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## INVESTMENT OBJECTIVES

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| POLICY NUMBER      | BRD 22-0                                 |
| APPROVAL DATE      | MAY 26, 2011                             |
| PREVIOUS AMENDMENT | FIRST VERSION                            |
| REVIEW DATE        | MAY 26, 2016                             |
| AUTHORITY          | BOARD OF GOVERNORS                       |
| PRIMARY CONTACT    | VICE-PRESIDENT, ADMINISTRATION & FINANCE |

### POLICY

In order to support the University's activities and mission, the University will invest its funds to achieve a rate of return commensurate with levels of risk that are acceptable to the University.

The University has established an Investment Advisory Committee to review on an ongoing basis, the University's investment strategies, asset mix guidelines, and performance.

This policy applies to all University-administered accounts, including operating funds, professional development funds, ancillary services, grants, research grants, contracts, endowments and other restricted accounts.

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### REGULATIONS

#### 1. The Investment Fund

The Fund represents multiple sources of cash, including general operating, accumulated surpluses, reserves for capital and other purposes, endowments and restricted funds. The purpose of the Fund is to help support University operations and expansion.

As the Fund has multiple sources of cash, there will be differing objectives for the various types of cash that will include:

- Short term investments (generally under 3 years);
- Medium term investments (generally 3 – 5 years);
- Long-term investments (generally longer than 5 years).

Accordingly, the University has adopted the following general investment objectives:

- Preservation of capital for dedicated projects and future expansion;
- Generation of consistent annual cash flow to help fund ongoing operations;
- Growth of cash flow to compensate for inflation over the long term.

When funds are donated, or are provided to the University with guidelines or restrictions articulated by an external donor, the University will insure that these guidelines and requirements are adhered to. A key component of funds Endowed to the University will be capital preservation while meeting the Donor's distribution requirements.

The objectives have competing demand for current cash flow and capital preservation. In order to achieve them, the University has adopted an asset mix policy and guidelines which are expected to supply sufficient cash flow while maintaining the Fund's contributed capital and earnings stream.

## 2. Asset Mix and Diversification

### a. Long Term Goal

The long term investment goal of the Fund is for preservation of capital while earning a predictable long-term income stream, with minimal exposure to bond and equity market fluctuations. To achieve this goal, the Fund has adopted an asset mix that has a bias towards bonds. Unsystematic risk is mitigated by investing in a well diversified portfolio of individual fixed income investments with staggered maturity dates. Diversified pools will be used for the higher risk asset classes, such as high yield bonds and any equities that may be included.

### b. Total Fund Objective and Asset Mix Guidelines

The objective of the Fund is to earn a return over rolling four year periods that exceed the total return (including income and reinvested dividends) of a benchmark portfolio. The DEX series of indexes will be used for establishing performance benchmarks. The University may utilize other indexes if deemed more appropriate.

The following table presents the total fund benchmark and asset mix guidelines, based on market values under normal market conditions. If the investment manager believes the asset mix or portfolio guidelines are inappropriate for

anticipated market conditions, the investment manager will advise the University that a change in guidelines is desirable and the reasons therefore.

| <b>ASSET MIX GUIDELINES</b> |                  |                    |                  |
|-----------------------------|------------------|--------------------|------------------|
|                             | <b>Minimum %</b> | <b>Benchmark %</b> | <b>Maximum %</b> |
| <b>Fixed Income</b>         |                  |                    |                  |
| Government Bonds            | 50%              | 65%                | 75%              |
| High Grade Corporate Bonds  | 25%              | 35%                | 30%              |
| High Yield Bonds            | 0%               | 0%                 | 10%              |
| Real Return Bonds           | 0%               | 0%                 | 5%               |
| Mortgages                   | <u>0%</u>        | <u>0%</u>          | <u>5%</u>        |
| Total Fixed Income          | 75%              | 100%               | 100%             |
| <b>Equities</b>             |                  |                    |                  |
| Canadian Equities           | 0%               | 0%                 | 15%              |
| Global Equities             | 0%               | 0%                 | 10%              |
| Hedge Funds                 | <u>0%</u>        | <u>0%</u>          | <u>10%</u>       |
| Total Equities              | 0%               | 0%                 | 25%              |
| <b>TOTAL FUND</b>           |                  | 100%               |                  |

c. Manager Rebalancing Guidelines

Cash allocation and rebalancing will be overseen by the investment manager. If the individual asset classes are within their prescribed ranges at month end, cash flow will be allocated to/from the asset classes based on the asset classes' target weights. If an individual asset class is outside the range, cash flow will be directed to/from that sector to bring the sector back to the target weight. If expected cash inflows (withdrawals) are insufficient to achieve the desired result, cash will be obtained from the asset class with the greatest variance from the target weight.

Rebalancing will also be considered annually in February in order to maintain the asset mix targets.

The rebalancing guidelines are intended to assist in managing the asset mix. Neither rebalancing for market fluctuations nor allocation of new cash flow will be used as a method to reward or express dissatisfaction with manager performance. Manager performance is a long-term measure and will be dealt

with during manager performance reviews.

### 3. Permitted and Prohibited Investments

#### General Guidelines

In general, and subject to the restrictions noted in this section, the Fund may invest in any of the following asset classes and investment instruments:

#### a. Canadian and Global Equities

- preferred common and convertible preferred stock, listed on a recognized exchange;
- debentures convertible into common or convertible preferred stock;
- rights, warrants and special warrants for common or convertible preferred stock;
- installment receipts, American Depository Receipts and Global Depository Receipts;
- exchange traded index participation units (e.g., i60s and SPDRs);
- income trusts (in jurisdictions that provide limited liability protection);
- interest in limited partnerships;
- initial public offerings (IPOs), and;
- 144A securities and private placements for new issues and secondary offerings.

#### b. Bonds

- bonds, debentures, notes, non-convertible preferred stock and other evidence of indebtedness and payable in Canadian dollars or a foreign currency and issued by a Canadian issuer or a foreign government or supranational organization with investment grade ratings;
- bonds, debenture or notes of a foreign issuer denominated in Canadian dollars;
- mortgage-backed securities;
- term deposits and guaranteed investment certificates;
- private placements of bonds and asset-backed securities subject to Section 3.f.

#### c. Mortgages

- first mortgages in a mortgage pool on income producing properties in Canada with geographical diversification and an emphasis on major population centres.

d. Cash and Short Term Investments

- cash on hand and demand deposits with term to maturity of less than one year;
- treasury bills issued by the federal and provincial governments and their agencies, with term to maturity of less than one year;
- obligations of trust companies and Canadian and foreign banks chartered to operate in Canada, including bankers' acceptances;
- commercial paper and term deposits, with term to maturity of less than one year.

e. Other Investments

- investments in open- or closed-end pooled funds, provided that the assets of such funds are permissible investments under this policy.

f. Minimum Quality Requirements

Within the investment restrictions for individual manager portfolios, including pooled funds, all portfolios should hold a prudently diversified exposure to the intended market.

- other than for High Yield Bonds, the minimum quality standard for individual bonds and debentures is 'BBB' or equivalent as rated by a recognized bond rating agency, at the time of purchase;
- the minimum quality standard for individual short term investments is 'R-1' or equivalent as rated by a recognized bond rating agency, at the time of purchase;
- all investments other than those classified as Long-term should be capable of liquidation within 3 months.

g. Maximum Quantity Constraints

The following restrictions are to be respected:

**Bonds and Short Term**

- except for federal and provincial bonds (including government guaranteed bonds), no more than 10% of the Fixed Income Manager's portfolio may be invested in the bonds of a single issuer and its related companies;
- except for federal and provincial bonds, no one bond holding shall represent more than 5% of the market value of the total outstanding for that bond issue.

#### 4. Responsibilities

##### a. The University

- i. Responsibility for oversight of the Fund rests with the University.
- ii. The University shall:
  - A. establish the Advisory Committee on Investments, which consists of the: Vice-President, Administration and Finance; two members of the Board of Governors, appointed by the Board of Governors; Vice-President, Advancement; Associate Vice-President, Finance; and Director of Finance;
  - B. establish and approve the Terms of Reference for the Advisory Committee on Investments;
  - C. establish, amend and implement the Investment Policy;
  - D. Review, at least annually, the Investment Policy and make revisions where appropriate;
  - E. establish a portfolio management structure and strategy which specifies the number of portfolio managers, types of portfolio managers and allocation of assets between managers;
  - F. establish procedures for rebalancing of the asset mix as described in section 2c;
  - G. select, appoint, monitor and replace the external service providers (custodians, auditors, investment manager and portfolio managers etc.) as appropriate;
  - H. ensure that the financial statements are prepared and audited on an annual basis;
  - I. approve the investment financial statements annually;
  - J. monitor the performance and financial position of the Fund and portfolio managers as noted in section 5b;
  - K. liaise, through the Finance Office, with the investment manager, portfolio managers and custodian for matters relating to day-to-day operations and investment purposes; and
  - L. report to the University's Board of Governors (semi-annually).
- iii. The University may delegate any activities relating to the responsibilities listed in section 4.a.ii to staff members or external experts. Notwithstanding this delegation, the University shall retain responsibility and shall be required to monitor as necessary the work done by others.

b. The Investment Manager

- i. The investment manager will:
- A. invest the assets in accordance with this policy;
  - B. comply with the terms of an investment manager agreement;
  - C. meet with the University as required and provide written reports regarding past performance, future strategies and other issues as requested;
  - D. send quarterly performance reports; and
  - E. advise the University on an on-going basis of any changes in the organization, personnel, or investment policy changes/ recommendations that should be considered.

c. The Custodian

- i. The custodian will:
- A. maintain safe custody over the assets of the Fund;
  - B. execute the instructions of the University, as delegated to the investment manager appointed to manage the assets of the Fund; and
  - C. record income and provide monthly account statements as required.

## 5. **Monitoring and Control**

a. Performance Measurement

The performance of the Fund shall be measured quarterly as follows:

- time weighted rates of return;
- total returns, including realized and unrealized gains and losses and income from all sources; and
- measurement against performance objectives for any portfolio managers will normally be assessed over rolling four-year periods.

### **Total Fund Benchmark**

The primary objective for the Fund is to earn a rate of return, net of investment management fees, that exceeds the rate of return on a benchmark portfolio. The benchmarks consist of the DEX Indexes (or others as determined by the University).

b. Monitoring Portfolio Managers

To enable the University to fulfill its responsibility of monitoring and reviewing any portfolio managers, the investment manager will assist the University on an ongoing basis, in considering:

- portfolio managers' staff turnover, consistency of style, and record of service;
- portfolio managers' current economic outlook and investment strategies;
- performance of the portfolio managers' funds in relation to the rate of return expectations stated in this policy;
- performance of the total Fund in relation to the benchmark.

6. **Other Issues**

a. Conflict of Interest

**Responsibilities**

This standard applies to the members of the Board and the staff of Thompson Rivers University, as well as to all agents employed by them, in the execution of their responsibilities as outlined herein (the "Affected Persons").

An "agent" is defined to mean a company, organization, association or individual, as well as its employees, who are retained by the University to provide specific services with respect to the investment, administration and management of the Fund.

**Disclosure**

In the execution of their duties, the Affected Persons shall disclose any material conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased advice, or to make unbiased decisions, affecting the administration of the Fund.

Further, it is expected that no Affected Person shall make any personal financial gain (direct or indirect) because of his or her fiduciary position. However, normal and reasonable fees and expenses incurred in the discharge of their responsibilities are permitted if documented and approved by the University.



No Affected Person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from a person with whom the individual deals in the course of performance of his or her duties and responsibilities for the University.

It is incumbent on any Affected Person who believes that he/she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation to the attention of the Board Chair immediately. The Board Chair in turn, will decide what action is appropriate under the circumstances but, at a minimum, will table the matter at the next regular meeting of the University.

No Affected Person who has or is required to make a disclosure as contemplated in this policy shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure.

b. Related Party Transactions

The Fund may not enter into a transaction with a related party unless:

- the transaction is required for the operation or administration of the Fund and the terms and conditions of the transaction are not less favourable to the Fund than market terms and conditions;
- the securities of the related party are acquired at a public exchange; or
- the combined value of all transactions with the same related party is nominal or the transaction(s) is immaterial to the Fund.

For this section of the policy, market value of the combined assets of the Fund will be used as criterion to establish whether a transaction is nominal or immaterial to the Fund. Transactions less than .5% of the combined market value of the assets of the Fund are considered immaterial.

A related party is a person who administers the Fund, including any officer, director or employee of the administrator, or any person who is a member of the Board. It also includes the investment and portfolio managers and their employees, a union representing employees of the University, a spouse or child of the persons named previously, or a corporation that is directly or indirectly controlled by the persons named previously, among others. Related party does not include government or a government agency.

Under the conflict of interest guidelines, it is incumbent on any person to notify the Board Chair if a conflict arises. Such conflict includes related party transactions.

c. Voting Rights

The University has delegated voting rights acquired through fund investments to the custodian of the securities, to be exercised in accordance with the portfolio managers' instructions. Portfolio managers are expected to vote all proxies in the best interests of the University.

The managers should disclose their proxy voting policies and report annually on (1) whether all eligible proxies were voted on the Fund's behalf and (2) if the proxy guidelines were followed and report on any deviations.

d. Reasons for Terminating a Portfolio Manager

Reasons for considering the termination of the services of a portfolio manager include, but are not limited to, the following factors:

- performance results, which over a reasonable period of time, are below the stated performance benchmarks;
- changes in the overall structure of the Fund such that the manager's services are no longer required;
- change in personnel, firm structure and investment philosophy, style or approach which might adversely affect the potential return and/or risk level of the portfolio; and/or
- failure to adhere to this policy.