

UNIVERSITY OF GUELPH

# Endowment Investment Policy

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## B. Purpose

This document constitutes the Investment Policy (the “Policy”) applicable to the invested assets in respect of the University of Guelph (the University) Endowment Funds. There are two major components of total Endowment Funds, the General Endowment Fund and the Heritage Fund, each having different governing policies with respect to purpose and spending. For the purposes of investing, however, these funds have been combined into one portfolio to which this Policy applies.

## C. Background

The primary objective of the University’s Endowment Funds is to provide a permanent source of funding by investing the principal amount of the initial capital and making a portion of the total investment return available for spending. Spending levels and investment categories are established to preserve the purchasing power of the endowment account over the long-term by spending only a portion of total investment returns and investing in asset classes that yield sufficient investment returns to provide inflation-protected spending.

Annual spending levels from the Endowment Funds are governed by separate Board of Governor’s approved policies that limit annual disbursements in order to preserve capital and the real spending capacity of these funds. The University’s Endowment Funds consist of two major components:

1. The **General Endowment Fund** consists of funds mainly from external, non-operating fund sources such as donations and government. The majority of these funds are designated for student aid in the form of scholarships and bursaries. Other designations include research support, endowed faculty chairs, equipment or library acquisitions and special academic activities such as support for visiting lecturers, student semester abroad programs and on-going support toward the operating costs of academic facilities.
2. The **Heritage Fund** was created with the intention that the capital of the fund be held in perpetuity for University of Guelph strategic purposes. The main sources of growth for the Heritage Fund are proceeds of real estate sales, leases from designated properties and investment income earned on the capital of the fund. Spending is designated primarily for special projects of a limited duration.

## D. Governance

### a. Oversight

- The University through its Board of Governors (the "Board") has ultimate responsibility for the Endowment Funds. The Board's beliefs and views on the Endowment Funds investing are documented in its [Statement of Investment Beliefs and Principles for the Endowment Fund](#) (the "Beliefs").
- The Board of Trustees of the Heritage Fund was established by the Board of Governors to oversee the investment and growth of the Heritage Fund.
- The Board delegated oversight of the investment and growth of the General Endowment Fund to its Finance Committee.
- The Board has delegated responsibilities with respect to investment of the Endowment Funds to the Investment Subcommittee (the "IS"), a committee established by the Board of Governors with the mandate to provide expert advice and oversight in regards to the investment responsibilities for the Endowment Fund and pension assets.
- [Terms of Reference](#) for the IS are contained under separate cover; however, major responsibilities of the IS include:
  - Review and recommend changes to the investment policies including asset allocation and allowable investment classes;
  - Determine and approve asset allocation and investment classes within the scope of the relevant University policy.
  - Appoint, review and replace, as necessary, investment managers; and
  - Monitor and report on investment performance.
- In fulfilling its responsibilities, the IS is supported by employees of the University through the Office of the Vice-President Finance and Operations. In addition, the IS may rely on independent experts for certain aspects of the Endowment Fund's operations where expert knowledge is required or where a perceived or actual conflict of interest exists.

### b. Custodian

- The custodian of the Endowment Funds (the "Custodian") shall be a trust company duly registered in Canada. All investments and assets of the Endowment Funds shall be held by the Custodian.

### c. Investment Managers

Assets of the Endowment Funds shall be managed by external investment managers (the "Managers") as appointed by the IS. The duties and responsibilities of the Managers are as follows:

- Invest the assets of the Endowment Funds, through the Custodian, in accordance with their Investment Manager Mandate and Performance Standards (the "Mandate") and the Policy;
- Provide a signed quarterly compliance certificate attesting to compliance with the Mandate & the Policy;
- Meet with the IS to review investment performance and other investment issues relevant to the Endowment Funds;

- Provide written reports on a quarterly basis detailing the investment portfolio and performance and adhere to the best practices for standards of professional conduct such as those in the CFA Institute Code of Ethics.

## E. Policy Asset Mix and Permitted Ranges

The Target Asset Mix and Permitted Ranges for the Endowment Funds have been determined as set out in the following table.

Asset Class	Market Index	Target Asset Mix	Permitted Ranges	
			Min	Max
Fixed Income	FTSE TMX Canada Universe Bond	27.0%	22.0%	32.0%
Cash	FTSE TMX Canada 91 Day T-Bill	0.0%	0.0%	20.0%
<b>Total Fixed Income</b>		<b>27.0%</b>	<b>22.0%</b>	<b>50.0%</b>
Infrastructure	CPI+5%	7.5%	0.0%	10.0%
Real Estate	MSCI/REALPAC	7.5%	0.0%	10.0%
<b>Total Real Assets</b>		<b>15.0%</b>	<b>5.0%</b>	<b>20.0%</b>
Canadian Equities	S&P/TSX Composite	9.0%	4.0%	14.0%
U.S. Equities	S&P 500 (\$Cdn)	20.0%	15.0%	25.0%
International Equities	MSCI EAFE Net (\$Cdn)	20.0%	15.0%	25.0%
Emerging Markets Equities	MSCI EM (\$Cdn)	9.0%	4.0%	14.0%
<b>Total Equities</b>		<b>58.0%</b>	<b>48.0%</b>	<b>68.0%</b>

If the asset mix deviates outside the permitted ranges at the end of any quarter, the IS will bring the asset mix back within the permitted ranges as soon as practical. It is recognized that a new policy mix takes time to implement and therefore, during the implementation of a new policy mix, some asset classes may be outside of their permitted ranges.

## F. Fund Benchmark

The Benchmark Return is based on a blend of the individual passive asset class indices in proportion to the “Target Asset Mix”. The IS may choose to establish actual asset mixes and benchmarks that differ from the “Target Asset Mix” within “Permitted Ranges”.

## G. Permitted Asset Classes

The Endowment Funds may invest in any or all of the following asset categories and subcategories of investments either directly or through pooled funds or exchange traded funds which hold only these investments. For purposes of this Policy, "governments" includes supranational, Canadian federal, provincial or municipal governments, sovereign issuers and securities guaranteed by these governments.

- **Equities:** Securities publicly traded and listed on recognized stock market exchanges including, but not limited to, common shares, convertible debentures, share purchase warrants, share purchase rights, preferred shares, depositary receipts, interests in limited partnerships, and units of real estate investment trusts (REITS) and income trusts that have limited liability protection by statute. Equity holdings shall be diversified by company, region, industry and country.
- **Fixed Income:** Debt instruments must be issued in Canadian currency or fully hedged to the Canadian dollar and include, but are not limited to, bonds, debentures, mortgages, notes, real return bonds, asset-backed securities or other debt instruments of governments or corporations (public and private) and maple bonds (foreign instruments issued in Canadian currency). With the exception of issues of the government of Canada, fixed income holdings shall be diversified by issuer and industry. The majority of fixed income holdings shall be invested in investment grade debt instruments which are rated A (low) or higher.
- **Infrastructure:** Tangible assets that provide key services to an economy, including transportation, communication, utilities, social services, and business related to those sectors, that are expected to provide long-term stable cash flows. Infrastructure investments shall be held through open or closed-end pooled funds structured as trusts, limited partnerships or corporations formed to invest in infrastructure. Investments shall be focused on mature infrastructure in regulated economic sectors. Direct ownership of infrastructure is not permitted.
- **Cash or Cash Equivalents:** Cash or money market securities issued by governments or Canadian corporations (public and private) with term to maturity of one year or less.

All debt ratings shall be issued by Nationally Recognized Statistical Rating Organizations (NRSRO) as defined by the Securities and Exchange Commission.

## H. General Guidelines

### a. Derivatives

Any use of derivative investments must be in accordance with a program that has been specifically considered and approved by the IS whether done directly in the Endowment Funds or in a pooled fund. Derivative instruments may not be used to create exposures to securities which would not otherwise be

permitted under this Policy or which would be outside the limits under this Policy had the exposure been obtained in the cash markets through direct investment. Derivative instruments may be used only to:

- Replicate the investment performance of permitted direct investments;
- Increase the Endowment Funds' current revenue by selling covered calls; or
- Manage risk as part of a hedging strategy;
- But in any case may not be used to leverage the Endowment Funds, unless approved by the IS.

## b. Securities Lending

**Permitted Circumstances:** The IS may lend securities of the Fund as a means of generating incremental income or cash for investment or otherwise supporting an investment strategy. Such loans shall be in writing. When the IS lends securities of the Fund, the document shall provide for the IS's right to recall the loaned securities.

**Use of Agents :** Management may delegate, through the University's custodial trustee, to a lending agent the authority to select borrowers, negotiate terms and rates and invest cash or securities collateral under written procedures which specify securities available for loan, pre-approved borrowers, loan terms, and instruments for the investment of collateral as well as administrative, risk management and reporting arrangements.

**Collateral and Margin Requirements:** When the IS lends securities of the Fund as a means of generating incremental income or cash for investment, the following rules shall apply. The IS or its lending agent shall receive from the borrower collateral equal to no less than 105% of the market value of the securities loaned at the time of the transaction. The amount of collateral margin taken shall reflect best practices in local markets. Both loaned and collateral securities must be marked to market daily to account for increases in the market value of the securities loaned or decreases in the market value of the collateral. Shortfalls in the amount of collateral must be rectified by the following business day unless otherwise agreed to in writing. The collateral obtained to secure a loan of securities or any securities purchased with such collateral must be either cash or high quality, readily marketable securities acceptable as a direct investment under the IS's investment policies. Title to all collateral must be clear.

## c. Voting Rights

The responsibility of exercising and directing voting rights acquired through the Endowment Fund's investments shall normally be delegated to the Manager, who shall at all times act prudently, in the best interests of the Endowment Funds, and in accordance with the Policy and the Beliefs. The Manager shall provide the IS with its proxy voting guidelines and notify the IS of any changes to these guidelines.

- The Manager shall maintain a record of how the Endowment Funds' voting rights have been exercised and provide the IS with quarterly proxy voting results, and where applicable, highlight the ESG (See Responsible Investment Section) considerations in reaching the voting decisions.
- In case of doubt as to the best interests, the Manager shall request instructions from the IS regarding the best interests of the Endowment Funds and shall act in accordance with such instructions.
- The IS reserves the right to direct, or override, the voting decisions of a Manager, if in its view such action is in the best interests of the Endowment Funds, except for investments held in a pooled fund.
- It is recognized, however, that the above constraints and policy on voting rights may not be enforceable to the extent that part of the Endowment Funds are invested in pooled funds.

## d. Valuation of Investments

Investment in publicly traded securities shall be valued by the Custodian for the Endowment Funds no less frequently than monthly at their market value.

Investment in pooled funds comprising publicly traded securities shall be valued according to the unit values calculated at least monthly by the Custodian of the pooled funds. The Custodian shall be responsible for requesting and recording the unit values on a monthly basis.

Where a security or asset is publicly traded but not frequently, the Custodian will determine the appropriate market value of the particular security or asset and, in the event of a conflict, the value that the Custodian has determined will be deemed as correct.

If a market valuation of an investment is not readily available, then a fair value shall be determined at the direction of the IS. For each such investment, an estimate of fair value shall be supplied by the Custodian with input from the Managers no less frequently than quarterly. Such fair value may be determined by reference to the most recent independent expert appraisal or by other means such as risk-adjusted discounted cash flows or comparison with similar assets which are publicly traded. In all cases the methodology should be applied consistently over time.

## e. Performance Monitoring

The IS shall review on a regular basis, as needed, and at least quarterly:



- The current asset mix of the Endowment Funds relative to the Target Asset Mix and permissible ranges;
- The investment performance of the Endowment Funds and each Manager relative to the objectives of the Policy and of the Mandates; and
- Risks relevant to the investment of the fund

The IS shall report on their activities and the performance of the Endowment Funds to the Board of Trustees, Board of Governors through the Finance Committee at least twice a year, as at June 30<sup>th</sup> and September 30<sup>th</sup>.

The primary focus of Manager performance assessment will normally be on a moving four-year basis, but performance over shorter time periods may also be considered. The Manager will not necessarily be faulted for under-performing the Mandate performance objectives over short time periods.

At least once a year each Manager shall be assessed on the basis of investment performance, risk measures, investment strategies, expected future performance and any changes in the Manager's organization, investment processes and professional staff.

## I. Responsible Investing

As a signatory to the UNPRI (United Nations-supported Principles for Responsible Investment), the Board believes that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). The University is also committed to being a leader in all aspects of a transition of a low carbon economy. In line with this belief, ESG integration is addressed by the IS in the following way:

- Require the Managers to incorporate ESG risk factors in their investment research, analysis and decision-making, including stewardship activities;
- Undertake monitoring of the Managers' portfolios in the context of ESG factors at least on an annual basis;
- Consider ESG capabilities when hiring new managers;
- Implement the Board of Governors' resolutions related to responsible investing, carbon, and fossil fuels; and
- Monitor the development in this area, review ESG considerations in this policy annually, and recommend changes as needed.

From time to time, the University may be asked by stakeholders to address ESG and issues of responsible investing with regard to a specific investment or investments in the Endowment Funds. Should such issues arise, they will be addressed under the Special Action Policy For the Endowment Portfolio.

## J. Related Parties and Conflict of Interest

### a. Definition of Related Party

For the purposes of this Policy, a Related Party means:

1. A member of the Governing Bodies;
2. An officer, director or employee of the University;
3. A person responsible for investing the assets of the Endowment Funds, or any officer, director or employee thereof;
4. An association or union representing employees of the University, or an officer or employee thereof;
5. The spouse or a child of any person referred to in any of paragraphs (a) to (d);
6. An affiliate of the University;
7. A corporation that is directly or indirectly controlled by a person referred to in any of paragraphs (a) to (e);
8. An entity in which a person referred to in paragraph (a), or the spouse or a child of such a person, has a substantial investment.

### b. Related Party Transactions

The assets of the Endowment Funds shall not be used to invest in securities of Related Parties or lent to any Related Parties unless such securities are publicly traded and selected by a Manager acting independently on behalf of all that Manager's discretionary accounts or pooled funds having mandates similar to that of the Endowment Funds.

Where applicable, a Manager shall provide the IS with its internal guidelines on purchasing securities of the members of the Manager's organization or affiliates.

Notwithstanding the above, the assets of the Endowment Funds shall not be invested in any securities of the University or an affiliate of the University unless such securities are publicly traded, held within a pooled fund, and selected by a Manager acting independently.

Any other transactions with a Related Party can only be undertaken if the transaction is required for the operation or administration of the Endowment Funds and must be on terms and conditions that are not less favourable to the Endowment Funds than the then market terms and conditions.

### c. Conflict of Interest

To assist in identifying real, potential or perceived conflicts of interest and, in so doing, to ease the operation of the Governing Bodies in the conduct of their work, all members of the Governing Bodies are asked each year to review the University's "Conflict of Interest Policy Regarding Board of Governors, Board of Trustees, and Committees" and to disclose any obligation, commitment, relationship or interest that may conflict or may be perceived to conflict with their duties as a member of a Governing Body.

If any agent of or advisor to the Governing Bodies, or any person employed in the investment or administration of the Endowment Funds not covered under the "Conflict of Interest Policy Regarding

Board of Governors, Board of Trustees, and Committees” has or acquires any material interest, direct or indirect, in any matter in which the Endowment Funds is concerned or may benefit materially from knowledge of, participation in, or by virtue of an investment decision or holding of the Endowment Funds, the person involved shall within three business days after the individual becomes aware of the conflict of interest disclose in writing this conflict of interest to the Chair of the relevant Governing Body. The disclosure should also be made orally if awareness of the conflict occurs during the discussion of the Endowment Funds’ business.

The Chair shall then immediately advise all members of the relevant Governing Body, and the Governing Body shall decide upon a course of action. Any such person will thereafter abstain from any decision making with respect to the area of conflict including the exercise of his/her votes, until the issue causing the conflict of interest is resolved independently by the remaining individuals with voting rights.

Every disclosure of interest, with the name of the individual declaring the conflict and how the conflict was resolved, under this Section shall be recorded in the minutes of the relevant Governing Body meeting.

The failure of a person to comply with the procedures, described in this Section, shall not of itself invalidate any decision, contract or other matter.

The IS shall satisfy itself that an appropriate policy regarding conflicts of interest exists and is followed by any Manager appointed by the IS. As a minimum, the Code of Ethics and Standards of Professional Conduct adopted by the CFA Institute shall be expected to apply to such Manager.

## **K. Policy Review**

This Policy shall be reviewed at least annually by the Board of Trustees of the Heritage Fund and the Finance Committee of the Board. Such review shall consider, but is not limited to, whether there has been:

1. A fundamental change in the spending policies of the Endowment Funds;
2. Revisions to the expected long-term trade-off between risk and return on key asset classes;
3. A shift in the financial risk tolerance of the University;
4. Shortcomings of the Policy that emerge in its practical operation;
5. Changes to ESG considerations;
6. Recommendations by a Manager or third party; or
7. Changes in applicable legislation.

A review of the asset mix policy shall normally be conducted every five years. At any time, the IS may make recommendations as to changes to be made to the Policy. A copy of this Policy, or relevant sections thereof, shall be delivered to each Manager and to the Governing Bodies.