

SUBJECT: INVESTMENT POLICY STATEMENT

In the passage of the Third Reading of Bill 8-Miscellaneous Statutes Amendment Act, 2000 Section 70 amending Section 57 of the University Act, RSBC 1996 now authorizes boards of universities to make investments that a “prudent person” would make. Guidelines as defined by the university are as follows:

1. Statement of Purpose

- a) The goal of this Statement of Investment Policies is to establish guidelines which ensure that university funds are managed within an appropriate and prudent level of risk.
- b) Investment earnings are an important funding source for the universities. Therefore the protection *and* enhancement of the principal assets of all the universities’ portfolios is crucial if the universities are to meet the expectations of stakeholders, be they students, academics, government, or donors. Any investment policy must therefore establish a balance between risk tolerance and return objectives.
- c) There will be no changes to this Statement of Investment Policies without the prior approval of the Minister responsible for the universities.

2. University Portfolios: Time Horizon and Liquidity

The universities have two kinds of investment portfolios (these policies are not applicable to the universities’ pension or foundation portfolios) which can be broadly categorized by type of spending obligations. These “liability streams” are a function of liquidity requirements and thus have significant implications for investment time horizon. These types of portfolios and applicable asset classes are as follows:

a) Operating Funds

Operating fund balances require a high degree of liquidity and shall be invested appropriately, but in any event only invested in those asset classes authorized in Sections 3 and 4.

b) Endowments and other Long Term Investment Funds

Endowments have a far longer liability stream, being expected to benefit intended recipients in perpetuity in most cases. Investment policy will play a pivotal role in determining the extent that any endowment will be able to sustain a reasonably stable flow of meaningful benefits to beneficiaries. Maintaining the purchasing power of endowment capital against the erosive power of inflation is obligatory in order to protect the interest of future generations. Liquidity is not paramount as long as the regular payment requirements determined by university policy can be achieved. With a longer investment time horizon, endowments are able to absorb some volatility of return in order to obtain the long term benefits of those asset classes which have historically provided superior rates of return.

The stakeholders should not be unduly concerned with short-term investment performance or endorse any overly conservative policy. Rather, the endowments will benefit by having a substantial weighting of equities and other less liquid investments, but in any event shall only be invested in those asset classes authorized in Sections 3 through 7.

Where applicable, all those policies and guidelines stated in Sections 8 through 12 are in effect for both operating funds and endowment portfolios. For the purposes of those issuer, credit, denomination, and duration restrictions contained in Section 4, operating and endowment portfolios shall be considered independent.

3. Canadian Cash Equivalents and Short-Term Commercial Paper

All investments shall be rated minimum R-1 Low by the Dominion Bond Rating Service (“DBRS”); or an equivalent rating from other agencies.

4. Canadian Fixed Income Securities

- a) All investments shall be in securities which are the subject of regular price quotation by recognized investment dealers in Canada;
- b) Not more than 5% of a university portfolio shall be invested in debt issues of any one issuer other than of Canada, British Columbia, or of another province of Canada having at least an AA credit rating. Not more than 1% shall be invested in any one issuer having a credit rating below A;
- c) Where ratings are not available for a borrower or a debt issue of a borrower, the issue is ineligible for investment;
- d) The corporate and Government bond and debenture portfolio in aggregate shall be held within the following DBRS or equivalent DBRS standard:

<u>Credit Rating Maximum Percent (Book Value)</u>	
below BBB	0%
BBB	10%
A or below	50%

Split rated debt shall be classified in the lowest rating of the major credit agencies; where ratings are not available, the borrower or debt issue is ineligible.
- e) A bond portfolio may hold not more than 10% denominated for payment in non-Canadian currency.
- f) The duration of an aggregate fixed income portfolio of a university must not exceed 130% of the duration of the Scotia McLeod Universe Bond Index.

5. Canadian Equities

- a) Investments shall only be made in equities regularly traded through listing on a recognized Canadian, US or foreign country stock exchange. Where such shares are inter-listed on the Canadian Venture Exchange, buy/sell orders are to be executed on the Canadian Venture Exchange subject to cash and all other conditions being equal.
- b) Not more than 10% of a university equity portfolio shall be exposed or invested in the common, preferred or “other equity issue(s)” of any one corporate issuer.

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- c) Not more than 20% of a university equity portfolio shall be held in “small capitalization” stocks, defined as those with a market capitalization (including closely-held shares) of from \$100 - \$350 million. “Venture capital” stocks, defined as those with a market capitalization of less than \$100 million, are permitted, such stocks not to comprise more than 5% of a university’s equity portfolio. Any one holding of a single small capitalization stock issue must not exceed 1% of the Canadian equity portfolio of a university.

6. Real Estate

Not more than 10% of the book value of an endowment portfolio may be invested in Canadian real estate, whether such investment is through direct investment, syndicates with other funds, or co-mingled pooled trusts, insurance company separate funds, or through limited and general partnership interests.

7. U.S.A. and Foreign Securities

Investment in non-Canadian equity and debt instruments of an endowment portfolio shall not exceed the foreign property investment limit on registered plans under the Income Tax Act. Currently, the foreign content limit is 30% of the book value of a portfolio. Securities must be of quality and credit worthiness comparable to the parameters established for Canadian equity and debt instruments as detailed in Section 3 through 5. For the purposes of calculation of the 30% bonds denominated for payment in non-Canadian currency (as described in Clause 4(e)) shall only be considered non-Canadian if they are issued outside of Canada.

8. Asset Mix Diversification and Rate of Return Expectation

8.1 Asset Mix

At no time shall the total equity component of a university’s endowment portfolio exceed 80% of the total market value of the portfolio.

8.2 Diversification

A university’s endowment portfolio should always contain at a minimum:

- 2% Canadian cash equivalents
- 10% Canadian fixed income securities
- 10% Canadian equities
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8.3 Rate of Return Objective – Endowments

The universities’ rate of return objective for endowments shall be to achieve a three year annualized return comparable to pension plans, i.e. in the order of 3 or 4% above inflation. Rate of return calculation shall be based upon market values and after the recovery of investment management and administrative costs.

8.4 Rate of Return Objectives - Individual Asset Classes

Based upon the belief that proactive management should yield better than market returns, the investment return objectives for individual asset classes is to exceed the standard benchmarks associated with each. The benchmarks (indices) used for specific asset classes are listed in the following table:

<u>Asset Class</u>	<u>Benchmark</u>
Money Market Scotia McLeod	91-Day Canada Treasury Bills
Bonds	Scotia Capital Market Universe
Canadian Equities	TSE 300 Index
Canadian Small Cap Equities	BMO Nesbitt Cdn Small Cap Index
US Equities	S&P 500 Index
US Small Cap Equities	Russell 2000 Small Cap Index
Non-Canadian/US Equities	Morgan Stanley EAFE Index
Emerging Market Equities	Morgan Stanley Emerging Mkt Index
Mortgage	SCM Conventional Mortgage Index

8.5 Pooled Funds

Investment in unitized pooled funds comprised of publicly traded securities shall be permitted provided the individual securities qualify as eligible investments under Sections 3 through 7.

9. Other Investments and Transactions

A university may use derivatives as a hedge or as a substitute for more traditional investments if the purpose is consistent with the university's investment objectives.

A university will not, without the express written permission of the Minister responsible for the universities:

- a) purchase any security or asset previously disallowed by the Minister under written notice to the university recognizing that throughout the evolution of time authorized changes within this Statement may be expected and that the classification of "eligible" investments are subject to periodic review;
- b) purchase securities on margin;

10. Securities Lending

The universities may lend their securities provided that normal market convention is observed in terms of collateral security being greater than the value of the loaned security, the loan and security being valued daily on a "market-to-market basis", and the collateral consisting of highly liquid and marketable securities.

11. Securities Valuation

- a) **Frequency and Information Sources**
Investments in pooled funds comprised of publicly traded securities shall be valued at least monthly according to the unit values published by the pooled fund manager. All other investments shall be valued at market value from regular public pricing sources accepted by a university's securities custodian and/or the university. A valuation statement of a custodian shall normally serve as the principal evidence of value for the portfolio of a university.
- b) **Fair Market Value for Difficult to Evaluate Securities**

Where fair market value, i.e. published information, is not readily available, then the fair value shall be determined by a university. For each such investment, fair market value may be determined by reference to independent expert appraisal or by other means such as risk-adjusted

discounted cash flow or comparison with similar assets which are publicly traded provided a reasonable and consistent valuation methodology is applied over time.

12. Proxies

A university may direct a custodian to vote on behalf of the university any proxies that do not involve the following issues:

- i) public or social policy concerns of the university;
- ii) precedent setting proposals;
- iii) contested management or shareholder proposals; or
- iv) concerns previously raised by a member of the university's Board of Governors or investment committee.

All other proxies and pertinent reference material must be forwarded to the university. The university shall then either vote the proxies or direct the custodian to vote the proxies in accordance with the wishes of the university.