

## INVESTMENT POLICY

### 1. Purpose of the Investment Policy

The Canada Infrastructure Bank (the “**CIB**”) is a federal Crown corporation established by the *Canada Infrastructure Bank Act*. Pursuant to Section 6 of the CIB Act:

*The purpose of the Bank is to invest, and seek to attract investment from private sector investors and institutional investors, in infrastructure projects in Canada or partly in Canada that will generate revenue and that will be in the public interest by, for example, supporting conditions that foster economic growth or by contributing to the sustainability of infrastructure in Canada.*

In carrying out its mandate, section 7(1) of the CIB Act sets out the CIB’s functions and provides that the CIB may, among others:

*(a) structure proposals and negotiate agreements, with the proponents of infrastructure projects and with investors in infrastructure projects, with regard to the Government of Canada’s support of those projects;*

*(b) invest in infrastructure projects, including by means of innovative financial tools, and seek to attract investment from private sector investors and institutional investors in infrastructure projects;*

*(c) receive unsolicited proposals for infrastructure projects that come from private sector investors or from institutional investors.*

This investment policy (the “**Investment Policy**”) elaborates on the investment mandate of the CIB and describes the guidelines and criteria against which the CIB pursues investment proposals in infrastructure projects consistent with the CIB Act and the authorities delegated by the Board. In accordance with the terms of their respective Charters, the Board has approved this Investment Policy, having regard to the recommendation of the Investment Committee, and is responsible for approving any amendments to this Investment Policy.

In addition to this Investment Policy, management of the CIB has adopted guidelines that provide information, direction or explanation to assist with the implementation of this Investment Policy. It is intended that those guidelines be read in conjunction with this Investment Policy. In the event of a conflict between the guidelines and this Investment Policy, the terms of this Investment Policy shall govern.

### 2. Introduction

#### 2.1 Scope

This Investment Policies applies enterprise-wide to all Employees in respect of the CIB’s investment authorities and permitted activities under the CIB Act.

#### 2.2 Meaning of “Infrastructure”

The term “infrastructure” is not defined in the CIB Act. For the purpose of this Investment Policy, “**infrastructure**” is a physical asset (including facilities, systems, and structures) that creates a public

**good** through the provision of services to the public or to commercial entities, which contributes to the public interest through economic development, employment, environmental or other social benefit.

## 2.3 Meaning of “Revenue”

The term “revenue” is not defined in the CIB Act. The CIB uses innovative financial tools to focus on infrastructure projects that, directly or indirectly, can generate a source of income, revenue stream (including cost savings over the status quo) or periodic yield or interest from the investment.

## 2.4 Public Interest

The CIB makes investment commitments to infrastructure projects that are in the public interest and aligned with the Government of Canada’s commitments, policies and programs, which includes focusing on projects with the greatest opportunity to create jobs and growth, promote social inclusivity and build a clean economy.

## 2.5 Priority Areas

The CIB focuses on priority areas for investment, which are set by the Government of Canada through federal budgets, statements of accountabilities and priorities, mandate letters and direct communications with the CIB. The CIB’s current priority areas are **transit, green, clean power, broadband, and trade and transportation sectors**.

In order to support the Government’s commitments to advance Indigenous reconciliation and address the Indigenous infrastructure deficit, the CIB also focuses on Indigenous Infrastructure projects across each of its priority areas. Where applicable, the CIB will evaluate whether its investment in an infrastructure project can provide direct benefit to Indigenous communities and/or potential for ownership by Indigenous communities.

The CIB may also invest in other infrastructure sectors if they are supported by government policy.

## 2.6 Objectives of CIB’s Investments

The CIB’s investment objectives and intended outcomes used to measure the impact of its investments pursuant to the Government of Canada’s priorities to the CIB are set through the Corporate Plan.

## 3. Governance – Roles and Responsibilities

### 3.1 Board

The CIB Act provides that the Board is composed of the Chairperson and not fewer than eight, but not more than 11, other directors. In accordance with the *Financial Administration Act* and the CIB’s By-laws, the Board is responsible for the supervision of the management of the businesses, activities and other affairs of the CIB. Consistent with its governance and stewardship role, the Board approves:

- a) CIB’s Corporate Plans and Annual Reports;
- b) investment proposals having regard to the recommendations of the Investment Committee; and
- c) this Investment Policy.

The Board may also, if deemed appropriate and desirable, delegate the authority to the Investment Committee or the Management Investment Committee to approve investments within specific parameters, including approval limits, set by the Board.

### **3.2 Investment Committee**

The Board has established the Investment Committee, with the authority under the terms of its Charter to oversee the CIB's investment activities, make recommendations to the Board on all investment proposals and proposed investment strategies, and review the CIB's investment activities. Among the responsibilities set out in its Charter, the Investment Committee reviews investment proposals in accordance with the eligibility criteria set forth in the CIB Act and this Investment Policy and, subject to any delegation of authority by the Board, may recommend the investment to the Board for approval. The Investment Committee may also recommend to the Board for approval delegations of authority and approval limits to the Investment Committee and Senior Management (through the Management Investment Committee) for investments.

### **3.3 CEO**

The Board has delegated the day-to-day management activities and other affairs of the CIB to the CEO, who is authorized under the CIB's By-laws to delegate responsibility for various aspects of the CIB's investment activities to other officers of the CIB.

The Board has delegated to the CEO the responsibility to deliver on the CIB's investment mandate within the parameters established by this Investment Policy. Among other delegated authorities, the CEO and the CIO are authorized to determine if potential investments and advisory mandates are eligible for CIB investment in accordance with the CIB Act and this Investment Policy, and to incur costs necessary to assess potential investments.

The CEO and the CIO will provide the Board with such reporting as the Board requires to fulfill its strategic oversight and monitoring roles. To this end, the CEO and the CIO report to the Investment Committee on at least a quarterly basis on the status of potential investments (i.e., the "investment funnel"), the status of current investments, and on material risks to current and prospective investments.

### **3.4 Management Investment Committee**

The Management Investment Committee is responsible to operate within the parameters of this Investment Policy and to recommend updates to the Investment Policy to the Investment Committee as appropriate.

The Management Investment Committee proposes investments to the Investment Committee, which the Investment Committee may then recommend to the Board for approval. The Management Investment Committee is also responsible for the execution, or monitoring the implementation of, any other duties and functions (including approval limits for investments) delegated by the Investment Committee and the Board.

## **4. Investment Practices**

### **4.1 Sourcing of Investment Opportunities**

The CIB sources potential investment opportunities from Public Sponsors.

The CIB aligns its investment activities with infrastructure development priorities of federal, provincial, territorial and municipal governments and Indigenous communities (“**FPTMI**”). The CIB provides advice to FPTMIs with respect to the structuring, procurement, and delivery of revenue-generating infrastructure projects that are in the public interest, and help to achieve FPTMI priorities.

The CIB also sources potential investment opportunities from Private Sector Entities. These proposals may take the form of unsolicited proposals (which the CIB is mandated to assist in developing) or in response to a procurement process under which the CIB is providing support to all the bidders and where the infrastructure project is aligned with the CIB’s purpose and functions.

Where required, CIB provides advice to Public Sponsors as it relates to managing their own proposal process.

## **4.2 Stage of Investment**

The CIB engages with FPTMI partners on potential investment opportunities at the earliest possible stage starting from the ideation stage in order to influence thinking, shape structuring and offer expert advice that can help Public Sponsors to consider innovative approaches to investing.

## **4.3 Types of Investment**

The CIB invests generally in direct loan, project finance and structured finance type transactions, as applicable, to facilitate the delivery of specific projects, having regard to specific legal, structural and/or financial and accounting considerations.

The CIB invests generally in debt and/or equity and structure finance risk positions. In accordance with the CIB Act, the CIB may provide loan guarantees with respect to an infrastructure project only if the Minister of Finance approves the loan guarantee.

The CIB may make backstop commitments to Public Sponsors to support procurement processes and allow potential Proponents to use the financial products offered by the CIB on that infrastructure project up to a certain capped dollar amount with specific terms and conditions. The CIB encourages Public Sponsors and Proponents through their transaction structuring and procurement process to attract as much capital from Private Sector Entities and to transfer as much risk as is reasonable in the specific circumstances.

The CIB may aggregate smaller investments by designing standardised investment terms for scalability. Such investments may be aggregated into larger portfolios to allow the introduction of significant additional debt and equity.

The CIB may enter into contingent liabilities which may only be drawn down in the event of certain project outcomes. Investment proposals with contingent liabilities that are presented to the Board for approval will include additional analysis to account for potential estimated credit losses and similar credit reserves against the Total Net Fiscal Expense.

## **4.4 Investment Rationale**

The CIB seeks to support and invest in infrastructure projects that are within its mandate and i) will benefit from increased risk transfer to and capital from Private Sector Entities; or ii) without the CIB’s participation would not otherwise be built. To avoid crowding-out capital from Private Sector Entities, the CIB structures

its investments to minimize the amount of federal support as a percentage of the total capital requirement while providing sufficient capital to make the project's business model financially viable.

#### **4.5 Pricing>Returns Expectation**

The CIB does not price its investments commensurate with the risk of the investment. Instead, the CIB prices its investments commensurate with the need to fill a gap in the infrastructure project's viability or affordability. In many instances, the financial gap will result in the CIB investing at below market rates/returns.

Private Sector Entities are expected to bear material risks and achieve reasonable returns relative to the risks that they bear. These risks may include, for example, development, construction, completion, operations, maintenance and usage risk.

#### **4.6 Portfolio Construction and Total Net Fiscal Expense**

The CIB will not manage its portfolio to fixed investment allocations by sector, geography, or fiscal year, but rather in accordance with the high-level policy priorities of the Government of Canada and federal budget allocations as defined over time. The CIB may set long-term sector targets and targets for specific initiatives through the Corporate Plan. Sectoral and industry concentration risks are an unavoidable consequence of the CIB's public policy mandate, its role in the marketplace and the size of its investments relative to its portfolio. As a result, the CIB may have more concentrated exposures that would be typical for a portfolio of its size, which could result in larger losses due to lack of diversification.

The CIB funds its business activities through statutory appropriations from the Government of Canada as defined in the CIB Act. The CIB is expected to prudently manage its portfolio such that the Total Net Fiscal Expense in relation to investments made over the period up to the end of the 2027-28 financial year will remain under \$15 billion, which the CIB uses as its maximum financial risk tolerance level. This incorporates a) accounting provisions, which include, but are not limited to, valuation adjustments, mark-to-market and provisions for credit losses; and b) cumulative operating expenses of the CIB.

The CEO, the CIO and the Head of Risk will closely monitor and report to the Board the investment risk and accounting position relative to the Total Net Fiscal Expense.

#### **4.7 Investment Risk Assessment**

Where appropriate for the asset class and specific project, the CIB will invest under project financing type structures, which will include the following risk factors: planning, environmental, design-build, technology, construction, integration/commissioning, operations, maintenance, lifecycle, repayment, interest rates, accounting change, demand/usage/revenues, political, regulatory, contractual, legal, counterparty credit, counterparty concentration, market and sector concentration.

For certain asset classes, investments in the form of direct loans, equity and structured finance, or a combination thereof, may be necessary to fill the investment gaps under consideration. In addition, decoupling of risk/return and uses of funds to finance projects from sources of repayment, which may not necessarily come directly from the project, may be necessary to close such investment gaps.

The CIB's mandate contemplates and allows the CIB to assume risk exposures on a sub-commercial basis. However, the CIB applies reasonable measures to obtain the customary protections offered by similar finance structures wherever possible and appropriate. The Investments team in collaboration with the CIB's

risk function will perform a risk assessment of the risk factors of all the investments to arrive at appropriate internal risk ratings. The Management Investment Committee will review internal risk ratings as part of investment proposals to be recommended to the Investment Committee.

#### **4.8 Counterparty Risk**

The Investments team, as the first line-of-defense monitors credit and counterparty risk, including concentrations. The CIB's risk function through the Head of Risk and the CFO & CAO, as the second line-of-defense, independently monitors credit and counterparty risk and reports to the Investment Committee in accordance with section 7.1.

#### **4.9 Convening Capital and Partners**

The CIB can play an important role in consortium formation through its market outreach and advisory functions. In this role and within any procurement constraints, the CIB may identify investors best able to accept certain risks and may assist in attracting them to invest in infrastructure projects located in Canada or partly in Canada that will generate revenue and that will be in the public interest.

As Public Sponsors manage procurement processes, the CIB may create conditional Stapled Commitments that would be available to all Proponents, or may engage with several Proponents simultaneously to provide a customized solution to each Proponent while respecting confidentiality obligations through the creation of separate teams for engagement.

The CIB will employ investment approaches and project structures that lead to investment from Private Sector Entities over the lifecycle of a project. The CIB will strive to be innovative with investments not just up front at the onset of projects but potentially over the lifecycle of a project with investment from Private Sector Entities being attracted at later stages of project execution and operations.

### **5. Investment Assessment and Approval Process**

#### **5.1 Characteristics of Target Investments**

The CIB invests in new, revenue-generating infrastructure projects that will be in the public interest, and seeks to attract investment from Private Sector Entities.

In general, the CIB seeks to identify investment opportunities in larger and scalable projects. The CIB may also advance smaller projects located in rural, northern and Indigenous communities, taking into account the specific challenges of developing infrastructure in these communities.

Infrastructure projects of interest to the CIB will typically have some of the following characteristics:

- Competitive tender or market testing by the Public Sponsor.
- Some net revenue generation or excess cash flow generation linked to usage or cost savings.
- Risk transfer to Private Sector Entities.
- Governance and investor rights commensurate with investment.

#### **5.2 Due Diligence and Investment Assessment**

Before recommending an investment proposal to the Board, the Investments team performs detailed due diligence in respect of the investment proposal. Where necessary, in-house expertise is supplemented by

external due diligence advisors. For example, the CIB will normally retain external legal counsel in accordance with its procurement practices to document and due diligence the CIB's specific investment structure.

The CIB may leverage the due diligence completed by advisors retained by other investors and, where possible and appropriate, obtain commercially standard reliance from such advisors. Except where specific diligence is required to explore a specific risk to which the CIB is exposed in a different way to other investors, the CIB will seek to avoid the duplication and additional expense of using its own dedicated due diligence advisors.

The CIB's due diligence includes a review of the business case, the financial forecasts and sensitivity analysis, the project structure, environmental impact assessments and other regulatory approvals required, the procurement process and long-term asset management.

### **5.3 Fees**

In line with industry practice, in appropriate circumstances, the CIB may seek to recover from the borrower/developer its out of pocket costs and/or fees to assess and make an investment decision.

### **5.4 Sustainability**

The CIB is developing and implementing a sustainability policy<sup>1</sup>, which describes the CIB's approach based on industry best practices, with regards to integrating and promoting environmental, social and governance ("ESG") factors in executing its mandate. The Management Investment Committee will review potential investments in accordance with the principles and guidelines described in the sustainability policy.

As a result of the CIB's mandate to invest in revenue-generating infrastructure projects that are in the public interest and that attract capital from Private Sector Entities, the CIB will frequently be a taker of other strategic and co-investor partners' occupational health and safety, ESG and responsible investment policies, and the CIB may not be able to impose its own sustainability and ESG guidelines. However, the CIB will ensure that the overall policies and guidelines employed with respect to a project are consistent with the sustainability policy.

### **5.5 Investment Valuation**

The CIB has developed the Internal Rating Methodology ("IRM") to determine the resulting risk rating for each investment. Applying the IRM, the Finance team will conduct an initial valuation of every investment and re-assess thereafter on an annual basis, or earlier, as necessary, to reflect any financial reporting impacts of changes to the investment risk rating. Any changes to the investment risk rating will be tracked against the Total Net Fiscal Expense.

### **5.6 Investment Recommendation**

For each investment proposal, the Investments team will prepare a memorandum to the Management Investment Committee for review and recommendation to the Investment Committee. In accordance with its Charter, the Investment Committee may recommend the investment proposal to the Board for approval.

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<sup>1</sup> The CIB's sustainability policy is currently under development.

Investment proposals pertain to specific infrastructure projects or infrastructure “programs” described in the Corporate Plan.

## **5.7 Out of Mandate Investments**

The Investment Committee has delegated to the CEO and the CIO the authority to choose not to proceed with potential investments or advisory mandates that, in their reasonable opinion, do not satisfy or are unlikely to be able to satisfy the CIB’s mandate or this Investment Policy.

The CEO and the CIO will report to the Investment Committee, at least quarterly, the infrastructure projects and investment proposals which were determined to be “out of mandate” and the reasons for such determination.

## **6. Asset Monitoring**

The CIB, through its asset management function, actively monitors each of its investments to ensure that all contractual terms and conditions of the investments are met, to understand any shift in the investment’s risk profile and to assess the value of each investment in collaboration with the Finance team. CIB will conduct a formal review of each investment at least annually, or more frequently should circumstances require, with respect to the investment’s risk profile.

### **6.1 Hold Period**

The CIB maintains alignment with its co-investors by negotiating and exercising liquidity rights, should co-investors choose to exit an investment. Subject to project specific structuring, the CIB may also exit an investment to attract more capital from Private Sector Entities to the infrastructure project (i.e., to avoid crowding out capital from Private Sector Entities), when such capital is available and it is practical to do so. As part of the CIB’s overall management of its balance sheet, the CIB may also exit an investment when it is practical to do so to provide flexibility in using its capital to invest in new priority areas for the CIB.

### **6.2 Portfolio Monitoring**

The Management Investment Committee will monitor the performance of investments and the changes in risk profile, and management will report to the Investment Committee in accordance with section 7.2.

## **7. Reporting**

### **7.1 Risk**

CIB’s investment activities are subject to the risk management principles identified in the CIB’s Enterprise Risk Management framework and policy. Annually, management will report to the Investment Committee a comprehensive update on risks within its investments and portfolio. Management will also update the Investment Committee as required on any material change to the risk profile of the CIB’s investments and portfolio.

Management reports quarterly to the Finance and Audit Committee on risk issues, including with respect to investments and portfolio risks relative to the Total Net Fiscal Expense.

## 7.2 Investments and Portfolio

Annually, the management will present to the Investment Committee a comprehensive report of the investments in the portfolio to the Investment Committee. Management will also provide quarterly portfolio reports, as well as more frequent updates if there are material developments that might significantly change the performance or the profile of the portfolio.

## 7.3 Investment Valuations

At its discretion, the Finance team will, in consultation with the CIO, and supplemented, where appropriate, with independent third party advice, perform a valuation of the investments for financial reporting purposes and report to the Board, through the CFO & CAO, at least on an annual basis.

## 8. Exceptions

All exceptions or instances of non-compliance to this Investment Policy shall be assessed by the Management Investment Committee and escalated to the Investment Committee for recommendation to the Board. Requests for exceptions or instances of non-compliance must:

- Identify the applicable section(s) of the Investment Policy to which the exception applies;
- Assess the risk(s) that arises from the proposed exception(s);
- If applicable, outline the appropriate controls to mitigate these risks; and
- If applicable, specify the review or effective period of the exception.

Any exceptions or instances of non-compliance with this Investment Policy will be recorded in the meeting minutes of the Management Investment Committee, the Investment Committee, and the Board, as applicable.

## 9. Definitions

Unless defined elsewhere in this Investment Policy, the following terms shall have the following meanings:

“**Board**” refers to the board of directors of the CIB, as set out in section 8 of the CIB Act.

“**CEO**” means the person appointed as the Chief Executive Officer of the CIB pursuant to Section 9 (1) of the CIB Act.

“**CFO & CAO**” means the Chief Financial Officer and Chief Administrative Officer of the CIB.

“**CIO**” means the Chief Investment Officer of the CIB.

“**CIB Act**” refers to the *Canada Infrastructure Bank Act*, S.C. 2017, c. 20, s. 403.

“**Corporate Plan**” refers to the corporate plan that the CIB must annually submit to the Minister, who may, with the concurrence of the Minister of Finance, recommend it for the approval of the Governor in Council, as set out in section 16 of the CIB Act and further described in Part X of the *Financial Administration Act*, R.S.C., 1985, c. F-11.

“**Employee**” means any person who is part of the personnel of the CIB, including any officer, whether working on a full-time, part-time, permanent or temporary basis.

“**Investment Committee**” means the Investment Committee of the Board.

“**Management Investment Committee**” means the CEO, the CIO, the CFO & CAO, the Head of Risk and certain other Employees appointed by the CEO from time to time. The Management Investment Committee reports to the Investment Committee in accordance with the authorities delegated under this Investment Policy.

“**Minister**” means the minister designated under section 3 of the CIB Act, the Minister of Infrastructure and Communities.

“**Private Sector Entity**” includes private investment funds, financial institutions, institutional investors, engineering, construction and development organizations, and consortia among them.

“**Proponent**” means a Private Sector Entity that responds to a request for proposal.

“**Public Sponsor**” means a public sector FPTMI that approves or supports the advancement of the infrastructure project.

“**Stapled Commitment**” is a set of standard investment terms available to all Proponents for a specific infrastructure project.

“**Total Net Fiscal Expense**” means the amount reserved by the Government of Canada in its fiscal framework that covers expenditures by the CIB, including operating expenses and concessional financing costs, including valuations and mark to market adjustments, and credit losses.

## **10. Review**

In accordance with its Charter, the Investment Committee evaluates at least annually the effectiveness of this Investment Policy and, as appropriate, recommends changes to the Board of Directors for approval.

## **11. Approval and Effective Date**

This Investment Policy was last reviewed and approved by the Board on February 2, 2021. It replaces the earlier version approved on February 13, 2019.