

Policy Name: Sinking Fund Investment

Policy Number: F-16

Policy Monitor: Chief Financial Officer

Policy Approver: Board of Directors

Approval Date: February 2, 2018

Purpose

This policy provides guidance on the proper use and accounting for sinking fund investments. The sinking fund's purpose is to invest sinking fund contributions, which together with income earned, will be sufficient to repay the principal amount of the debenture at maturity as required by the sinking fund provisions.

Policy Statement

Plan assets ("the Fund") will be managed in a manner appropriate to the needs and objectives of the Northwest Territories Power Corporation Sinking Fund Debentures ("the Plan") and in accordance with all applicable legal requirements notwithstanding any indication to the contrary, which might be construed from the statement. In particular, the Investment Policy Statement ("the Policy") ensures that the assets of the Fund are invested at all times in a prudent and diversified manner within the context of the nature of the liabilities of the Plan and its financial characteristics.

The Policy applies to the assets held in trust for the holders of the Plan. It contains investment objectives, investment principles, and guidelines.

Guidelines

1. Liabilities and Characteristics

- a. The Plan is a contributory arrangement providing for the redemption of Northwest Territories Power Corporation Sinking Fund Debentures.
- b. Under the Plan, the Company is required to contribute at a level sufficient to finance the redemption.
- c. Company contributions are governed by the indentures of each debenture issue and the Fund's investment return.

2. Investment Objectives

- a. The Fund along with its future investment returns and contributions is sufficient to pay Plan liabilities.
- b. In an effort to reduce risk and administration costs, the Fund will invest in low risk fixed income securities that mature close to the individual maturities of the specific debentures. The company contributions will be invested in securities that

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mature within one year before the maturity of the specific debenture.

- c. Securities will generally be held to maturity. Assets may be sold before maturity if the credit rating falls below the minimum required level.

3. Asset Classes Eligible for Investment

- a. Eligible Assets in Canadian Dollars
- b. Evidences of indebtedness issued or guaranteed by:
 - i. Government of Canada
 - ii. Canadian Provinces and Territories (Minimum A)
 - iii. Canadian Municipalities (Minimum AA)
 - iv. Canadian Chartered Banks (Minimum AA)
 - v. Corporate Commercial Paper and Bonds (Minimum R1 or equivalent for Commercial Paper and AA for Corporate Bonds)

4. Policy Asset Allocation

- a. The fund is limited to a maximum investment, measured by market value, for each issuer in each of the following asset classes:

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Asset Class	Aggregate Limit (% of Fund)	Single Issuer Limit (% of Fund)
Cash	100%	
Government of Canada	100%	
Canada Provinces & Territories		
- Rated AAA or Equivalent	100%	50%
- Rated AA or Equivalent	100%	50%
- Rated A or Equivalent	50%	25%
Canadian Municipalities		
- Minimum AA or Equivalent	30%	10%
Canadian Chartered Banks		
- Minimum AA or Equivalent	50%	25%
Corporate Commercial Paper & Bonds		
- Minimum AA or Equivalent	30%	10%

5. Portfolio Diversification and Constraints

- a. All investments will be maintained within the legal limitations in any legislation applicable to investments by the NTPC.
- b. The assets of the Fund will be invested at all times in a prudently diversified manner within the overall context of the Fund and the nature of the liabilities of the Plan.
- c. No leverage is permitted.
- d. Fixed income investments cannot include mortgage loans, asset-backed securities, or mortgage backed securities.

Roles and Responsibilities

The responsibility for all aspects of the administration and investment of the Fund lies with the Chief Financial Officer (CFO). The CFO may delegate some of his/her responsibility with respect to the investment of the fund to employees of the company and to qualified independent external agents and advisors.

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Policy Number: F-16

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The roles and responsibilities concerning the administration and investment of the Fund are allocated as follows:

1. Manager, Treasury & Enterprise Risk:

- a. Monitors investment results on a quarterly basis:
 - i. Reviews the transactions for the period;
 - ii. Calculates the Fund return over the quarter and year to date; and
 - iii. Determines if the Fund was in compliance with the provisions of the policy.

2. CFO:

- a. Reports annually to the Board on investment results as part of the year-end financial report; and
- b. Reviews the Policy on an annual basis and proposes amendments to the Board as required.

3. The Board:

- a. Approves the Policy;
- b. Reviews the Policy and approves necessary amendments; and
- c. Monitors investment results as part of the annual review of financial statements.

Definitions

- **A:** A long-term interest-bearing security rating by a recognized rating service such as the Dominion Bond Rating Service (DBRS) or Standard & Poor's (S&P). Bonds rated "A" are upper medium grade securities. Protection of interest and principal is still substantial, but the degree of strength is less than with AA rated companies. Companies in this category may be more susceptible to adverse economic conditions. "AAA" is the highest assigned by DBRS. A rating of BBB or better is described as "investment grade". In addition, ratings may be modified by the quotation high or low to indicate the relative standing within a rating classification.

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Definition's continued

- **A conflict of interest:** Deemed to exist when a Plan Fiduciary has an interest of sufficient substance and proximity to his/her duties and powers with respect to the Plan to impair his/her ability to render unbiased decisions affecting the Fund.
- **Plan Fiduciary:** Is a person who has discretionary authority over the investment of the fund. This definition includes but is not limited to members of the Board and Officers of the Northwest Territories Power Corporation.
- **R-1 Low:** A short-term money market instrument rating by the Dominion Bond Rating Service (DBRS). Under DBRS's relative ratings, each "R" category is divided into high, middle and low. "R-1" is a high quality credit. "R-3" and below is non-investment grade paper and cannot be traded in the market.
- **Risk:** In general, an investment whose actual returns are not likely to depart from the expected or average return is considered a low risk investment. One whose returns from year to year are quite volatile is said to be risky. Thus, risk can be viewed as variability in return.

Policy History

Date	Revision #	Description of Change
February 2, 2018	5	Minor formatting changes. Annual Board Review.
December 15, 2016	4	Minor formatting changes. Annual Board Review no changes recommended.
December 8, 2015	3	Annual Board review no changes recommended.
December 11, 2013	2	Reformatted to new policy template and general revisions for clarity.
April 1, 2012	1	Revisions made to reduce the investment risk of the portfolio and reduce administrative costs given that only two debt instruments remain with sinking fund requirements.
June 26, 2008	-	Original policy