McGill

Statement of Investment Policy
for
The Royal Institution For The Advancement of Learning/ McGill University

Endowment Fund

Last revised:		
Executive Committee	June 25, 2014	Minute 8.2
	Full history appears at the end of this document.	

Section 1: Definition

Endowed funds are primarily invested through the McGill Investment Pool ("MIP") and are composed of: (i) bequests and donations received by The Royal Institution For The Advancement of Learning/McGill University ("University"), for the most part externally restricted, and generally to be held in perpetuity (ii) those assets of entities affiliated to the University and units of the University which have been invested in the MIP as an investment vehicle (iii) such other assets as may be designated by the Board to be endowed.

Section 2: Governance

The Board has appointed an Investment Committee ("Committee") empowered to ensure that the MIP is managed in accordance with the policies set out in this Statement of Investment Policy ("Statement").

The Committee's mandate is to manage the investments of the University. In particular, with respect to the MIP, the Committee is (i) to determine the investment policy subject to directions from the Board, (ii) to appoint and dismiss professional investment managers, (iii) to monitor on a regular basis the MIP's investment performance and (iv) to report at least annually to the Board on investment performance. The Committee will review this Statement annually.

Section 3: Investment Objectives

The overall objective of the MIP is to obtain a total return (yield plus capital appreciation) necessary to provide a dependable and optimal source of income for endowment beneficiaries, to cover the annual operating costs of the MIP and to preserve (in real dollar terms) the capital of the MIP within the social and ethical norms of the University. This absolute objective is to seek an average total annual real rate of return of 5.15%, or a nominal return of 5.15% plus CPI and shall be measured over moving annualized five and ten-year time periods.

The MIP's assets have a long-term, indefinite time horizon that runs concurrent with the longevity of the institution (in perpetuity). As such, these funds can assume an above-average level of risk as measured by the standard deviation of annual returns. It is expected, however, that both professional investment management and appropriate portfolio diversification will smooth volatility and help to ensure a consistency of return.

Section 4: Asset Mix

In order to achieve its investment objectives, the MIP shall be allocated among a number of asset classes. These asset classes may include Canadian equity, US equity, non-North American equity, income trusts, Canadian, US and non-North American fixed income, real estate, venture capital, private equity, hedge funds, commodities, exchange-traded, and index funds, staff mortgages and cash and equivalents and other asset classes, investments or strategies designated by the Investment Committee from time to time. The purpose of allocating among asset classes is to ensure the proper level of diversification within the MIP.

Under normal circumstances, the asset mix of the total MIP based on market value is to fall within the following ranges:

	Min Weight	Target Weight	Max Weight
Public Equity Investments:	40%	50%	70%
Alternative Investments:	20%	30%	40%
Fixed Income Investments:	15%	20%	40%

The Committee may establish narrower limits within these ranges from time to time.

Section 5: Investment Policy Guidelines and Restrictions

The investment policies, guidelines and restrictions presented in this Statement serve as a framework to help the Committee and staff and the MIP's investment managers achieve the investment objectives at a level of risk deemed acceptable. The MIP shall be diversified both by asset class and within asset classes. Within each asset class, securities shall be diversified among economic sector, industry, quality and size. The purpose of diversification is to provide reasonable assurance that no single security, allocation to a particular industry or asset class will have a disproportionate impact on the performance of the total fund.

Investment in pooled or commingled funds are permitted subject to advance written approval of the Investment Committee provided that such pooled and commingled funds are expected to be operated within constraints reasonably similar to those described in this mandate. It is recognized that in such cases complete adherence to the provision of this Statement may not be entirely possible. However, managers of such pooled or commingled funds will be expected to advise the Committee in the event that the pooled or commingled fund exhibits, or may exhibit, any significant departure from the Statement.

5.1: Public Equity Investments

The purpose of equity investments is to provide capital appreciation, growth of income and current income, with the recognition that this asset class carries with it the assumption of greater market volatility and increased potential for loss.

Equity investments are to be made primarily in high quality, readily marketable securities of corporations that are actively traded on recognized stock exchanges. Quality is not synonymous with size or recognition and the investment in securities of high quality, well-established smaller capitalized companies with reasonable market liquidity is not precluded. Investment in income trust units, and index and exchange-traded (ETFs) funds is permitted**.** Investment managers are prohibited from selling securities short, buying securities on margin, borrowing money or pledging assets, or trading uncovered options without the advance written approval of the Committee. Investment managers are also restricted from investing in private placements and restricted stock without the advance written approval of the Committee. It is expected that, no initial investment shall be made in securities whose issuers are insolvent, or otherwise have filed a petition under a Bankruptcy Act or similar statute in any jurisdiction.

No more than 15% of the market value of the total MIP shall be invested in any single sector as defined by a recognized organization and no single issuer with the exception of the Federal or Provincial governments shall represent more than 5% of the market value of the total MIP at the time of the investment without prior approval of the Committee or designate. Decisions on the divestment of securities received by way of a gift or bequest and which represent more than 5% of the market value of the total MIP shall take into account the Procedures for the Accounting and Disposition of Donated Securities (attached as Annex 1).

5.2: Alternative Investments:

The purpose of alternative investments is to provide capital appreciation, growth of income and current income as well as diversification of the portfolio, with the recognition that this asset class carries with it the assumption of lesser market volatility compared to Public Equity investments.

Alternative investments include real estate, infrastructure, venture capital, private equity, hedge funds and commodities.

5.3: Fixed Income Investments

The purpose of fixed income investments is to provide diversification, a predictable source of income, a reduction in the risk of the total portfolio and a hedge against deflation**.** The purpose of investment in real return bonds is to provide a hedge against inflation.

Investments in fixed income will include bonds (including inflation-indexed bonds), debentures, mortgages, notes or other debt instruments of government, government agencies and corporations as well as money-market securities, including cash, Treasury Bills, Banker's Acceptances, Guaranteed Investment Certificates, commercial paper and certificates of deposit. Investment in exchange-traded (ETFs) funds is permitted.

The portfolio is to be comprised primarily of investment grade issues carrying market ratings as designated from time to time by the Committee. Individual managers will be permitted to invest in high yield issues up to limits established by the Committee from time to time, subject to advance written approval of the Committee.

Short-term investments (those with a term of no more than 365 days), including investments in short-term notes and other evidences of indebtedness of corporations, including financial institutions shall have a rating of R-1 or the equivalent as established by two recognized bond rating services. Such investments shall be limited to a maximum $5,000,000 in any one entity except for Federal Treasury Bills, Provincial Treasury Bills/Promissory notes and financial instruments of Federal and Provincial Crown Corporations and agencies (government guaranteed) which have no limit.

Investments in staff mortgages shall be in accordance with the limits established by the Board from time to time.

Section 6: Securities Lending

Securities lending is permissible as part of the investment program subject to prior approval of the Investment Committee in accordance with the following guidelines:

a) endowment investments are only to be loaned to approved brokers for the purpose of generating revenue for the MIP;

b) such loans must be secured by cash and/or readily marketable government bonds, treasury bills and/or letters of credit, discount notes and/or banker's acceptances of Canadian banks. The amount of collateral taken for securities lending should reflect best current market practices. The determination of the market value of the securities lent must be done on at least a daily basis.

c) the terms and conditions of any securities lending program will be set out in a contract with the custodian or other provider of securities lending services. The custodian or other provider of securities lending services shall, at all times, ensure that Office of Investments staff has a current list of those institutions that are approved to borrow the MIP's investments. Where the MIP is invested in a pooled fund, securities lending will be governed by the terms and conditions set out in the pooled fund contract.

Section 7: Derivatives

Derivatives may be used as a substitute for more traditional investments, subject to prior review and advance written approval from the Committee, if such use is based on and consistent with attaining the investment objectives of the MIP, including hedging and management of its asset mix policy. Derivatives may include bond, stock and commodity futures contracts, commodity index swaps, currency forward contracts, options, interest rate and equity swaps and combinations of these instruments.

Section 8: Voting Rights

The University Chief Investment Officer and Office of Investments staff shall be wholly responsible for exercising and directing the use of voting rights acquired through the MIP's investments. The staff may delegate such matters to investment managers and consultants as it deems necessary and shall at all times act prudently and with due regard for the interests of the MIP.

In cases where the MIP is invested in units of pooled investment funds, and in such cases, which the Committee may deem appropriate, the staff may delegate such voting rights through proxy or otherwise as staff deems proper in the circumstances.

In general, it should be the policy of the Committee to support the management of investee corporations as a passive investor, except in cases where such action would be, or could be, contrary to the best interests of the MIP.

Section 9: Socially Responsible Investing

While the primary purpose of the management of the MIP is to optimize the real rate of return on the fund's assets with an acceptable level of risk, companies in the portfolio that, by decisions of the Board, might cause concern to the University are to be reviewed regularly by the Board's Committee to Advise on Matters of Social Responsibility.

The Committee is responsible for ensuring that the divestment decisions of the Committee to Advise on Matters of Social Responsibility are implemented in an orderly and timely manner.

Section 10: Investment Managers and Service Providers

The investment managers are responsible for providing optimal risk-adjusted returns within their mandates. Subject to any restrictions provided in the Statement, the investment managers are to have complete investment discretion with the expectation that assets allocated to them will be invested with a degree of care, diligence and skill which a prudent and diligent investment manager would exercise in similar circumstances and shall use all relevant knowledge and skill that the investment manager possesses or ought to possess.

The Committee allocates assets to individual managers and from time to time may withdraw funds from or reallocate funds between managers. At the time of appointment, each new manager will be provided with an investment management mandate ("Mandate") and a copy of this Statement. Manager performances will be compared on a regular basis (not less than quarterly) with the performance of appropriate market indices and with other funds managed by peer group managers (similar investment styles and objectives). Investment return objectives consistent with the overall objectives for the MIP established in the Statement will be established with each manager at the time of hiring and will be reflected in the respective Mandates.

Investment managers are responsible for frequent and open communications with the Committee and the Office of Investments staff on all significant matters pertaining to the assets managed.

Investment managers are to meet with the Committee as often as deemed necessary by the Committee. The frequency of meetings is to be determined in part by the performance evaluation results compared to predetermined objectives and manager characteristics.

Mandates for the custody of securities, performance measurement services, consultants and other service providers will be granted by the Investment Committee or its designate. These mandates will be reviewed annually.

Service providers, including consultants, where applicable are expected to exercise the degree of care, diligence and skill which a prudent and diligent service provider or consultant would exercise in similar circumstances.

Revised, Board of Governors, March 15, 2004 (minute 14)
Revised, Executive Committee, July 10, 2006 (minute 12)
Revised, Board of Governors, September 22, 2008 (minute 6.3)
Reviewed, Investment Committee, April 14, 2009 (resolved to remain unchanged)
Approved at the May 25, 2010 Board of Governors (minute 7.1)
Reviewed, Investment Committee, April 12, 2011 (unchanged)
Reviewed, Investment Committee, June 20, 2012 (unchanged)
Revised, Executive Committee, June 18, 2013 (minute 5.1)
Revised, Executive Committee, June 25, 2014 (minute 8.2)

Annex 1

Procedures for the Accounting and Disposition of Securities

1. Donation of Securities

In the case of publicly-traded securities donated by Canadian residents, the value of donated shares or bonds (including accrued income) will normally be set at the closing market value on the date of receipt of the gift. This value will be the amount used for both the donation receipt issued for tax purposes and the University accounts. In the case of gifts from U.S. residents, the value of publicly-traded securities set at the mean market value on the date of the gift will be the amount used for the letter of receipt acknowledging the gift. The closing market value will be allocated to the University accounts.

Exceptions to the above require the approval of the Chief Investment Officer.

2. Disposal of Securities

As a general rule, all securities are sold or transferred to external investment managers as soon as possible after receipt. Exceptions may occur at the discretion of the Chief Investment Officer, in the following circumstances:

a. The number of shares received is less than 100, in which case shares are held until further shares are received;

b. The market value of the securities received has fallen from the date of receipt, in which case the shares may be held pending an increase to the value on the date the securities were received;

c. The amount of the holding requires an orderly disposal;

d. The securities are relatively illiquid;

e. Securities transferred are subject to certain restrictions.

Whenever securities amounting to more than 3% of the market value of the McGill Investment Pool are received, the Chief Investment Officer shall present a recommendation with respect to the treatment of such securities to the Investment Committee for its approval.

Except as provided in section 18 of the Regulations Relating to the Approval of Contracts and Signing Authority, decisions regarding the disposition or transfer of or transactions with respect to securities (or proceeds therefrom) received as a gift of whatever nature now or hereafter received, held or registered in the name of or for RIAL or McGill University, directly or through a custodian, trustee or broker, as well as shares, and warrants in spin-offs, bonds, and debentures are treated in accordance with section 8.2 and 11 of the *Regulations Relating to the Approval of Contracts and Signing Authority* and subject to market conditions and any conditions stipulated by the donor or issuer.