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### Background

This Investment Policy governs the management of Brock University’s Endowment Fund.

### Purpose

The purpose of this policy is:

- To clarify the assets to which this policy applies
- To identify investment objectives
- To outline responsibilities associated with investment management
- To establish guidelines for investment activities
- To establish the framework to manage invested assets on a “total return” basis, not forfeiting one objective for another

### Scope

This policy applies to the investment of funds held as trusts and endowments and sets guidelines for the investment, monitoring and reporting on the management of these funds.

In addition, the Friends of Brock University (a public foundation incorporated in USA) operate in accordance with this and all other Brock University Investment and Advancement policies.

### Policy

#### Objectives

The Endowment Fund Investment Policy is concerned with the following areas:

1. Preservation of principal;
2. Provision of a reliable source of funds for current and future use;
3. A rate of return that maintains or enhances the purchasing power of the endowment over time (growth of principal) and supports a desired spending rate;
4. Prudent levels of risk and protection of the portfolio from undue loss due to market fluctuations and/or poor diversification;
5. Respect for the terms of reference agreed to with donors.

Since Endowment Funds are intended to exist in perpetuity, the return objective seeks to hedge against inflation. The goal is to maintain or enhance the purchasing power of the Endowment Fund to maintain the activities it supports.

## Guiding Principles

The Endowment Fund Investment Policy will ensure that there is adequate diversification by type of asset in order to best balance the long-term return generation goal with the need to preserve capital during equity bear markets.

The share of the fund invested in equities and fixed income may be adjusted during different parts of the market cycle in an attempt to maximize returns during periods when it is likely that equities will perform strongly and to minimize capital losses during periods when it is likely that equities will perform poorly. The Financial Planning, Investment and Human Resources Committee will develop guidelines for management of the asset mix.

Active management strategies are preferred when the Financial Planning, Investment and Human Resources Committee believes that they can either generate higher long term returns or can provide returns comparable to the benchmark index (net of the fee difference) but with better down market performance.

A specialist manager structure will be used through which qualified managers will be hired to manage each asset class.

For fixed income mandates, a core-plus investment approach that utilizes all of the tools available to the fixed income manager, including opportunistic investment in bonds outside the domestic market is preferred. A core-plus fixed-income investment strategy permits managers to add instruments with greater risk and greater potential return such as high-yield, global and emerging market debt, and below investment grade bonds.

For equity mandates, an investment approach that produces stronger long term returns than the appropriate benchmark index and that provides significantly better returns than the benchmark index during equity bear markets is preferred. Ideally and subject to mandate size efficiency constraints, multiple equity managers that employ somewhat different approaches to security selection will be used so as to obtain some diversification of style.

The number of investment managers and mandates may increase with the size of the fund.

Where it makes sense to do so, the Financial Planning, Investment and Human Resources Committee will use comparable managers to those used for the pension fund in order to achieve economies of scale in investment management fees and to simplify the efforts required in monitoring the investment managers.

Pooled funds are the preferred investment vehicle as they will minimize transaction costs for a given investment management strategy.

All investment decisions guided under this policy shall be made within the overall spirit of this policy and its guiding principles and should not in any way contradict the overall spirit of principal preservation, liquidity management, inflation protection, prudent risk taking, and respect for donor directed funds.

## Responsibilities

1. Responsibility for investment of the trusts, endowment fund and any other long-term cash or assets of the University rests with the Financial Planning, Investment and Human Resources Committee, as delegated by the Board of Trustees. The Financial Planning, Investment and Human Resources Committee delegates all day-to-day responsibilities to appropriate staff of the University in order to ensure timely actions are taken.
2. The responsibilities of the Financial Planning, Investment and Human Resources Committee with respect to investment management include:
  - Developing the investment policy, including any desired guidelines for adjusting the asset mix over a market cycle
  - Selecting the investment manager(s)

Selecting a custodian

Selecting performance monitoring consultants and reviewing, at least semi-annually, the performance of the investment portfolio

Reviewing the custodian's and investment managers' performance at least annually

Developing a rebalancing policy to ensure that the asset mix remains within acceptable proximity to the policy asset mix and managing the investment portfolio within that policy

Reviewing the Policy Statement including a reassessment of the return expectations, risk tolerance and time horizon for investment, and recommending changes, if any, to the Board each year

Reviewing and recommending the annual spending rate in accordance with the Trust and Endowment Management Policy

Reporting to the Board of Trustees annually

3. The Investment Manager(s) will

Invest the portfolio in accordance with this policy

Confirm compliance with their investment mandate and with the applicable portions of this policy

Notify the Financial Planning, Investment and Human Resources Committee or its designate on a quarterly basis of any areas of non-compliance with their investment mandate or this policy and provide their recommended actions and timeframe to remedy the issue

Exercise all rights, including voting rights, acquired through portfolio investments with the intent of fulfilling the investment objectives for the portfolio

Provide a quarterly report to the Financial Planning, Investment and Human Resources Committee or its designate that includes a brief review and outlook for the economy and the capital markets and a discussion of the investment performance to date in relation to the objectives (including information on the reasons underlying outperformance or underperformance relative to their benchmark index)

Make a periodic presentation to the Financial Planning, Investment and Human Resources Committee, where requested to do so, to help the Financial Planning, Investment and Human Resources Committee to better understand their performance

Participate in review of this policy, at the Financial Planning, Investment and Human Resources Committee's request

Ensure that the investments meet all legislative requirements of trust and endowment funds

4. To ensure that donor's wishes are respected, any restrictions on the use of funds or assets must be carefully considered before accepting the donation. Terms of reference will be determined and signed with the donor. These considerations are outlined in the Donations, and Trust & Endowment Management policies.

### Benchmarks

5. To assess progress against the investment objectives of the fund, the investment performance of the portfolio and of each of the investment managers will be assessed on at least a semi-annual basis. The performance objective for the investment portfolio will be based on the policy asset mix as the appropriate weighting of the benchmark indices and a long term added value objective of 100 basis points or 1%. The performance objective for the individual managers will be based on the benchmark index for their portion of the portfolio and the added value objective specified for that asset class. In the case of multi asset class manager portfolios, the total return will be compared to the aggregate benchmarks on a pro-rata basis. Results will be reviewed on a short-term basis to ensure that the pattern of performance is consistent with expectations and on a long term basis to ensure that the long term return expectations are being achieved.

## Benchmark Indices:

Cash	DEX 91-Day T-Bill Index
Fixed Income	DEX Universe Bond Index
Canadian equities	S&P/TSX Composite Total Return Index
Global equities	MSCI World (Net) Index

## Asset Mix

6. The policy asset mix adopted by the University is 60% equities and 40% fixed income and cash. It is expected that, over the course of a market cycle, the actual asset mix will on average be at this level. The following asset mix guidelines have been established, consistent with the objectives.

	Minimum	Maximum	Policy	Value Added
Cash & Short-term investments	0%	15%	0%	0.00%
Fixed Income securities	25%	55%	40%	1.00%
Canadian Equities	15%	35%	15%	1.25%
Global Equities	25%	45%	45%	1.50%
Total Equities	45%	75%	60%	

The added value objectives shown above are expressed prior to recognition of investment management fees.

Permissible investments may be held:

- as individual securities,
- as a pool of individual securities in which each fund is allowed to participate (unitized), or
- in the underlying pooled funds.

There may be circumstances under which a temporary exemption to the asset mix policy is adopted. The Vice President, Finance & Administration and the Chair of the Financial Planning, Investment and Human Resources Committee will decide if the exemption will be allowed and how the funds will be invested. A meeting of the Financial Planning, Investment and Human Resources Committee will be convened promptly to formally approve the exemption.

## Eligible Investment Guidelines

7. Guidelines for the type, quality and quantity of the investment assets are summarized below. In these guidelines, the term portfolio refers to the assets under the administration of the Investment Manager, and not the total portfolio of University investments.

Permitted Short-term Investments:

Government of Canada treasury bills, commercial paper, notes and bonds with maturity < 2 years \*

Government of Canada guaranteed notes with maturity < 2 years \*

Crown Corporations & Agencies notes with maturity < 2 years \*

Provincial treasury bills, commercial paper, notes and bonds with maturity < 2 years

Canadian Schedule 1 Chartered Banks BAs, TDs, and GICs with maturity < 1 year

The minimum quality standard for short term investments will be:

- R-1 (Low)
- A (mid) for short-term bonds

Investment is limited to 10% of the market value of the portfolio per single issuer or 30% per category listed above except for \*.

**Permitted Fixed Income Securities:**

- Bonds (OECD government, provincial, municipal, corporate)
- Debentures
- Preferred shares (non-convertible)
- Asset-backed securities
- Mortgage-backed securities

All securities must be readily marketable.

The portfolio should have an aggregate credit rating of at least A or equivalent.

The aggregate duration of the portfolio shall be maintained within one year of the DEX Universe Bond Index.

Up to 10% of the exposure to foreign currency may be unhedged.

Securities rated below “BBB (low)” or equivalent may not comprise more than 15% of the portfolio.

The minimum quality standard of preferred shares in the portfolio will be a Pfd-2 rating.

No more than 5% shall be invested in any one corporation or security with the exception of those issued or guaranteed by:

- (i) the Government of Canada,
- (ii) a province of Canada having at least an “A” rating, or
- (iii) another developed market country whose debt is rated “A” or better.

No more than 50% of the portfolio shall be invested in non-Canadian securities and no more than 10% of the portfolio shall be exposed to foreign currency risk (i.e., be left unhedged).

No more than 50% of the portfolio shall be invested in corporate bonds and other equivalent credit sensitive securities.

Asset-backed securities and mortgage-backed securities shall be rated by a U.S. rating agency to ensure liquidity and shall be limited to no more than 10% of the portfolio.

No more than 10% of the portfolio shall be invested in mortgages and all such mortgages shall rank as first secured mortgages and must not be subordinated to any other debt.

**Permitted Equities:**

- Common shares and securities convertible into common shares
- Share purchase warrants, exchangeable shares, share purchase rights and installment receipts
- Real estate investment trusts and income trusts
- Preferred shares (including convertible) Depository receipts

All securities must be listed on a recognized public exchange or be convertible or exchangeable into such securities.

Holdings shall be diversified by company, region, industry, currency and country; however, consideration may be given to the relative sizes of economic activity and stock market capitalization. Not more than 5% of the market value of the portfolio may be invested in the equities of a single issuer and its related companies. Not more than 10% of the Canadian equity portfolio may be invested in securities not included in the S&P/TSX Composite Index. Not more than 10% of the global equity portfolio may be invested in securities having a market capitalization of less than \$1 billion. Not more than 15% of the global equity portfolio may be invested in securities that are not included in the MSCI World Index.

#### Permitted Pooled Funds

The portfolio may be invested in pooled funds. As pooled funds are managed in accordance with the pooled fund's guidelines, they cannot be directly subject to the guidelines enunciated here. It is the responsibility of the Financial Planning, Investment and Human Resources Committee to ensure, prior to investing in the pooled fund, that the pooled fund's guidelines are consistent with the spirit of this policy.

The agreements governing any pooled fund in which the fund invests that is established as a trust must provide that unit holders have no personal liability for the obligations of the trust or its trustee.

#### Permitted Other Investments

A maximum of 10% of the market value of the portfolio may be placed in other investments of comparable quality to the various categories listed above, with the prior consent and approval of the Vice President, Finance & Administration.

#### Permitted Securities Lending

As the entire fund is invested in pooled funds, the University is not able to dictate the terms of any securities lending arrangement for the pooled funds. Prior to investing in the pooled fund, the University will ensure that the revenue sharing arrangement is appropriate, that there is full indemnification by the custodian of the securities lent, that collateral is provided of at least 102% of the market value of the securities lent, and that the collateral is marked to market daily.

#### Derivatives

Derivatives may be used for hedging and risk management purposes including the hedging of foreign currency exposure. Derivative instruments will only be used in ways that reduce risk or transfer risk and not to increase risk and their use must be consistent with the fund's, this policy's, and the University's investment objectives.

Derivative products will not be used to leverage the fund or for speculative reasons, and will be fully collateralized by cash or cash equivalents. Counterparty risk arising from derivative transactions will be limited to credits rated "A" or better.

Forward exchange contracts may be purchased to fix the rate of exchange for a future payment to a supplier. Other hedges may be created to fix the rate of interest for a loan to be taken out in the future or to fix the cost of a commodity used in daily operations of the University (i.e. gas).

Where the investment portfolio is exposed to clearly defined risks and derivative contracts exist which can be used to reduce those risks, the investment managers are permitted to use such

derivatives to:

- Create an asset mix position within the ranges and among the asset classes set out in this policy;
- Adjust the duration and/or credit exposure of the fixed income portfolio within the ranges set out in this policy;
- Replicate the investment performance of interest rates or a recognized capital market index;
- Create an exposure to securities that are otherwise permitted under this Policy;
- Increase current revenue by selling covered calls;
- Manage the currency exposure of foreign property; or
- Reduce risk as part of a hedging strategy

Derivatives may not be used to create positions that are not otherwise permitted under this policy or to create leverage for speculative purposes.

#### 8. Non-permitted Investments

No part of the portfolio shall be directly invested in:

- Commodities
- Corporate Commercial Paper
- Real estate holdings
- Non-marketable (e.g. restricted stock, private placements) securities other than GICs or similar instruments
- Non-arm's length transactions that may be considered a conflict of interest

This list of non-permitted investments is not intended to be all-inclusive.

#### Conflict of Interest

9. A conflict of interest is defined as any event or circumstance that impairs the ability of any member of the Financial Planning, Investment and Human Resources Committee or its designate, or any employee or consultant to render unbiased and objective advice regarding any investment decision of the portfolio. In such cases, the conflict must be fully disclosed on a timely basis and the member shall withdraw from the meeting during the discussion and voting on the investment decision.

#### Related policies

- Donations
- Trust & Endowment Management
- Operating and Capital Fund Investment Policy
- Long-term Sinking Fund Policy

#### Amendments (revision history)

Date revised	Responsible
December, 2010	Vice-President, Finance & Administration
December, 2012	Vice-President, Finance & Administration