

University of Northern British Columbia

Statement of Investment Policies and Goals Endowments and Other Long Term Investments

Approved on behalf of the University of Northern British Columbia:

Approved by the Board of Governors on February 1, 2019 under Motion #2019BC02.01.02.

University of Northern British Columbia
Statement of Investment Policies and Goals

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1 Overview

1.1 University Mission Statement

The University of Northern British Columbia ("UNBC") holds as its mission to improve the quality of life in our region, province and world by attaining the highest standards of undergraduate and graduate teaching, learning, and research. UNBC is committed to serve a vast region by nurturing relationships and being innovative, resourceful and responsive to student and community needs.

1.2 Purpose of Endowments and Other Long Term Investment Funds

UNBC has established an Endowment Fund and may establish Other Long Term Investment Funds to be invested in securities to provide investment earnings for a variety of University purposes in pursuit of its mission statement. The Endowment Fund earnings are used to fund awards, programs, equipment, and research according to terms of endowment agreements.

1.3 Purpose of this Policy

This Statement of Investment Policies and Goals (the "Policy") establishes the framework of principles and guidelines for the investment oversight of the Endowment Fund and all Other Long Term Investment Funds of UNBC (collectively, the "Fund"). This Policy is designed to ensure an appropriate balance between the Fund's return objectives and its risk tolerance.

1.4 Nature of the Endowment Fund

The Endowment Fund is expected to benefit intended recipients in perpetuity. The very long term investment horizon allows the Fund to absorb some short term volatility of return in order to achieve the long term benefits of those asset classes that have historically provided superior rates of return. Maintaining the purchasing power of capital against the erosive power of inflation is essential to protect the interests of future generations. Liquidity is not paramount provided the regular payout requirements established by UNBC policy can be achieved.

1.5 Endowment Spending Policy

The endowment spending rate will be 3.5% of market value on a 3-year rolling average subject to the viability of the endowed account effective July 1, 2009 and reviewed on an annual basis thereafter

Exceptions may be made on an individual account basis where the relevant fund can support a higher rate of spending, but is not to exceed 5% of market value on a 3-year rolling average.

1.6 Prudent Person Approach

UNBC operates under the authority of the University Act of British Columbia, which authorizes the boards of universities to make investments that a "prudent person" would make. Investments will be evaluated in terms of their impact on overall portfolio return and risk.

1.7 Tax Considerations

Under section 149(1)(h.1) of the Income Tax Act, UNBC is exempt from income taxes. The Endowment is subject to the Canada Revenue Agency ("CRA") disbursement rules for charitable endowments.

2 Governance

2.1 Roles and Responsibilities

- The Board of Governors of the University of Northern British Columbia (the “Board”) has the ultimate responsibility to ensure that the Fund is invested and managed in accordance with the prudent person principle.
- The Board expresses their view of the financial markets, and how the Fund should be managed through the Statement of Investment Beliefs. The Statement of Investment Beliefs serves as the guiding principle for establishing investment policies and strategies for the Fund, ensures there is a common understanding among Trustees, and provides a foundation for the development of the Policy.
- The Board has established the Investment Advisory Committee (the “IAC”) reporting to the Finance and Audit Committee of the Board of Governors (the “FAC”) through the Vice-President of Finance and Business Operations, with delegated responsibility for overseeing the Fund. The assets are to be administered by this Committee to ensure prudent investment and operation of the Fund. The IAC is responsible for monitoring the investment results and makes recommendations to the FAC on all aspects of the investment of the Fund, including development of policies, determination of asset mix, and appointment and termination of investment managers and other external service providers. The IAC will recommend to the Board through the Finance and Audit Committee changes or modifications to this Policy from time to time.
- In fulfilling its responsibilities, the IAC may delegate some activities to employees of the University (“Staff”) where appropriate. The IAC shall utilize suitable personnel for such activities and monitor the activities undertaken by the selected personnel and shall retain responsibility for such activities. Any reference in the Policy to the IAC shall be interpreted as referencing the appropriate delegate.
- The IAC may rely on independent experts for certain aspects of the Fund's operations where expert knowledge is required or where a perceived or actual conflict of interest exists.
- The IAC shall retain one or more independent professional investment managers (the “Manager(s)”) to invest the Fund assets. Managers for the Fund’s assets must be registered and in good standing with a securities commission appropriate for their jurisdiction.

Appendix II provides the Statement of Investment Beliefs and relevant policy implication.

Appendix III provides detailed responsibilities of the Board, FAC, IAC, Staff, and external parties as they relate to the investment management of the Fund.

Appendix IV provides terms of reference for the IAC

2.2 Standard of Care

The IAC and their appointed advisors shall exercise the degree of care, diligence and skill that a person of ordinary prudence would exercise in dealing with the property of another person.

The IAC members and their appointed advisors who possess, or because of their profession or business ought to possess, a particular level of knowledge or skill relevant to their responsibilities to the Fund, shall employ that particular level of knowledge or skill in the interest of the Fund.

3 Investment Objectives and Risk Considerations

3.1 Primary Investment Objective

The primary investment objective is to generate sufficient long term investment returns to enable the organization to achieve its target spending rate and cover administration and investment expenses, while preserving the inflation-adjusted capital value of the Fund.

The Board has established a long-term return objective of CPI + 5% as follows:

Target Spending Rate:	3.5%
Administration	1.0%
Management Fees	0.5%
Real Return Objective:	5.0%
Assumed Inflation	1.5%
Nominal Return Objective	6.5%

It is understood that returns may be well above or below this objective in any given year, depending on the capital market environment. Achievement of this objective should be evaluated over a complete market cycle (i.e., over at least a four-year period).

3.2 Secondary Investment Objective

The secondary investment objective is to exceed by 1.35% over rolling four-year periods the returns that would have been achieved by passively investing in the benchmarks, weighted according to the target allocations detailed below.

Asset Class	Benchmark Index	Target Allocation
Cash and short-term	FTSE TMX Canada 91 Day T-Bill	2.5%
Bonds	FTSE TMX Canada Universe Bond	15.0%
Private Debt	FTSE TMX Canada Universe Bond	25.0%
Total Fixed Income		42.5%
Canadian Equity	S&P/TSX Composite	10.0%
Foreign Equity	MSCI World (\$C)	10.0%
Private Equity	MSCI ACWI (\$C)	7.5%
Total Equities		27.5%
Real Estate	Consumer Price Index + 400 bps	15.0%
Infrastructure	Consumer Price Index + 500 bps	15.0%
Total Real Assets		30.0%

The 1.35% value-add objective is calculated from the target value-add and policy weight for each asset class.

3.3 Asset Component Objectives

The following table details the value-add objectives relative to the corresponding benchmark for each asset component, evaluated over rolling four-year periods.

Asset Class	Benchmark Index	Value-Add Objective (bps)
Cash and short-term	FTSE TMX Canada 91 Day T-Bill	0
Bonds	FTSE TMX Canada Universe Bond	35
Private Debt	FTSE TMX Canada Universe Bond	300
Canadian Equity	S&P/TSX Composite	150
Foreign Equity	MSCI World (\$C)	150
Private Equity	MSCI ACWI (\$C)	300
Real Estate	Consumer Price Index + 400 bps	0
Infrastructure	Consumer Price Index + 500 bps	0

In addition, each asset component is expected to rank 40th percentile or better over rolling four-year periods relative to a representative universe of similar funds.

3.4 Risk Considerations

UNBC recognizes that the asset classes most likely to produce the highest returns are also likely to exhibit the greatest volatility. Conversely, the asset classes likely to be the least volatile are likely to produce the lowest returns over time. The Fund is characterized by moderate risk aversion and is able to accept some short-term volatility in order to achieve higher long-term returns. To the extent possible, risk will be reduced through thoughtful diversification and by applying appropriate restrictions on the quality of securities held.

4 Asset Allocation Guidelines

The Board has adopted a target asset allocation policy designed to provide ample diversification, suitable liquidity and a prudent balance of risk and expected return. The target allocations along with allowable ranges are detailed in the table below:

Asset Class	Target Allocation	Permitted Range
Cash and short-term	2.5%	0.0% - 7.0%
Bonds	15.0%	5.0% - 30.0%
Private Debt	25.0%	10.0% - 30.0%
Total Fixed Income	42.5%	30.0% - 55.0%
Canadian Equity	10.0%	7.5% - 40.0%
Foreign Equity	10.0%	7.5% - 40.0%
Private Equity	7.5%	5.0% - 10.0%
Total Equities	27.5%	20.0% - 65.0%
Real Estate	15.0%	0.0% - 17.5%
Infrastructure	15.0%	0.0% - 17.5%
Total Real Assets	30.0%	0.0% - 35.0%

Adherence to the above ranges may not be possible during periods of asset mix transition.

5 Permitted Categories of Investments

5.1 Subject to Section 6 of this Policy, and the Investment Manager Agreement (“IMA”), the Manager may invest in any or all of the asset categories and subcategories listed below either directly or through pooled funds that hold these investments:

- Equities, convertible debentures or preferred securities, share purchase warrants and rights, exchange traded funds (ETFs), depositary receipts, interests in limited partnerships, real estate investment trusts and income trusts unless holding such limited partnerships or trusts would be considered by CRA to be carrying on an unrelated business;
- Bonds, debentures, mortgages, notes or other debt instruments of governments, government agencies, or corporations including such securities for which the amount of coupon, payment or maturity value varies in accordance with an external index related to the cost of living;
- Private Investments consisting of securities and notes not publicly traded, whether debt or equity, of private companies, including common or preferred shares which may be convertible into common shares. Investments are to be made by means of limited partnerships including limited liability partnerships and other commingled investment vehicles;

- Real assets such as Real Estate and Infrastructure, when invested in by means of a limited partnership including a limited liability partnership or Investment Fund or deposit administration contract;
- Investments in foreign property as defined by the Income Tax Act of Canada;
- Mortgage loans, asset backed and mortgage-backed securities;
- Guaranteed investment contracts or equivalent of insurance companies, banks or other eligible issuers, which invest primarily in such instruments;
- Annuities, deposit administration contracts or other similar instruments regulated by the Insurance Companies Act or comparable provincial law, as amended from time to time;
- Term deposits or similar instruments issued or unconditionally guaranteed by trust company or banks;
- Cash or money market securities issued by governments, government agencies or corporations; and
- Pooled or segregated funds and limited partnerships which may invest in any or all of the above instruments or assets.

5.2 Managers may utilise the following derivative financial instruments as a means of implementing an investment position provided that usage is consistent with this Policy and has been specifically approved in their IMA:

- Covered call options;
- Currency forwards, futures and options used to hedge investments denominated in foreign currency and foreign pay obligations of Canadian debt issuers;
- Indices in markets of securities permitted under Section 5.1; and
- Interest rate derivatives such as swaps, forwards, futures and credit derivatives as an alternative to direct investment in bonds, provided that no leverage is involved
- At no time may the use of derivatives lever the portfolio so as to increase the overall market exposure of the portfolio.

5.3 The Fund may invest in real estate, natural resource properties or participation rights in natural resource properties provided that participation has been specifically approved in the IMA. Such investments may be made through closed or open-end pooled funds, or through participating debentures or shares of corporations or partnerships formed for the purpose of such investment.

5.4 Community Position on Restrictions on Investments

Investments will not knowingly be made in entities which could damage the role or standing of UNBC within the community or which could be construed to be at odds with the UNBC Mission Statement. Additional restrictions may be communicated to the Manager by the Vice-President of Finance and Business Operations on behalf of the IAC.

6 Restrictions and Constraints for Fund's Investments

- 6.1 Cash is to be managed at the Total Fund level in order to meet Endowment spending. Managers are expected to be fully invested at all times except for cash held in transition or for liquidity purposes.
- 6.2 Within each asset class and the Manager's portfolio, there will be a prudent level of diversification subject to the limits below.
- 6.3 Liquidity requirements for the Endowment Fund are expected to be low and the portfolio will be structured to take advantage of this as appropriate in order to increase the overall Fund return. The Finance Department will advise a manager of anticipated disbursements and an appropriate portion of the Fund will be maintained as Short-Term or equivalent investments for this purpose.
- 6.4 The combined holdings of an individual entity, through equity or other security type, shall not exceed 10% of the market capitalization of that entity.
- 6.5 Bonds
 - 6.5.1 All publicly traded bonds in the portfolio should be rated investment grade by either the Dominion Bond Rating Service, Standard and Poor's Rating Service or equivalent rating service. All bonds or equivalent securities must be rated by at least one rating agency, and split rated debt shall be classified at the lowest rating of the major credit rating agencies.
 - 6.5.2 The Manager has the discretion to purchase "BBB" rated bonds (including convertible and other high yield securities) to a maximum of 15% of the Manager's bond portfolio. No single bond rated "BBB" or equivalent shall exceed 3% of the Manager's bond portfolio.
 - 6.5.3 Except for federal bonds and provincial bonds having at least an A credit rating, no more than 10% of a Manager's bond portfolio may be invested in the bonds of a single issuer and its related companies.
 - 6.5.4 If an investment credit rating is downgraded to below a "BBB" rating, the manager will inform the Vice-President of Finance and Business Operations of their strategic reason to maintain a position in the asset. If the IAC is not satisfied, the manager will dispose of the downgraded security as expeditiously as possible without compromising the portfolio.
 - 6.5.5 Not more than 10% of the bond portfolio may be denominated in non-Canadian currency. Foreign currency exposure must be consistent with the currency hedging policy of this Policy.
 - 6.5.6 The duration of the bond portfolio will be maintained within $\pm 50\%$ of the duration of the Universe Bond Index
 - 6.5.7 Derivatives may be used to hedge the currency exposure of foreign currency bonds and as an alternative to direct investment, provided that any additional net foreign currency exposure is included in the percentage limit specified in sub-clause 6.5.5 above. Use must conform with the provisions of Section 8, Derivative and Currency Hedging, of this Policy.

6.6 Short-Term

All Short-Term investments shall be rated by at least one rating agency and must be rated at least DBRS R-1 low.

6.7 Mortgages

- 6.7.1 Investment in Mortgages should be made solely through professionally managed funds which may take the form of commingled pooled investment funds or limited partnerships.
- 6.7.2 Mortgage investments shall be diversified by Canadian regions and type. Eligible types include first mortgages of office, commercial, industrial and multi-unit residential. Mortgages shall be restricted to a maximum of 75% of the value of the property (LTV) unless insured. Not more than 5% of the mortgage component of a manager portfolio shall be invested in the mortgage on a single property or development.

6.8 Equities

- 6.8.1 All equity investments shall be publicly traded on recognized stock exchanges or through organised facilities upon which market prices are readily available.
- 6.8.2 Equity holdings shall be prudently diversified among countries, industry sectors and number of companies.
- 6.8.3 In the interest of diversification, not more than 10% of the total equity portfolio, at market value, shall be invested in the common stock, preferred shares or other equity issues of any one corporation.
- 6.8.4 The manager will advise the IAC in writing when the manager owns/controls 10% or more of one security or company in the portfolio.

6.9 Private Debt

Investments in Private Debt are typically made by means of limited partnerships including limited liability partnerships or related fund vehicle. Asset Backed Loans and mezzanine mortgages with high Loan-To-Value (LTV) ratios are considered to fall under this categorization.

6.10 Private Equity

Investments in Private Equity assets shall be made by means of limited partnerships including limited liability partnerships.

6.11 Real Estate

Investments in Real Estate should be made solely through professionally managed funds which may take the form of commingled pooled investment funds or limited partnerships including limited liability partnerships, which must have an investment strategy that provides for diversification and prudent use of leverage.

6.12 Infrastructure

Infrastructure is a broadly defined asset class and may include thoroughfares and bridges, power generation and transmission facilities, ports and airports, and other real assets of similar nature but exclude debt instruments secured by infrastructure assets. Investments will be made via Infrastructure Pooled Funds and limited partnerships including limited liability partnerships, which must have an investment strategy that provides for diversification and prudent use of leverage.

6.13 Donated Securities

All securities that are donated to the UNBC Endowment will be valued, accounted for and liquidated in an orderly and timely fashion, unless otherwise directed. The Manager has the option of retaining donated securities as part of the portfolio as long as they are in accordance with this Investment Policy.

6.14 Pooled Funds

The Fund may invest in pooled funds provided that such pooled funds are expected to be managed within constraints similar to those detailed in this Policy. It is recognized that conflicts may arise between this Policy and the investment policy of the pooled fund. In these cases, the pooled fund policy shall prevail. However, the relevant manager is expected to advise the IAC in the event that the pooled fund exhibits any significant departure from this Policy.

6.15 Prohibited Investments and Other Constraints

The Fund may not directly invest the assets in:

- Real assets in which a direct ownership position is taken;
- Raw commodities or derivative instruments related thereto;
- Collectibles;
- Non-listed shares;
- Derivative instruments not specifically permitted by this Policy; and
- Investments that could jeopardize the CRA tax status of the Endowment.

In addition, the Fund shall not:

- Purchase any securities or other assets that are not permitted by this Policy;
- Purchase securities on margin or engage in short sales except when explicitly allowed in the Manager Mandate; and
- Borrow money, pledge, or otherwise encumber any of the Fund assets.

7 Valuation of Investments

7.1 Investments in publicly traded securities shall be valued monthly at their market value.

7.2 Investments in pooled funds and like vehicles comprised of publicly traded securities shall be valued according to the unit values published at least monthly by the pooled fund Manager and verified by the pooled fund's Custodian.

7.3 If a market valuation of an investment is not readily available, then a fair value shall be determined by the Manager. For each such non-traded investment, an estimate of fair value shall be supplied to the Fund's Custodian and reported to the Committee no less frequently than quarterly. In all cases, the methodology should be disclosed and applied consistently over time.

7.4 For real and non-traded assets, the Manager shall complete an annual valuation by engaging an accredited independent appraiser to determine the value. For a security that is not traded and represents less than 2% of the Manager portfolio, a valuation must be undertaken at least every two years.

8 Derivatives and Currency Hedging

- 8.1 Derivative instruments may be used by a manager to facilitate risk management or as a technique for economically achieving an investment position such as replicating the investment performance of a recognized market index, provided that the underlying investment would be permissible under this Policy. Derivatives shall not be used for speculative purposes or to create leverage inconsistent with the investment strategy. All derivative usage must be formally approved by the IAC in writing and regularly reported on by the managers, consistent with the reporting requirements outlined in this Policy.
- 8.2 The investment exposure attributable to derivatives, or affected by derivative instruments in any way, must be regularly reported to the IAC and be consistent with the reporting requirements outlined in this Policy.
- 8.3 Foreign currency exposures arising from equity investments will not normally be hedged.
- 8.4 Foreign currency exposures arising from investments in real estate, infrastructure and fixed income, including private debt, may be hedged at the discretion of the IAC.

9 Conflicts of Interest

- 9.1 A conflict of interest, whether actual or perceived, is defined for the purposes of this Policy as any event in which a Related Party may benefit materially from knowledge of, participation in, or by virtue of, an investment decision or holding of the Fund or decision of the IAC.
- 9.2 Should a conflict of interest arise, the party in the actual or perceived conflict, or any person who becomes aware of a conflict of interest situation, shall immediately disclose the conflict to the IAC Chair. The party to the conflict shall thereafter be excused from meetings and abstain from decision-making with respect to the area of conflict, and a written record of the conflict shall be maintained by the IAC.
- 9.3 Where an actual or perceived conflict of interest arises, the nature and substance of the conflict will be disclosed to all affected parties within 30 days after the conflict has arisen.

10 Voting Rights

- 10.1 The responsibility of exercising and directing voting rights acquired through Fund investments shall normally be delegated to the Manager, who shall at all times act prudently and in the best interest of the Fund.
- 10.2 The IAC reserves the right to direct or override the voting decision of a Manager if in its view such action is in the best interests of the Fund.
- 10.3 It is recognised that voting rights are not enforceable to the extent that the Fund is invested in pooled funds.
- 10.4 The Manager shall track, and report to the IAC, all instances of votes against company management as part of its regular reporting to the IAC.

11 Monitoring

11.1 The IAC shall review on a regular basis, as needed, and at least semi-annually:

- the assets and net cash flow of the Fund,
- the current economic outlook and investment plans of the Manager,
- the current asset mix of the Fund,
- the investment performance of the Fund
- the performance of Manager portfolios,
- the Manager's turnover of personnel, consistency of investment style, discipline in portfolio construction, and record of service,
- the fees and expenses incurred in managing the Fund, and
- compliance with this Policy

The IAC shall take such steps as it deems appropriate to address any concerns which may arise from such monitoring.

11.2 The IAC or a representative appointed by the IAC shall meet at least once a year with each Manager to discuss investment performance, investment strategies, expected future performance and any changes in that Manager's organization, investment processes and professional staff.

11.3 Manager Performance Monitoring

11.3.1 The primary focus of performance assessment will normally be on a moving four-year basis, but performance over shorter time periods and the Manager's performance for other comparable accounts prior to appointment for the Fund may also be considered. The Manager will not necessarily be faulted for underperforming the agreed standard over short time periods. However, the IAC may conclude that significant short-term under performance renders it unlikely that the performance standard can reasonably be achieved at an appropriate risk level over the remainder of a market cycle.

11.3.2 Managers' performance will be measured against applicable benchmarks and peer groups, as well as non-performance-based criteria, indices and comparator groups.

11.4 Investment Managers

11.4.1 Should the registration of an incumbent Manager be declined or revoked, the Manager shall immediately notify the Vice-President of Finance and Business Operations. The IAC shall discuss their course of action within 14 days of such notification.

11.4.2 Managers are engaged under the condition that they agree to be bound by the Code of Ethics and Standards of Professional Conduct of the CFA Institute. The CFA Institute is the industry association of investment professionals whose aim is to promote the highest ethical standards of professional conduct within the investment profession.

11.4.3 Managers shall provide written confirmation each December to the Vice-President of Finance and Business Operations that they continue to meet the registration and the Code of Conduct requirements of sub-clauses 11.4.1 and 11.4.2.

11.4.4 A set of guidelines shall be established within which the Manager is expected to operate, including discretion limits, diversification, quality standards and performance expectations. These guidelines are set out in the IMA and the manager mandate statement.

- 11.4.5 Managers will be required to read this Policy and shall manage their portfolio in a manner that is compliant with it. At the end of each calendar quarter the Manager shall submit a letter of compliance to the Vice-President of Finance and Business Operations.
- 11.4.6 Managers will prepare and submit an Investment Management Strategy for each semi-annual meeting. The submission will address actions taken since the last presentation and those contemplated over the forthcoming year.
- 11.4.7 A Manager may make a written request to the Vice-President of Finance and Business Operations for a change to the Policy as it affects their mandate. The IAC will review the area of concern with the advice of their Investment Consultant within four months of such a request.
- 11.4.8 A Manager shall notify the Vice-President of Finance and Business Operations promptly in writing of any conflict of interest, direct or indirect, or a substantive change in investment philosophy, key personnel or corporate organisation.

12 Policy Review Meetings

- 12.1 This Policy shall be reviewed at least annually, and whenever a major change is necessary. Such review may be triggered by:
 - 12.1.1 a change in the expected projected expenditures of the Fund;
 - 12.1.2 a revision to the expected long-term trade-off between risk and reward on key asset classes;
 - 12.1.3 a shift in the financial objectives and risk tolerance of the Fund,
 - 12.1.4 shortcomings of the Policy that emerge in its practical operation; or
 - 12.1.5 modifications that are recommended to the IAC by a Manager.

The IAC shall recommend changes to this Policy as required.

13 Loans and Borrowing

- 13.1 No part of the Fund shall be loaned to any persons, partnership or association except as provided in this section.
- 13.2 The IAC may approve the lending of securities through the Fund's custodian, subject to applicable legislation and provided that a minimum, liquid, high quality collateral coverage as required by provincial regulations is maintained at all times. The IAC has decided that the Fund will not participate in security lending.
- 13.3 The assets of the Fund may not be pledged, hypothecated, or otherwise encumbered in any way except to the extent that temporary overdraft occurs in the normal course of business.
- 13.4 The IAC shall not borrow on behalf of the Fund except to a limited and temporary extent for the timely payment of Fund expenses or administrative costs.

14 Directed Brokerage

- 14.1 The IAC will not instruct its Managers to use directed commissions. This does not preclude a Manager from using soft dollars in a manner that is allowed by securities regulation and is consistent with the CFA policy on soft dollars.

15 Appendix I: Glossary

Any definitions listed in the following table apply to the document only with no implied or intended institutional-wide use.

Annual Returns	This is the rate of return for the 12-month period ending on the report date.
Annualized Returns	The rate of return that the portfolio received each year for a given period.
Asset Mix	The process of dividing investments into different asset classes, such as stocks, bonds, alternative assets, and cash in order to optimize the risk/return tradeoff in a portfolio. This is based on factors including investment time horizon, liquidity needs, risk tolerance, specific goals and situations, and legal and tax considerations.
Consumer Price Index (CPI)	A Statistics Canada index of retail prices for goods and services. Increases in the CPI are also referred to as increases in the cost of living and are directly correlated to increases in inflation.
Custodian	A financial institution, usually a bank or trust company, which holds an investment portfolio's securities and cash in safekeeping.
Derivatives	A financial instrument whose value is dependent on the performance of an underlying instrument or asset typically a commodity, bond or equity. They are also available on currencies, interest rates, and equity indices. Futures and options are examples of derivatives.
FTSE TMX Canada Universe Bond Index	An index maintained by FTSE TMX Global Debt Capital Markets (formerly PC-Bond/DEX) that tracks the performance of most marketable, domestically issued, Canadian bonds with terms to maturity of more than one year. This index is comprised of Canada's, provincial, municipal and AAA through BBB rated corporate issuers.
Endowment Fund	The endowment fund is made up of numerous segregated endowment accounts. Asset accounts which donors have specified that the principal is to be held in perpetuity. The principal is unexpendable and is invested to produce earnings that are generally available for use as specified by the donor.
Expendable Fund	Asset accounts whose principal and earnings are used for a specific purpose.
Investment portfolio	A collection of investments all owned by the same individual or organization.
Long Term Investment Funds	Asset accounts that can be invested for the long term before the spending of principal and earnings.
Operating Funds	Cash required to cover operating expenses.
Proxy	A written authorization given by a shareholder to another individual, usually the company's management, in order to cash his/her vote at a shareholder meeting or at some other point in time.
Rate of Return	The percentage change in the value of an asset, including interest and dividends, over an evaluation period.
Real Return	The nominal rate of return on an investment adjusted for inflation. If the nominal rate of return on an investment is 8% and inflation is 2%, the real return is 6%.
Risk	The possibility of loss and/or the uncertainty of future returns.
Risk Tolerance	An individual's or organization's ability to handle declines in the value of their portfolio.
S&P/TSX Composite Index	An index maintained by the Standard & Poor's (S&P) /Toronto Stock Exchange (TSX) Canadian Index Policy Committee that measures the return on the largest companies that trade on the Toronto Stock Exchange. The index is float-weighted and calculated on a total return basis with dividends reinvested.
MSCI World Index	A free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index is maintained by MSCI Inc., formerly Morgan Stanley Capital International.

MSCI All Country World Index	A free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of both developed markets and emerging markets countries across particular regions. The MSCI All Country World Index is maintained by MSCI Inc., formerly Morgan Stanley Capital International.
Spending Rate	The amount of endowment spending divided by the overall endowment value.
Synthetic	A synthetic investment simulates the return of an actual investment, but the return is actually created by using a combination of financial instruments, such as options contracts or an equity index and debt securities, rather than a single conventional investment.
Target Rate of Return	This is the long term annualized rate of return goal.

16 Appendix II: Statement of Investment Beliefs

Investment Belief	Policy Implication
<p><u>Risk and Return</u></p> <p>There is a relationship between risk and return. Specifically:</p> <ul style="list-style-type: none"> • Seeking higher returns generally requires taking on higher risk. These risk and return relationships are more predictable over the longer term. • Equity investments will provide greater returns than fixed income investments, although with greater short-term volatility. • The long term strategic asset allocation decision is the most important factor in determining investment risk and return. <p><u>Diversification</u></p> <ul style="list-style-type: none"> • Diversification within and across asset classes can reduce risk over the long term without compromising expected returns and is a prerequisite to prudent fund management. <p><u>Currency Hedging</u></p> <ul style="list-style-type: none"> • With respect to investments in foreign public equities, foreign currency exposure can provide diversification benefits and will generally reduce the risk associated with these investments. • With respect to investments in less volatile asset classes like real estate, infrastructure and private debt, foreign currency exposures will generally increase the risk associated with these investments. 	<ul style="list-style-type: none"> • Asset mix will be the key driver towards the Fund meeting its objectives. Eliminating risk is generally not possible or desirable for funds that require growth. Belief in an equity premium over bonds is based on longer term trends. As this equity premium may not be realized in the near term, an understanding of the impact of disappointing results relative to key risk measures for the Fund is central to setting asset mix. • Asset mix should be purposefully allocated across investments that provide distinct risk and return characteristics in various economic environments, which when combined provide an efficient risk/return profile. Emphasizing diversification throughout the portfolio is also a recognition that it is very difficult to predict which asset classes, countries and sectors will outperform in any given period. Seeking out new asset classes, including non-traditional asset classes, is consistent with the focus on diversification. • Exposure to foreign currencies arising from public equity investments should generally not be hedged. • The risk reduction benefits of hedging foreign currency exposures arising from real estate, infrastructure, and private debt should be weighed against the associated costs.
<p><u>Tactical Asset Allocation</u></p> <ul style="list-style-type: none"> • Market timing is not seen as an effective strategy for generating consistent returns. 	<ul style="list-style-type: none"> • A disciplined rebalancing protocol around the strategic asset mix should be adopted to ensure that portfolio risk does not drift materially above or below the intended level.

Liquidity

- In general, higher risk-adjusted returns can be achieved by holding less liquid investments.
- A long investment horizon permits a higher allocation to less liquid investments.
- The Fund's very long investment horizon suggests a higher than average allocation to less liquid investments.

However, the Fund must retain sufficient liquidity to ensure stable funding for its annual disbursements.

Active vs. Passive

- Markets are efficient to varying degrees, and short term deviations from long term fundamentals can occur. Skilled managers can provide higher returns and/or reduced risk relative to passive exposure to the market.
- Broader, less constrained mandates afford greater opportunities for managers with skill and conviction to add value.
- Active management should be adopted in most asset classes. However, the benefits of active management should be weighed against the incremental costs relative to passive exposure.
- Constraints on active managers should be limited to those needed to ensure appropriate risk exposure.

Global (ACWI) mandates are preferred over combinations of US, International and Emerging Markets equity mandates.

Monitoring

- Proper monitoring of investment managers is an important and complex process requiring more than simply reviewing investment returns.
- Even highly skilled managers will have periods of underperformance.
- Risk levels vary significantly between investment managers.
- Investment Managers should be monitored regularly for changes in ownership, investment process and key investment personnel, and for investment performance against relevant peer groups and indices.
- Investment performance should be evaluated over a reasonably long time frame (at least 4 years) and should be reviewed with an understanding of the manager's style biases and how these relate to the market environment.
- In evaluating and selecting investment managers, consideration should be given not only to the level of returns, but also to the amount of risk taken to achieve those returns. For this purpose, absolute risk is of greater importance than tracking error. For equity managers, the primary measure of risk is the volatility of overall fund returns. Tracking error versus the relevant index is of secondary importance.

Fees and Expenses

- Fees and expenses can have a significant influence on the long term financial health of the Fund.
- Fees and expenses need to be effectively managed so that a greater proportion of investment returns passes through to the Fund.

Environmental, Social, and Governance (ESG)

- Companies that ignore environmental, social, and governance (ESG) factors expose themselves to risks that can adversely impact long term financial performance.
- Existing managers will be encouraged to integrate ESG considerations into their investment process, and will be required to provide annual updates on their ESG practices.
- When evaluating companies for potential investment, investment managers should include an assessment of the potential risks and opportunities arising from ESG factors.
- In evaluating and selecting new investment managers or retaining existing managers, consideration will be given to whether and how ESG factors are integrated into the manager's investment process.
- Security selection decisions will be made by investment managers hired to manage a portion of the portfolio, as they possess the necessary expertise and information.

17 Appendix III: Investment Management Roles Matrix

UNBC Endowment Management Areas - Levels of Management

Areas	UNBC Board	FAC	IAC	Staff	Consultants	Inv Managers
1. Objectives						
a. Draft investment policy			*	*	*	
b. Recommend investment policy to FAC			*			
c. Approve and make recommendations to Board		*				
d. Approve investment policy	*					
2. Payout Policy						
a. Recommend spending rate			*			
b. Approve payout policy	*	*				
3. Asset allocation						
a. Recommend asset class			*			
b. Recommend asset mix			*			*
c. Recommend asset rebalancing			*			*
d. Approve asset strategy	*	*				
4. Manager Selection						
a. Recommend investment structure			*			
b. Recommend investment managers			*			
c. Approve investment managers	*	*				
5. Risk Management						
a. Search for risk in investment process			*	*	*	*
6. Costs						
a. Determine if we can get the same results at a lower cost?			*	*	*	
7. Responsibilities						
a. Administer endowments				*		
b. Account for endowment transactions				*		

c. Communicate with managers			*	*	*	
d. Determine confidence in managers			*			
e. Determine if returns will meet payout			*	*	*	*
f. Provide investment advice			*		*	
g. Provide investment education				*	*	*
h. Provide portfolio update						*
i. Provide portfolio strategic direction						*
j. Measure portfolio performance					*	
k. Review portfolio manager(s) performance					*	
l. Monitor performance of custodians				*	*	*
m. Monitor compliance with investment policy			*	*	*	*
n. Report to major donors				*		
o. Report to the board		*	*	*		
p. Approve report(s)	*	*				

18 Appendix IV: Investment Advisory Committee – Terms of Reference

1. **The Investment Advisory Committee** (the IAC) is a standing committee of the Finance and Audit Committee (the FAC) of the Board of Governors.
2. **Chair** - the IAC will be convened and chaired by the President, or by the Vice-President Finance and Business Operations, and will meet at least two (2) times a year. Additional meetings may be called on an as-needed basis at the discretion of the Chair.

3. Membership

Ex-Officio Members (6)	External Members (5)	Resource (Non-Voting)
President VP Finance & Business Operations VP Research & Graduate Programs VP Advancement Chair- Board of Governors Chair - FAC	External Members are appointed by the Board of Governors on recommendation of the FAC. External members are nominated and appointed based on their relevant and proven investment expertise and knowledge of investment concepts and activities applicable to public sector organizations	Associate VP Finance Manager Treasury Service – Committee Secretary Governance Officer (recording)

4. **Term** - *Ex-Officio* Members sit by virtue of their office, and their Term on the IAC is dependent on their incumbency in that office. The Term for External Members is three (3) years. There is no limitation on the number of renewal terms an external member may serve, but the FAC will develop, update and consider an Investment Advisory Committee Competency Matrix in recommending renewals and appointments to the Board.
5. **Code of Conduct and Conflict of Interest** – Given the confidential nature of information that may be made available to the IAC, Members will be required to sign a Code of Conduct, which will include Confidentiality and Conflict of Interest provisions. Current form of the Code is attached here as Schedule A.

The Chair of the IAC has the authority to direct any member of the IAC to recuse him or herself from a meeting, or discussion within a meeting, should the Chair believe that such member has a real or potential conflict of interest with respect to any subject or material to be reviewed or addressed by the IAC.

6. **Quorum** – Quorum is a majority of the current voting members, and must include 2 External Members and 1 of either the Chair of the Board of Governors or the Chair of the FAC.
7. **Mandate** - The IAC makes recommendations to the FAC, which the FAC, in accordance with its authority may accept, reject or recommend on to the Board of Governors for approval:

The IAC will:

- Review UNBC's Investment Policies and practices and recommend revisions and adjustments as needed
- Review reports on investment related risk assessments or asset / liability studies and recommend revisions or adjustments to policies and practices as appropriate
- Receive information on performance, at least annually
- Provide advice to the President and Board of Governors on investment strategies, and asset mix
- Investigate, raise and address responsible investment concerns

Specifically, the IAC will:

- a) Review University Policy(s) and related guidelines applicable to the investment by the University of endowment funds and other long term investment funds, including expenditure practices and policies and, recommend needed or advisable revisions;
 - b) Oversee the selection process for Investment Managers and recommend the appointment of investment management;
 - c) At least twice annually review the investment performance of the Investment Manager, and seek professional outside assessment of the University's investment performance as deemed appropriate or required, and;
 - d) At least once annually submit a written report to the FAC.
8. **Administrative Responsibility** – The Treasury Services Manager acts as Committee Secretary, and will ensure that meetings are called as required, that terms and vacancies are monitored, agendas and meeting materials are prepared, and orientation is provided to new Committee Members.

The Board Governance Officer (Office of the University Secretariat) will serve as recording secretary and will support the Treasury Services Manager in scheduling and preparation of meeting agendas and materials. The Governance Officer will ensure that a current Membership list, including terms of appointment, is kept up to date.