

Hamilton Township Mutual Insurance Company

Investment Policy

January 2018

SCHEDULE A – INVESTMENT POLICY STATEMENT

CLIENT NAME: Hamilton Township Mutual Insurance Company

INTRODUCTION: This investment and lending policy defines objectives, standards, responsibilities, and accountabilities for the HTM Insurance Company portfolio of investments.

HTM Insurance Company is incorporated by letters of patent without share capital under the laws of the Province of Ontario. The corporation is a property and casualty insurer operating in Cobourg, Ontario. The Company writes business in three lines of business which are auto, property and liability. The premiums charged in aggregate together with investment income attributable to unpaid claims are expected to cover claims cost, underwriting and acquisition costs and general expenses. The average time to settle claim liabilities is approximately 1 ¼ years for property claims, 5 years for auto claims and 7 years for liability claims. Given the relative weights of the liabilities the overall average time to settle is approximately 3 years.

In addition to providing investment income, the investment fund must be sufficiently liquid to support annual cash flow fluctuations and cash demands following catastrophic losses.

LEGAL AND REGULATORY REQUIREMENTS: By law, the board of directors of an insurer is required to establish investment and lending policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments and loans to avoid undue risk of loss and obtain a reasonable return. The insurer is required to adhere to the investment and lending policies, standards and procedures and comply with the statutory investment limits set out in the applicable legislation.

The directors of the insurer must review the insurer's Investment and Lending Policies and Standards at least once a year and make such revisions as may be necessary to ensure that the investment policies and standards satisfy the prudent person standard.

Superintendent's guideline No. 1/02 requires the board of directors or a subcommittee appointed by the board to approve the investment and lending policies and standards at least once a year.

SCOPE: The Investment and Lending Policy applies to financial assets held for trading and classified as investments in the company's financial statements. The policy does not apply to nominal loans to employees or guarantees or collateralization of a third party's financial liability.

MANDATE: Balanced

INVESTMENT OBJECTIVE:

1. The primary objective is to preserve surplus while maximizing investment return, subject to the company risk profile as outlined in the policy portfolio;

2. Achieve an average real rate of return of 3 per cent per annum or greater over 5 years after all investment costs;
3. Provide liquidity to support annual cash flow fluctuations and cash demands following catastrophic losses;
4. Manage risk consistent with the company's risk appetite, capitalization and liability structure.

RISK MANAGEMENT: Exposure to market risk is managed through asset mix table. Exposure to a person, group of associated persons, or industry segment is managed through concentration guidelines.

ASSET MIX & PERFORMANCE BENCHMARK:

The board of directors has adopted the asset mix (Policy Portfolio) shown below with target weights and ranges as indicated.

The policy portfolio is a market exposure to benchmark returns of approved asset classes in the approved weightings. This market exposure will be achieved using external managers employing active management strategies. Over the long term, this asset mix is expected to generate at minimum the required rate of return within the approved risk tolerance and liquidity.

Asset Class	Min	Target	Max	Benchmark
Cash & Short Term Securities	0%	5%	10%	FTSE TMX Canada 60 Day T-Bill Index
Fixed Income	55%	65%	85%	FTSE TMX Canada Short-Mid Blend Index
Total Equities	10%	25%	30%	
Canadian Equities	10%	20%	30%	S&P/TSX Composite Index
U.S. Equities	0%	5%	10%	S&P 500 Index (C\$)
International Equities	0%	0%	0%	MSCI EAFE Index (C\$)
Alternative Investments	0%	5%	10%	FTSE TMX 91-Day T-Bill Index + 5%

APPROVED INVESTMENTS:

Cash and Short Term Securities

The Manager will invest in cash and short-term securities deemed appropriate for this portfolio including but not limited to:

- Treasury Bills and other securities issued or guaranteed by the federal government, provinces or municipalities of Canada, including their agencies and crown corporations.
- Banker's Acceptances and other bank and trust company obligations or deposits.
- Corporate and asset backed commercial paper.
- Other fixed income securities deemed appropriate as fixed income investments with an effective term to maturity of less than 365 days. For Floating Rate Notes (FRNs) the next reset date is deemed to be the final maturity date.

Fixed Income Securities

The Manager will invest in fixed income securities deemed appropriate for this portfolio including but not limited to:

- Securities issued or guaranteed by the federal government, provinces or municipalities of Canada, including their agencies and crown corporations.
- Investment grade corporate bonds.
- Mortgage and other Asset backed securities.
- Investment grade foreign issued Canadian pay securities.
- Fixed Income securities with an effective term to maturity of less than 365 days will remain fixed income securities for asset mix purposes. Floating Rate Notes (FRNs) will also be considered fixed income securities, with the next reset date deemed to be the final maturity date.

Equity Securities

The Manager will invest in equity securities deemed appropriate for this portfolio including but not limited to:

- Common and preferred shares listed on a recognized stock exchange in Canada and/or the United States.
- Preferred shares with a minimum credit rating of Pfd-3 by DBRS, or equivalent.
- Income trusts.
- Rights, Subscription Receipts, Warrants and IPO's to be listed on a recognized stock exchange in Canada and/or the United States.

Other Securities

- Funds which invest primarily in the Approved Investments described above, including pooled and mutual funds, including those related to Scotia Institutional Asset Management, and exchange-traded funds/index participations units.

In the case of rapidly fluctuating markets, market forces may cause an asset class to move outside of its permitted range. In such cases the manager may use its discretion in adjusting back to with the established limits but in any case this must be completed by the following month end.

QUALITATIVE & QUANTITATIVE RESTRICTIONS

Fixed Income (including Cash and Money Market)

- Minimum credit rating on any security is BBB(low) or R-1(low) by DBRS, or equivalent, however a maximum of 10% of the market value of the portfolio may be invested in fixed income securities with credit rating below BBB(low).
- Maximum exposure to any single non-government issuer is limited to 10% of the market value of the portfolio.
- Maximum exposure to non-government securities is limited to 45% of the total market value of the portfolio.
- Maximum exposure to Municipal securities is 30%.

- At least 15% of debt instruments owned by the fund shall be issued by the Government of Canada up to a maximum of 80%.
- At least 25% of debt instruments owned by the fund shall be issued by a Province of Canada up to a maximum of 80%.
- Use of derivative instruments is permitted.

The responsible Investment Manager will determine a response in consultation with the Board (“Exception Disposition Plan”) should an existing investment fail to meet the approved asset criteria due to revision of the approved and prohibited asset classes, rating downgrade, cessation of trading, or similar event changing eligibility. The response could be to continue to hold the investment on an exception basis or to dispose of the investment as soon as market conditions permit reasonable realization of the value.

VOTING RIGHTS: Voting rights are delegated to the investment manager and shall be made in the interest of the fund and its beneficiaries.

LIQUIDITY: Securities held in the investment portfolio must be sufficiently liquid to meet seasonal and special demands on cash. Securities that are publicly traded and meet minimum size and trading requirements established for the FTSE TMX Canada Short/Mid Term Blend Bond Index or the S&P/TSX Composite Index are considered sufficiently liquid.

CONCENTRATION: The aggregate market value of all investments in a single non-government entity may not exceed 10% of the investment portfolio market value.

MATURITY PROFILE: Because the overall time to settle claim liabilities is short (see “introduction”), fixed income maturity profiles are not structured to fund the payment of claim liabilities. Duration and liquidity are managed to ensure funds are available to support annual cash flow fluctuations and cash demands following catastrophic losses.

STRATEGIC EXCEPTIONS: Investment may be made in assets that do not meet criteria specified above for strategic reasons providing the investment is approved by the board of directors. This includes an investment in a pooled fund that is not structured consistent with policy portfolio. This does not include temporary holdings resulting from a revision of the approved and prohibited asset classes, rating downgrade, cessation of trading, or similar event changing eligibility.

RESPONSIBILITIES:

Board of Directors: The Board of Directors is responsible for establishing investment and lending policies, standards, and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments and loans to avoid undue risk of loss and obtain a reasonable return. The Board

of Directors is also responsible for reviewing, accepting or amending and approving the investment and lending policies, standards, and procedures at least once each year.

The Board of Directors must approve in advance and annually thereafter all investments that do not meet criteria specified in "Policy Portfolio" above other than temporary holdings resulting from a revision of the approved and prohibited asset classes, rating downgrade, cessation of trading, or similar event changing eligibility.

The Board of Directors must approve Rebalancing Plans and Exception Disposition Plans proposed by investment managers.

Investment Committee: The Investment Committee assists the Board of Directors in monitoring (1) whether the company has adopted and adhered to a rational and prudent investment policy, (2) whether the company's investment actions are consistent with the investment policy; (3) the company's compliance with legal and regulatory requirements pertaining to investment management; (4) the competence, performance, and compensation of the company's external investment managers; and (5) such other matters as the Board or Committee deems appropriate. The Investment committee will make regular reports to the Board of Directors on the committee's activities.

The investment committee is not responsible for making operational decisions with respect to market timing, sector rotation, or security selection. These are responsibilities of the Investment managers.

Investment Managers: Investment Managers are responsible for discretionary and active management of allocated funds consistent with the investment and lending policy. Investment Managers will report to the Company with regards to compliance on a quarterly basis.

Custodianship: Procedures ensure that individuals responsible for making investment decisions are not responsible for maintaining custody of any securities acquired pursuant to those investment decisions. Procedures also ensure as far as practical the different persons are responsible for (i) disbursing and receiving funds and (ii) reviewing and retaining records relating to transactions authorized by the individuals responsible for making investment decisions.

Marketable investment securities, other than securities under the control of the government or pledged as collateral for the indebtedness or potential indebtedness of the company, must be securely held in a manner that prevents unauthorized access in the custody of an entity that is authorized to act as a custodian of securities or as a depository or clearing agency for securities under the laws of Canada or Ontario.

The custodial services, authorities, and responsibilities must be defined in a written agreement executed between the company and the service providers. The custodian must hold all property inside the province of Ontario.

The custodial services must maintain appropriate records of investment holdings and investment transactions and provide written statements to the company on a monthly basis.

CONFLICT OF INTEREST: Members of the Board of Directors and Investment Committee and appointed investment managers must disclose in writing on a timely basis the nature and intent of any conflict of interest in any investment.

A conflict of interest exists if a person has an interest of sufficient substance and proximity to his or her duties and powers with respect to investment decisions to impair his or her ability to provide unbiased advice or to make unbiased decisions with respect to investment policy, decisions or transactions.

AUTHORIZATION

(Number and position as per paragraph 4 of Certified Resolution):

Dated this 13th day of February, 2018.

This Investment Policy Statement is accepted by:

CLIENT NAME <u>Alec Hamner</u>	SIGNATURE 
CLIENT NAME <u>Terrye Calnan</u>	SIGNATURE 
1832 ASSET MANAGEMENT L.P.	SIGNATURE

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