change in the Consumer Price Index for Canada at the discretion of the Board of Directors.

3. **Short-term Disability**
   These liabilities are short term in nature and include payments for temporary earnings loss. Short-term disability payments are not indexed.

4. **Health Care**
   This category includes various types of expenditures for health care services, supplies, equipment and other support required by injured workers which are provided both in the short term and long term depending on the nature of the injury. Health care benefits costs increase with the overall price increase of these services.

5. **Return to Work Programs**
   This liability is in relation to Early and Safe Return to Work and Labour Market Re-entry programs. These programs are expected to be short term in nature and the liability will increase in line with increases in prices for these services.

6. **Future Administration**
   This liability is to provide for the management of claims over the life of the claims.

## Investment Objectives

The Injury Fund assets will be managed on a going concern basis, with the primary objective of maximizing returns at an acceptable level of risk. Rate of return expectations have been formulated based on a normal equilibrium capital market environment by reference to long-term historical returns, tempered by current market conditions.

## Investment Strategy

1. **Asset Mix Policy**
   An evaluation of the potential impact of alternative policy mixes on the Injury Fund's objectives has been conducted, considering the nature and characteristics of the liabilities. The following policy mix, acceptable drift ranges and benchmarks have been adopted:

| Asset Class | Policy Mix | Drift Range | Benchmark |
|---|---|---|---|
| Canadian Fixed Income | 20% | ±5% | FTSE Canada Universe Bond Index |
| Mortgages | 5% | ±2.5% | FTSE Canada Short Term Bond Index |
| High Yield Fixed Income | 5% | ±2.5% | ICE BofA High Yield Constrained Index |
| Canadian Equity | 15% | ±5% | Standard and Poor's/Toronto Stock Exchange (S&P/TSX) Composite Index |
| All Country Equity | 35% | ±5% | Morgan Stanley Capital International<br>All Country World (MSCI AWCI) Index (CAD) (NET) |
| Global Direct Infrastructure<br><br>Global Listed Infrastructure[1] | 10% | ±5% | CPI + 4%<br><br>Dow Jones Brookfield Global Listed Infrastructure Index (Net) |
| Canadian Direct Real Estate | 7.5% | ±2.5% | REALPAC/Investment Property Databank (IPD) Canada Quarterly Index |
| Global Direct Real Estate | 2.5% | ±2.5% | CPI + 3% |

2. **Policy Benchmark**
A policy benchmark constitutes a "neutral position" that is representative of the Injury Fund's long-term risk tolerance. It represents the portfolio that would be used if the Injury Fund were passively[2] managed (i.e., no short-term asset mix movement, no securities selected outside the various indices). The benchmark portfolio also serves as a point of reference for performance evaluation and monitoring of the Injury Fund returns.

3. **Asset Class Guidelines**
The approach to asset classes has been developed by considering investment issues such as balanced versus speciality management, active versus passive management, multiple-managers versus single manager, value-added expectations, costs and risk controls relative to the benchmarks. The strategy for each asset class has been designed to reduce unintended risks relative to the corresponding benchmarks, such as style bias, capitalization bet, persistent sector or country biases and duration bets. These controls, in turn, reduce the

[1] Not part of asset mix but used as an interim measure and to provide liquidity.
[2] It is understood that direct investments in real estate and infrastructure do not have a passive investment alternative and CPI based benchmarks are being used primarily for long term performance evaluation.

volatility of the total fund return relative to the policy return.

The asset mix policy should be followed with minimum application of a market timing approach. The risk arising from erroneous market timing judgements has historically proven to outweigh favourable judgement.

However, market movements will inevitably change the Injury Fund's asset mix. To avoid the potentially onerous cost of immediate rebalancing to the policy mix, the actual asset mix will be permitted to move within the tolerance ranges as stated in item 1) Asset Mix Policy. If the asset mix is found to have moved beyond the tolerance ranges, this will trigger an automatic rebalancing back within the policy limit as soon as reasonably possible.

**4. Risk Management**

Risks are considered at many levels in WorkplaceNL's investment process. Ultimately, the risk management process is designed to mitigate risks that could jeopardize the stated goal of ensuring funds are available to meet existing and future liability obligations.

The central element of WorkplaceNL's risk management strategy is the exercise to determine the optimal asset mix policy. This exercise considers the Injury Fund's current and projected liabilities and assesses the shortfall risk of various asset mixes to determine the optimal policy mix. Risk management processes also consider the diversification of manager types: passive, active, balanced and specialty; and the diversification of management styles: growth and value. The trade-off between risk and return is considered when determining the allocation to an asset class (equity, fixed income or alternative investment), and allocations by manager type or style.

Standard measures of risk will be used to measure total portfolio and individual manager risk against other portfolios in an external universe of fund sponsors. This risk profile will be examined quarterly or as deemed necessary by the Investment Subcommittee.

**5. Investment Constraints**

The investments of the Injury Fund assets are subject to the constraints imposed by the Insurance Companies Act, Part IX Investments.

The use of pooled funds for the purposes of investing is allowable. It will be permitted only if the investment policy of the pooled fund is consistent with this Long-term Investment Policy. It will be incumbent upon the Investment Manager to demonstrate such consistency if requested to do so by the Investment Subcommittee.

## Performance Evaluation

The Injury Fund will be monitored on a regular basis and a comprehensive performance and risk analysis will be reported to the Investment Subcommittee each calendar quarter. The performance review will be conducted at different levels, such as total fund, each asset class and individual managers according to criteria determined by the Investment Subcommittee.

## Securities Lending

The lending of securities on a temporary basis is an accepted practice in the capital markets. The owner of the securities is paid interest for the period of time that the securities are on loan. In the case of segregated funds, the Board of Directors approves that securities of the Injury Fund may be loaned by the custodian provided that:

- The custodian sets individual credit limits per borrower which are reviewed at least annually. In addition, their financial strength, credit rating and reputation are reviewed.
- The loans are secured by cash or readily marketable investments having a market value of at least 105 percent of the market value of the securities loaned.
- The loans are marked to market daily to ensure the collateral continues to have a market value of at least 105 percent of the market value of the loaned assets.
- The securities are not loaned to facilitate a dividend rental arrangement.

## Voting Rights

The Portfolio Managers are delegated the responsibility of exercising all voting rights acquired through the Fund's investments. The Portfolio Managers will exercise acquired voting rights with the intent of fulfilling the investment objectives of the Injury Fund.

In the case of segregated funds, the Board of Directors reserves the right to exercise voting rights on the Injury Fund securities when it is deemed appropriate. When the Portfolio Manager of a segregated fund votes against management on a particular issue, the Portfolio Manager will notify the Investment Subcommittee in writing providing a rationale for voting against management on the particular issue while continuing to hold the investment.

## Conflicts of Interest:

1. **Standard of Care**
   The members of the Board of Directors and its Investment Subcommittee, as well as all agents (fund managers, custodian and consultants) employed by WorkplaceNL, must maintain a standard of prudence and reasonableness in the

management of the Injury Fund. Specific requirements of the members of the Board of Directors are further articulated in the Board Bylaws.

An agent is defined to mean a company, organization, association or individual, as well as its employees, retained by the Board to provide specific services with respect to the administration and management of the Injury Fund.

In carrying out their duties, the Investment Subcommittee must act in the best interest, and for the benefit, of present and future beneficiaries of the Injury Fund. Agents, whose duties to the Investment Subcommittee are mainly contractual, must act with the skill that can reasonably be expected of a person in their professional position. An agent shall not make, influence or participate in the making of any decision, if the effect of such a decision has the potential of furthering the agent's interest or use material information derived from his or her status as agent of WorkplaceNL that has not been generally disclosed, to further the agent's interest.

2. **Disclosure**
   In the execution of their duties, members of the Investment Subcommittee and their agents shall disclose any material ownership of securities, which could impair their ability to render unbiased decisions, as it relates to the administration of the Injury Fund.

   It is incumbent on any party affected by this policy who believes that he or she may have a conflict of interest, or who is aware of any conflict of interest, to notify the Chair of the Investment Subcommittee. Disclosure should be made promptly after the affected person becomes aware of the conflict. The Chair, 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 Investment Subcommittee.

   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.

3. **Related Party Transactions**
   Any agent may enter into a transaction with a related party on behalf of the Injury Fund if the transaction is required for the operation or administration of the Injury Fund and the terms and conditions of the transaction are not less favourable to the Injury Fund than market terms and conditions.

## Valuation and Accounting Policy

The Investment Subcommittee expects that all of the fixed income and equity securities held by the Injury Fund will have an active market and therefore valuation of the securities held by the fund will be based on their market values. The Portfolio Managers will notify the Investment Subcommittee if the market for any investment held by the Injury Fund becomes inactive and provide for the Investment Subcommittee's consideration a method for valuing the affected investment.

For alternative investments for which there is no active market, valuation will be based on WorkplaceNL's proportionate share of the underlying assets.

In accordance with International Financial Reporting Standards (IFRS) all investments are carried at market (fair) value. Gains and losses realized on the disposal of investments, and unrealized gains and losses arising from changes in market value, are recognized as investment income in the year in which they occur. Interest and dividend income are recognized in the period earned.

**References:**
Workplace Health, Safety and Compensation Act, Section 10 and 93.
Insurance Companies Act (Canada), Part IX – Investments Sections 492 to 504 and 506 to 514.
Policy IF-01 Long-term Financial Strategy
Procedure 230 Rebalancing

**Amendment History:**

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