

Undertaking # 5

MPI to provide the underlying logic for the particular mix of investment allocations.

RESPONSE:

Ultimately, the Department of Finance and the Minister of Finance have the discretion over the portfolio's asset allocation.

The portfolio's strategic allocation to fixed income, equities and alternative asset classes in the Investment Policy Statement was determined through the asset-liability modeling study completed in 2008 by Aon Consulting. Aon worked in conjunction with the Investment Committee Working Group when completing the analysis. The purpose of the asset-liability study was to determine an optimal asset mix taking into account the liabilities and expenses of the Corporation.

The asset-liability modeling study used the estimated return, risk and correlation of various asset classes to determine the optimal portfolio relative to the estimated future liabilities of the Corporation. The study had two objectives for the strategic asset mix. The primary objective was to minimize the volatility of the surplus (i.e. the volatility of the assets relative to the liabilities). The secondary objective was to maximize returns, subject to reasonable levels of risk.

This new strategic asset allocation was incorporated into the Investment Policy Statement on June 25, 2008. A copy of the full Aon report was filed in the 2009 Rate Application in AI.11.