Financial Services Commission of Ontario

Commission des services financiers de l'Ontario

Ontario

2017 Report Ontario Pension Plan Filings of Statement of Investment Policies and Procedures Information Summaries

Table of Contents

Executive Summary

A statement of investment policies and procedures (SIPP) sets out the key investment policies and procedures for a pension plan. Under Ontario pension regulations, each pension plan is required to establish a SIPP.

As of January 1, 2016, administrators of Ontario-registered pension plans were required to file their SIPPs with the Financial Services Commission of Ontario (FSCO), and must also file SIPP amendments. Each SIPP filing must be accompanied by a SIPP Information Summary, known as Form 14, which provides FSCO with key policy parameters from each plan's SIPP. It also serves as a checklist for the administrator to ensure the plan complies with regulatory requirements.

FSCO gathers and aggregates information on industry investment practices from the Form 14s filed by Ontario pension plans for risk monitoring purposes and to share with Ontario pension stakeholders. This report has been prepared to share this aggregate data with stakeholders. It contains data from the 6,300 SIPPs that were filed with FSCO by July 31, 2016.

Key findings from the report are as follows:

1. SIPP filing compliance was high among jointly sponsored pension plans (100%) and multi-employer pension plans (96%), and relatively lower among single-employer pension plans (83%) and individual pension plans (77%). Since July 2016, many more plans have filed their SIPPs, bringing compliance up to 94% for all pension plans."

2. While FSCO estimates a significant number of pension plans may not have established a SIPP prior to 2016, the mandatory requirement to file SIPPs with the regulator may have led to more plans doing so.

3. For defined benefit plans, the median[1] expected ROR as reported on a real basis (adjusted for inflation) was 3.5%, while the median expected ROR reported on a nominal basis (not adjusted for inflation) was 7.5%.The smallest plans (those under $10 million in assets) reported on average a higher expected nominal ROR than the

[1] The "median" refers to the middle point of a number set, in which half the numbers are above the median and half are below. While an average is a popular measure of a mid-point in a sample, it has the disadvantage of being affected by any single value being too high or too low compared to the rest of the sample. This report relies on the median measure, as it reduces any distortions caused by outliers.

largest pension plans (those with assets greater than $1 billion). The difference was as high as 137 basis points.

4. 25% of defined benefit (DB) plans and 10% of member-directed defined contribution (DC) plans require the plan administrator to monitor investment manager performance on a quarterly or more frequent basis. Most SIPPs indicated that investment performance must be monitored “on at least an annual basis”.

5. Most member-directed DC plans indicated they had adopted content for their SIPPs consistent with the suggested content set out in FSCO’s Investment Guidance Notes: Statements of Investment Policies and Procedures (SIPPs) for Member-Directed Defined Contribution Plans.

6. The median number of investment funds offered in member-directed DC plans was between 20 and 25 funds. The most common default option for member-directed DC plans was a life cycle or target date fund.

7. 36% of SIPPs indicated that the pension plan incorporates ESG factors. ESG incorporation was highest for larger plans (over $1 billion in assets) at 67%.

Details are provided in this report.

Background

A statement of investment policies and procedures (SIPP) is defined in Regulation 909 as a document that contains information about investment policies and procedures in respect of a plan's portfolio of investments and loans. Under section 78(1) of Regulation 909 established under the Pension Benefits Act (PBA), the administrator of a pension plan is required to establish a statement of investment policies and procedures for the plan that meets the requirements of the federal investment regulations, as modified in sections 47.8 and 79 of Regulation 909.[2]

A SIPP must outline key investment policies and procedures for the pension fund and meet minimum requirements set out in the Regulations. The SIPP may serve as the plan's sole investment policy statement, as is the case for many pension plans. Alternatively, a plan may establish a SIPP intended to simply meet the prescribed content requirements, and establish a separate policy document or documents that serve(s) as the plan's more detailed investment policy statement.

Effective January 1, 2016, administrators of Ontario registered pension plans were required to file their SIPPs and SIPP amendments with FSCO according to the following deadlines:

- For plans registered before January 1, 2016, the SIPP had to be filed by March 1, 2016.
- For new plans registered on or after January 1, 2016, the SIPP must be filed within 60 days after plan registration.
- Amendments to a SIPP must be filed within 60 days after the date the amendment is made.

FSCO requires the SIPP to be filed online through its Pension Services Portal, together with a SIPP Information Summary (Form 14). Form 14 provides FSCO with key policy parameters from each plan's SIPP and serves as a checklist for the administrator to ensure the plan complies with Regulation 909, including the federal investment regulations as incorporated therein. Form 14 also enables FSCO to gather and aggregate information on industry investment practices for risk monitoring purposes, and to share this information with Ontario pension stakeholders.

[2] The federal investment regulations are defined in section 66 of Regulation 909 as sections 6, 7, 7.1 and 7.2 and Schedule III to the Federal Pension Benefits Standards Regulations, 1985 (PBSR) made under the Pension Benefits Standards Act, 1985 (Canada) as they may be amended from time to time. The FIR are incorporated by reference in sections 78 and 79 of Regulation 909.

Accordingly, FSCO has prepared this report containing aggregate data from the Form 14s filed by 6,300 Ontario pension plans between January 1, 2016 and July 31, 2016. This report contains aggregate information only.

Note: The information contained in this report is based on the Form 14 filed with each SIPP. The administrator is responsible for completing Form 14 in a manner that accurately reflects the actual SIPP.

Filing Compliance

As of the end of July 2016, 6,300 Ontario pension plans had filed their SIPPs, representing a compliance rate of approximately 82%; at that date, there were 7,701 Ontario pension plans. (As of June 2017, 7359 plans had filed their SIPP, bringing total filing compliance up to 94% for all plans. The data from these later filings, however, are not captured in this report.)

The following table shows the level of compliance by plan type as at July 2016, which, for purposes of this report, includes: single employer pension plan (SEPP), multi-employer pension plan (MEPP), individual pension plan (IPP), and jointly sponsored pension plan JSPP). Filing compliance was especially high among JSPPs (100%) and MEPPs (96%), while SEPPs and IPPs lagged behind at 83% and 77% respectively.

Breakdown by plan type	No. of plans filing SIPP	No. of Non-filers	Total	Compliance (%)
SEPP	4,856	1,000	5,856	83%
MEPP	118	5	123	96%
IPP	1,316	396	1,712	77%
JSPP	10	0	10	100%
Total	**6,300**	**1,401**	**7,701**	**82%**

The following table shows that larger pension plans (as defined by asset size) were more likely to have filed their SIPPs. By July 31, 2016, all plans with more than $1 billion in assets had filed their SIPPs. There was a reasonably high level of compliance among plans in the $100 million to $1 billion range (98%) and in the $10 million to $100 million range (95%). In contrast, only 81% of plans under $10 million had filed their SIPPs by the end of July 2016.

Breakdown by asset size	No. of plans filing SIPP	No. of non-filers	Total	Compliance (%)
Under $10M	4,920	1,158	6,078	81%
$10M to $100M	1,001	57	1,058	95%
$100M to $1B	331	8	339	98%
Over $1B	48	-	48	100%
Total	**6,300**	1,401	7,701	82%

Regulation 909 made no exemption for SIPPs based on plan status (e.g., active, winding up, deregistered, etc.). Accordingly, FSCO expects SIPPs to be filed by plans even if they are in the process of winding up (i.e., closing the plan). The following table shows the level of SIPP filing compliance by plan status.[3] As can be seen from the table, compliance is generally strong, with the exception of plans with “wind up” status. FSCO has communicated to the industry its position that plans in wind up are still expected to file their SIPP and Form 14 with FSCO.

Breakdown by plan status	No. of plans filing SIPP	No. of non-filers	Total	Compliance (%)
Active	5,647	838	6,485	87%
Deregistered	7	0	7	100%
Funds in existence	416	40	456	91%
Insolvency windup	53	0	53	100%
Pending registration	5	13	18	28%
Wind up	172	510	682	25%
Total	**6,300**	**1,401**	**7,701**	**82%**

[3] As defined by FSCO and used in its Pension Data System.

Benefit Provisions Covered by SIPPs

Section 78 of the PBA envisions that each pension plan may only have one SIPP, even though the plan may have more than one type of benefit provision (e.g., defined benefit, defined contribution). While prior to January 1, 2016, pension plans may have had separate SIPPs for each provision, FSCO has required such plans to consolidate their SIPP documents into a single SIPP.[4] Similarly, the SIPP is expected to cover all pension plan benefit provisions.

Form 14 requires administrators to indicate the type of benefit provisions covered by the SIPP, which can include defined benefit (DB) provisions, member-directed defined contribution (DC) provisions, and administrator-directed DC provisions.

A DC plan or provision is "member-directed" where members make investment choices for their individual accounts. A DC plan or provision is considered "administrator-directed" where all investment choices pertaining to the individual accounts are made by the administrator.

Aggregate Benefit Provision Data

The following table shows the total number of DB provisions, member-directed DC provisions, and administrator-directed DC provisions among all plans and their SIPPs covered by this report. The total number of DB provisions exceeds the total number of DC provisions by 4.3%. A very small percentage of plan provisions (2.3%) were administrator-directed DC provisions.

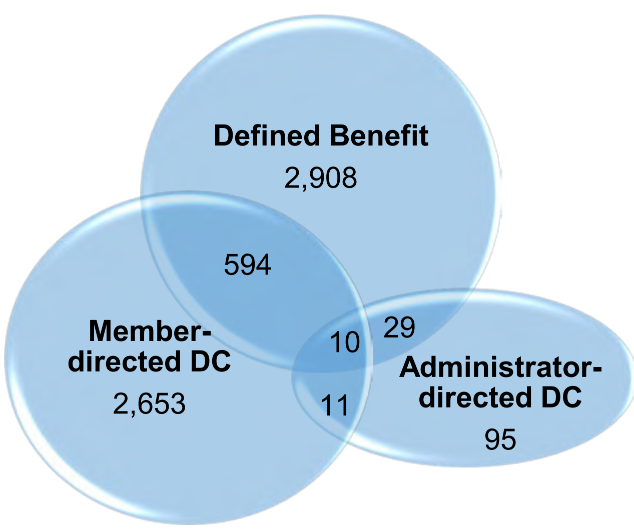
Benefit provisions covered in the SIPP	No. of plans/SIPPs	% of plans/SIPPs
Defined benefit (DB) provision	3,541	56.2%
Member-directed DC provision	3,268	51.9%
Administrator-directed DC provisions	145	2.3%

[4] See FSCO's Investment Guidance Note: Overview of Statements of Investment Policies and Procedures (SIPP) Requirements

The following table shows the allocation of benefit provisions by plan. Some plans had only one type of benefit provisions (as shown in the first three rows), while others had a combination of benefit provisions (shown in the final four rows).

Plan provisions covered by SIPP	No. of plans	% of total plans
1. Defined Benefit (DB) only	2,908	46.2%
2. Member-directed defined contribution (Member DC) only	2,653	42.1%
3. Administrator-directed defined contribution (Administrator DC) only	95	1.5%
4. DB and Member DC	594	9.4%
5. DB and Administrator DC	29	0.5%
6. Member DC and Administrator DC	11	0.2%
7. All (DB, Member DC, and Administrator DC)	10	0.2%
Total	**6,300**	**100%**

The following graph illustrates the above data, including the number of plans that have more than one type of benefit provision. For example, 2,908 plans indicated they have only a DB provision, while 594 plans indicated they have both a DB provision and member-directed DC provision.



Defined Benefit (DB) Provisions

The content requirements for DB SIPPs are set out in pension legislation, and include key investment parameters such as categories of permitted investments and loans, the expected rate of return, the asset allocation policy, and a policy on related parties, among others. This section of the report summarizes the key policy parameters, based on data from the SIPPs of 3,541 pension plans that reported having a defined benefit provision.

Expected Rate of Return

50% of DB provisions have established an expected rate of return (ROR) based on a real ROR, while approximately 17% provisions use a nominal ROR measure.[5] The remaining 32.5% of SIPPs used some other ROR measure, typically a benchmark based on the plan's policy asset mix. The remaining analysis in this section excludes the "other" ROR measures, as there are challenges in comparing the different measures.

For plans that expressed expected ROR on a real basis, the median expected ROR was 3.5%; for plans that expressed expected ROR on a nominal basis, the median expected ROR was 7.5%. There was a notable 4% difference between the two measures.

Performance measures	No. of plans	Median expected ROR	As a % of total number of plans
Nominal rate of return	595	7.50%	16.8%
Real rate of return	1,795	3.50%	50.7%
Other measure used	1,151	N/A	32.5%
Total	**3541**	**4.0%**	**100.0%**

[5] Rates of return (ROR) on investments can be expressed in two ways: as nominal ROR or real ROR. The difference is nominal ROR is not adjusted for inflation, while real ROR is adjusted. As a result, nominal ROR is almost always higher than real ROR, except during those rare periods when deflation, or negative inflation, takes hold.

The table below shows that the smallest plans (those under $10 million in assets) reported the highest ROR on a nominal basis. However, the expected ROR did not vary significantly by plan size where a real expected ROR was used.

Performance measures by asset size	Nominal Expected ROR		Real Expected ROR	
	No. of plans	Median	No. of plans	Median
Under $10M	466	7.50%	1,463	3.50%
$10M to $100M	66	5.75%	233	3.75%
$100M to $1B	53	6.00%	82	3.50%
Over $1B	10	6.13%	17	3.50%
Total	**595**	**7.50%**	**1,795**	**3.50%**

When expressing ROR expectations in their SIPPs, plans also indicate the number of years over which the return is to be measured. The following table shows the median years for both the nominal and real ROR categories. The total median number of years reported was 5 years for plans giving both a nominal or real expected ROR.

Performance measures	No. of plans	Median number of years over which ROR is measured
Nominal rate of return	595	6.0
Real rate of return	1,795	5.0
Other	1,151	N/A
Total	3,541	5.0

Monitoring Investment Performance

Most SIPPs (65%) require the administrator to monitor investment manager performance at least once per year. Approximately 25% required the administrator to monitor manager performance more frequently: monthly, quarterly, or three times a year. Approximately 5% of all DB plans did not specify the frequency of monitoring in their SIPPs.

Frequency for monitoring manager performance	No. of DB plans	As a % of total DB plans	Under $10M	$10M to $100M	$100M to $1B	Over $1B
Once or at least once a year	2,309	65.2%	72%	52%	42%	21%
Semi-Annual	175	4.9%	3%	11%	8%	4%
Triannual	11	0.3%	0%	0%	2%	2%
Quarterly	831	23.5%	20%	29%	40%	30%
Monthly	31	0.9%	1%	0%	1%	2%
Not specified or other	184	5.2%	4%	7%	7%	40%
Total	**3541**	**100%**	**100%**	**100%**	**100%**	**100%**

Permitted Asset Classes

There are a wide variety of assets classes (i.e., types of investment categories) in which pension plans can invest. The plan's SIPP is required to specify the asset classes in which it is authorized to invest.

The following table shows the number of DB SIPPs that permit investment in each of the listed asset classes. The percentage of plans invested in each asset class is also provided.

Asset Class	No. of DB plans invested in asset classes	As a % of total DB plans
Fixed Income	3,270	92%
Public Equities	3,178	90%
Cash and Cash Equivalent	2,626	74.2%
Other Asset Categories	691	19.5%
Alternatives	533	15.1%
Real Estate	424	12.0%
Balanced Portfolio	218	6.2%
Hedge Funds	97	2.7%
Infrastructure	68	1.9%
Private Equities	45	1.3%
Real Assets	32	0.9%
Venture Capital	-	0.0%

Related Party Transactions

In the pension plan context, the term “related party” refers to a person that has some significant level of control or influence over the pension plan. A transaction between the plan and that person could pose a possible conflict of interest.[6] Accordingly, pension legislation requires the SIPP to include a policy on related party transactions permitted under section 17 of Schedule III and the criteria to be used to establish whether a transaction is nominal or immaterial to the plan.

All the DB SIPPs filed with FSCO reported having a policy on related party transactions, although the policies varied in nature. The majority of SIPPs (52.6%) established a percentage limit for related party transactions, while 2.3% established a dollar limit on such

[6] Under pension legislation, a “related party” in respect of a pension plan is defined to include, among others, a person who is the administrator of the plan, a person responsible for holding or investing the assets of the plan, an employer who participates in the plan, an entity that holds a substantial investment in the employer, an affiliate corporation of the employer, corporations that are directly or indirectly controlled by a person who otherwise falls within the definition of related party, employees of the employer, and members of the plan.

transactions, 2.1% established both a dollar and percentage limit and 23% prohibited any related party transactions.

Approximately 20% of plans established some other policy requirement, the nature of which varied significantly. Examples included: investment committee to be informed, investment committee approval required, acceptable if on market terms and conditions, or any dollar amount.

Details are provided in the following table.

Criteria for related party transaction	No. of plans	As a % of total DB plans	Median criteria, where applicable
Percentage limit	1,864	52.6%	2.5% of assets
Dollar value limit	80	2.3%	$10,000
Both percentage and dollar value limit	75	2.1%	0.01% of assets and $10,000
Other policy limit	704	19.9%	N/A
Related party transactions not permitted	818	23.1%	N/A
Total	**3,541**	**100%**	

Other Investment Practices

Approximately 50% of the DB SIPPs permit the use of derivatives, while approximately 37% permit borrowing for investment in real properties. A smaller percentage of SIPPs permit short selling (12%), or permit the purchase of buy-in annuities (17%) - an insurance product that enables pension plans to transfer investment and longevity risk to an insurance company.

Data from the SIPPs also indicated that, generally speaking, the larger the plan (as measured by assets), the more likely the above investment practices are permitted.[7]

Inclusion/exclusion of certain investment practices in the SIPP	Permitted	Not Permitted	Not addressed
Use of derivatives for risk management purposes	55.2%	19.1%	25.6%
Use of derivatives for other purposes	45.8%	24.7%	29.5%
Lending of securities or cash	55.7%	44.3%	0.0%
Short-selling of securities	12.0%	34.5%	53.5%
Borrowing for investment in real properties	36.7%	36.5%	26.8%
Buy-in annuities	16.9%	15.5%	67.6%

[7] The detailed data is not shown in this report.

Member-Directed Defined Contribution (DC) Provisions

Provisions Contained in the SIPP

In Ontario, different rules apply regarding the content of the SIPP that pertains to a DB pension plan and the content that pertains to a member-directed DC pension plan. Much of the content requirements for DB SIPPs (as set out in pension legislation) does not apply to SIPPs for member-directed DC pension plans. Instead, FSCO has provided guidance on suggested content for what should be covered in the SIPPs for member-directed DC pension plans.[8]

This report covers over 3,200 SIPPs that apply to member-directed DC plans or provisions. According to the Form 14s filed with these SIPPs, it appears most of the SIPPs incorporate all or many of the policy provisions suggested by FSCO's Investment Guidance Note: Statements of Investment Policies and Procedures (SIPPs) for Member-Directed Defined Contribution Plans.

Details are provided in the table below.

Suggested Policy Provisions	% of member-directed DC plans adopting provision
General investment principles	91.4%
Permitted asset classes from which investment fund can be selected	92.8%
The default investment option from member accounts where no selection is made	92.3%
Selecting, monitoring, and terminating investment managers and funds	87.5%
Plan expenses and investment fees related to the DC plan/provision	87.3%
Related party transactions	86.1%
Information guidelines for plan members on investment options	81.9%

[8] See Investment Guidance Note: Statements of Investment Policies and Procedures (SIPPs) for Member-Directed Defined Contribution Plans.

Policy Limits on Investment Funds

In member-directed DC plans, plan members are expected to determine their own asset mix by selecting from among a number of available investment funds and determining how much to invest in each fund. Under investment regulations, administrators of DC plans are not required to include limits on the number of investment funds to be offered by the plan in the SIPP. Nevertheless, 46% of the SIPPs did include such limits.

According to the filed SIPPs for these plans, the median number of funds offered in their DC provision was somewhere between 20 and 25. Where plans specified a single policy number or limit for investment funds, the median number of funds that should be offered by the plan was 25. Where plans specified a range, the median range of funds to be offered was 10 to 20 funds.

Under both types of policy limits, the median number of investment funds offered decreases with the size of the plan.

Total Assets	Investment funds specified as a single number		Investment funds specified as a range		
	Number of plans	Number of funds (median)	Number of plans	Min number of funds (median)	Max number of funds (median)
Under $10M	728	30	347	10	20
$10M to $100M	188	17	137	8	18
$100M to $1B	51	13	45	9	15
Over $1B	7	11	3	5	10
Total	**974**	**25**	**532**	**10**	**20**
N/A	1,762				
Total	**3,268**				

Default Options

DC plans typically establish a default investment fund, which will be used if plan members fail to make investment choices. All of that member's pension contributions will be directed to the default fund until the member provides instructions otherwise.

Among DC plans, the most common default option was a life cycle or target date fund[9] (39% of plans) followed by a balanced fund (14.2%) and a money market fund (13.4%). About one quarter of plans indicated an "other" type of default fund - while these varied widely, some of the more common "other" funds included a five-year guaranteed investment certificate, a guaranteed interest account, or a daily interest account.

Member-directed DC plan by asset size	Default Investment Option					
	Money market	Fixed income	Balanced fund	Life cycle fund/Target date fund	Not specified in SIPP	Other
Under $10M	16.0%	1.6%	15.0%	29.3%	7.9%	30.2%
$10M to $100M	7.3%	0.0%	11.0%	66.6%	5.3%	9.9%
$100M to $1B	1.7%	0.0%	14.9%	72.4%	5.7%	5.2%
Over $1B	0.0%	5.0%	15.0%	60.0%	10.0%	10.0%
Total	**13.4%**	**1.2%**	**14.2%**	**39.2%**	**7.3%**	**24.7%**

Investment Fund Performance Monitoring

The frequency of investment fund performance monitoring by administrators for member-directed DC plans was generally comparable to DB plans. Among both plan types, most SIPPs require the administrator to monitor investment manager or fund performance at least once a year. However, there was one notable difference: 25% of DB plans require investment

[9] Life cycle and target date funds are types of mutual funds designed to provide a simple investment solution through a portfolio whose asset allocation mix becomes more conservative as the plan member approaches retirement. Form 14 gathered data separately for these two fund types, although they have much in common.

manager performance to be monitored quarterly or more frequently. The corresponding figure for member-directed DC plans was only 10%. Comparison data is shown below.

Frequency for monitoring fund performance	% of DC provisions	% of DB provisions
Once or at least once per year	63.3%	65.2%
Semi-Annual	8.6%	4.9%
Triannual	0.1%	0.3%
Quarterly	9.5%	23.5%
Monthly	0.4%	0.9%
Not specified	18.1%	5.2%
Total	**100%**	**100%**

Permitted Asset Classes

The asset classes generally permitted by member-directed DC SIPPs appear to be more conservative than asset classes permitted under DB SIPPs. They consist of potentially safer investments such as cash and cash equivalents (offered by 78% of funds) or fixed income (83%).

Almost 90% of member-directed DC SIPPs permitted the use of life cycle or target date funds (32.8% and 56.9% respectively), and 76% permitted the use of public equity funds. On the other hand, real estate and alternative investments were only permitted by 12.6% of member-directed DC SIPPs (by comparison, these two asset classes were permitted by 31.5 of DB SIPPs).

Asset classes permitted by SIPP	No. of plans	As a % of total number of member-directed DC plans
Life cycle funds/Target date fuds	2,934	89.8%
Cash and cash equivalent	2,548	78.0%
Fixed income	2,732	83.6%
Public equities	2,494	76.3%
Real estate	1,030	31.5%
Alternative investments	412	12.6%
Not specified in SIPP	241	7.4%
Other asset classes	1,554	47.6%

Common investments listed under “other asset classes” included guaranteed investment certificates or accounts, and “segregated funds and mutual funds.”

Administrator-Directed Defined Contribution (DC) Provisions

Under an administrator-directed DC plan or provision, all investment choices pertaining to the individual accounts are made by the administrator, and the member makes no investment choices. Accordingly, the investments of an administrator-directed DC plan are managed in a manner similar to that of a DB plan.

Expected Rate of Return

Most administrator-directed DC SIPPs (approximately 63%) did not use a nominal or real rate of return (ROR) in their SIPPs, but instead used other methods to express their ROR. Some of the more common approaches were to base the expected ROR on a benchmark return, a "hypothetical portfolio," or on the performance of "comparable funds."

Approximately 37% of administrator-directed DC SIPPs used a nominal or real ROR. The nominal and real RORs used by the administrator-directed DC plans were on average lower than those reported by the DB SIPPs (4.7% compared to 7.5% nominal; and 3.0% compared to 3.5% real). The spread between the median nominal and real ROR was also much tighter for administrator-directed DC provisions than DB plans (1.7% compared to 3%). Data is shown in the following table.

Performance measures	No. of administrator-directed DC plans	As a % of total administrator-directed DC plans	Median expected ROR for administrator - directed DC plans	Comparison: Median expected ROR for DB plans
Nominal rate of return	17	11.7%	4.7%	7.5%
Real rate of return	36	24.8%	3.0%	3.5%
Other	92	63.4%	N/A	N/A
Total	**145**	**100.0%**	N/A	N/A

Where expected RORs are shown by plan size (as in the table below), the larger plans tended to have higher expected ROR, both on a real and nominal basis. However, it may be argued that the sample size for administrator-directed DC plans is too small to make an overall conclusion.

Performance measures by asset size	Nominal Expected ROR		Real Expected ROR	
	No. of plans	Median	No. of plans	Median
Under $10M	10	4.70%	19	3.00%
$10M to $100M	4	4.60%	10	3.00%
$100M to $1B	3	6.50%	3	3.00%
Over $1B	-	N/A%	4	3.75%
Total	**17**	**4.70%**	**36**	**3.00%**

Investment Manager Performance Monitoring

It appears that at least half of the administrator-directed DC SIPPs require investment manager performance to be monitored “at least once per year,” while 29% of the SIPPs require semi-annual or more frequent monitoring. Approximately 21% of the SIPPs did not specify a frequency.

Frequency for monitoring manager performance	No. of Administrator -directed DC plans	% of total Administrator -directed DC plans	Under $10M	$10M to $100 M	$100 M to $1B	Over $1B
Once or at least once a year	72	49.7%	60	8	3	1
Semi-Annual	18	12.4%	11	7	-	-
Quarterly	22	15.2%	6	9	4	3
Monthly	2	1.4%	1	-	1	-
N/A	31	21.4%	29	-	1	1
Total	**145**	**100%**	**107**	**24**	**9**	**5**

Permitted Asset Classes

There are a wide variety of asset classes, or types of investment categories, in which administrator-directed DC plans can invest. The pension plan's SIPP is required to specify the asset classes in which the plan is authorized to invest.

The following table shows the number of administrator-directed DC SIPPs that permit investment in each of the listed asset classes. The percentage of plans invested in each asset class is also provided.

Asset Class	No. of Administrator-directed DC plans invested in asset class	As a % of total Administrator-directed DC plans
Public Equities	96	66%
Fixed Income	89	61%
Cash and Cash Equivalent	88	60.7%
Other Asset Categories	31	21.4%
Real Estate	27	18.6%
Hedge Funds	11	7.6%
Alternatives	9	6.2%
Infrastructure	8	5.5%
Balanced Portfolio	4	2.8%
Private Equities	4	2.8%
Venture Capital	1	0.7%

Related Party Transactions

In the pension plan context, the term “related party” refers to a person that has some significant level of control or influence over the pension plan. A transaction between the plan and that person could pose a possible conflict of interest.[10] Accordingly, pension legislation requires the SIPP to include a policy on related party transactions permitted under section 17 of Schedule III and the criteria to be used to establish whether a transaction is nominal or immaterial to the plan.

Pension legislation requires the SIPP to include a policy on related party transactions permitted under section 17 of Schedule III and the criteria to be used to establish whether a transaction is nominal or immaterial to the plan. This requirement applies to administrator-directed DC SIPPs as well as DB SIPPs.

All administrator-directed DC SIPPs reported having a policy on related party transactions, although the policies varied in nature. The majority of SIPPs (47.6%) established a percentage limit for related party transactions. A significant number of these set the limit at 3%, while 4.8% of SIPPs established a dollar limit on such transactions, and 4.1% established both a dollar and percentage limit (although a significant number of these set that limit at “0”). Only 9% of these plans indicated an outright prohibition against related party transactions, but if we factor in the plans that set the policy limit “$0” this number would be closer to 20%. This is comparable to the 23% of DB SIPPs that also prohibited related party transactions.

Approximately 34.5% of SIPPs established some “other” type of limit; some did not provide details on the nature of the limit in Form 14, while others simply indicated that related party transactions were not permitted.

Details are provided in the following table.

[10] Under pension legislation, a “related party” in respect of a pension plan is defined to include, among others, a person who is the administrator of the plan, a person responsible for holding or investing the assets of the plan, an employer who participates in the plan, an entity that holds a substantial investment in the employer, an affiliate corporation of the employer, corporations that are directly or indirectly controlled by a person who otherwise falls within the definition of related party, employees of the employer, and members of the plan.

Criteria for related party transaction	No. of plans	As a % of total Administrator-directed DC plans
Percentage limit	69	47.6%
Dollar value limit	7	4.8%
Both percentage and dollar value limit	6	4.1%
Related party transactions not permitted	13	9.0%
Other	50	34.5%
Total	**145**	**100%**

Other Investment Practices

Policy parameters in the administrator-directed DC SIPPs appear to suggest that, compared to DB plans, administrator-directed DC plans were less likely to permit the use of derivatives (especially for purposes other than risk management), engage in securities lending, engage in short selling, or borrow for investment in real estate. Approximately 10% of these SIPPs permit the purchase of buy-in annuities[11].

Inclusion/exclusion of certain investment practices in the SIPP	Permitted	Not permitted	Not addressed
Use of derivatives for risk management propose	43.4%	11.0%	45.5%
Use of derivatives for other purposes	24.1%	24.1%	51.7%
Lending of securities or cash	33.1%	66.9%	0.0%
Short-selling of securities	4.1%	34.5%	61.4%
Borrowing for investment in real properties	15.9%	29.7%	54.5%
Buy-in annuities	9.7%	8.3%	82.1%

Data from this group of SIPPs indicated that the larger the plan (as measured by assets), the more likely the above investment practices are permitted by policy (subject to some exceptions). The same trend was noted for the DB SIPPs.

[11] An insurance product that enables pension plans to transfer investment and longevity risk to insurance companies.

Integration of Environmental, Social and Governance (ESG) Factors

As required by section 78(3) of the regulations, all SIPPs are required to include information about whether environmental, social and governance (ESG) factors are incorporated into the plan's investment policies and procedures and, if so, how the ESG factors are incorporated. For purposes of the SIPP Information Summary (Form 14), the question of whether a plan incorporates ESG factors does not distinguish between multiple benefit provisions that may be covered by a single plan and its SIPP (e.g., DB, member-directed DC, administrator-directed DC).

Of all the SIPPs covered in this report, 36% indicated that the pension plan incorporated ESG factors.

	Number of plans	Percentage of plans
Plans indicating they incorporate ESG factors	2,269	36%
Plans indicating they do **not** incorporate ESG factors	4,031	64%

ESG Integration by Plan Type

Most of Ontario's jointly sponsored pension plans (90%) and approximately 30% of MEPPs and SEPPs indicated incorporating ESG factors.

Just over half of all individual pension plans (IPPs) indicated incorporating ESG factors (52.5%). IPPs are a special type of pension plan defined under the Income Tax Act, which are typically established for a small number of employees (no more than three), usually owners or executives of the company.

Plan Type	No. of plans filing SIPP	No. of plans indicating incorporation of ESG factors	% of plans indicating ESG incorporation by plan type
Singe employer pension plans	4,856	1,533	31.6%
Multiple employer pension plans	118	36	30.5%
Individual pension plans	1,316	691	52.5%
Jointly sponsored pension plans	10	9	90.0%
Total	**6,300**	**2,269**	**36.0%**

ESG Integration by Benefit Type

DB plans were more likely to have incorporated ESG factors than DC plans (48.5% to 22.1% respectively).

Benefit Type	No. of plans	No. of plans indicating incorporation of ESG factors	% of plans indicating ESG incorporation by benefit type
Plans with defined benefit only	2,908	1,411	48.5%
Plans with defined contribution only	2,759	610	22.1%
Plans with DB and DC	633	248	39.2%
Total	**6,300**	**2,269**	**36%**

ESG Integration by Plan Size

The table below shows that larger pension plans (by asset size) were more likely to indicate they incorporate ESG factors.

Plan Size	No. of plans	No. of plans indicating incorporation of ESG factors	% of plans indicating ESG incorporation by plan size
Under $10M	4,920	1766	35.9%
$10M to $100M	1,001	334	33.4%
$100M to $1B	331	137	41.4%
Over $1B	48	32	66.7%
Total	**6,300**	**2,269**	**36%**