

**Fund Implementation Procedures**

University of Waterloo Endowment

Effective: November 1, 2023

**APPROVED** on this October 12, 2023

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This Fund Implementation Procedures (“FIP”) document outlines the monitoring and reporting obligations of Board committees, University staff, and third parties engaged to provide services to the University. With respect to the investment of endowment assets (“the Fund”), this policy is intended to be read together with the Statement of Investment Policies and Procedures (“SIPP”) established for the Fund, as amended from time to time. To the extent there is any conflict in the investment principles and approach as set out in this FIP or the SIPP, the SIPP shall govern.

## **1) Delegation of Responsibility**

The Board of Governors (the “Board”) of the University of Waterloo (the “University”) has established a Finance and Investment Committee (“F&I”) to assist in the determination of the University’s overall investment philosophy, policies, objectives and strategies.

### **a) The F&I Committee will:**

- i. perform oversight activities as in the Finance & Investment Committee Terms of Reference. To the extent there is any conflict this document and the Terms of Reference the Terms of Reference shall govern;
- ii. review, and either confirm or amend, this document at least annually;
- iii. review the Fund SIPP at least annually and, if necessary, make recommendations for changes to the Board;
- iv. review Investment Manager performance, total Fund performance, and achievement of the total return objective on a quarterly basis;
- v. approve the selection and/or dismissal of Investment Managers and new investment funds;
- vi. approve the purchase and/or sale of specific investments;
- vii. report to the Board quarterly on any changes to investment managers and/or investment funds
- viii. commission asset allocation studies, as necessary, in the case of significant changes in capital market forecasts;
- ix. be responsible for the delegation of any responsibilities not specifically mentioned.

### **b) The Board will:**

- i. approve changes to the Fund SIPP;
- ii. review quarterly reports from the F&I Committee on changes to investment managers and/or investment funds.

**c) The Investment Managers will:**

- i. forward to University staff quarterly reviews of investment performance, expectations of future returns on various asset classes and proposed investment strategies for the following 12 to 24 months;
- ii. manage asset mix and select securities within each asset class, subject to applicable legislation and the philosophy and other constraints set out in the SIPP, this document, and the Responsible Investment Policy (RIP);
- iii. forward to University staff quarterly reports describing their ESG analysis, approach and metrics, and periodically forward climate risk assessment of their portfolio, including any scenario analysis;
- iv. advise University staff immediately of any changes in its senior investment personnel and/or significant changes in the size or mix of assets managed;
- v. comply with all relevant laws concerning the investment of the Fund;
- vi. complete and deliver a compliance report (Appendix A), or equivalent to University staff each quarter. The compliance report will indicate whether or not the Investment Manager was in compliance with applicable laws, the SIPP and the RIP during the quarter. In the event that the Investment Manager is not in compliance with this statement, the Investment Manager is required to advise University staff immediately, detail the nature of the non-compliance and recommend the appropriate course of action to remedy the situation;
- vii. comply, at all times and in all respects, with the Code of Ethics and Standards of Professional Conduct as promulgated by the CFA Institute; and
- viii. in managing the Fund assets, the Investment Manager shall at all times exercise the degree of care that a person of ordinary prudence would exercise in dealing with the property of another person and shall use all relevant knowledge and skill which it possesses, or by reason of its profession, ought to possess.

**d) The Custodian/Trustee will:**

- i. fulfill the regular duties required by law of a Custodian/Trustee and perform the specific duties required of the Custodian/Trustee pursuant to agreements entered into from time to time with the University; and
- ii. provide University staff with monthly portfolio reports of all assets of the Fund and transactions during the period.

**e) Performance Measurement Service Providers will:**

- i. provide detailed performance reporting and data in the required format

**f) University Staff will:**

- i. prepare reporting for F&I on Fund investment matters and act as resources to the Committee;
- ii. act as a contact for contracted third party professional firms relating to the investment of the Fund's assets and provide administration and monitoring related to these firms' contracts and deliverables;
- iii. provide F&I with cash flow information as necessary, or requested;
- iv. monitor Investment Manager's and overall compliance with the SIPP, FIP, and RIP;
- v. appoint Performance Measurement Service Providers and the Custodian.

**2) Performance Measurement**

For purposes of evaluating the performance of the Fund and the Investment Managers, all rates of returns are measured over rolling four-year periods.

In addition to performance criteria, the following factors will also be monitored and evaluated:

- i. stability of the investment firm (personnel, assets under administration, operational capabilities, etc.);
- ii. investment objective and portfolio composition;
- iii. changes in the investment philosophy used in the investment fund;
- iv. consistency of style or approach;
- v. adherence to investment policy statement; and
- vi. ESG analysis and reporting including climate risk assessment and carbon metrics

**3) Compliance Reporting by Investment Manager**

The Investment Manager is required to complete and deliver a compliance report to the University staff each quarter. The compliance report will indicate whether or not the Investment Manager was in compliance with the SIPP, FIP and RIP during the quarter.

In the event that an Investment Manager is not in compliance, the Investment Manager is required to advise University staff immediately, detail the nature of the non-compliance and recommend an appropriate course of action to remedy the situation.

While the guidelines in the SIPP are intended to guide the management of the assets, it is recognized that, where pooled funds are held, there may be instances where there is a conflict between the SIPP and the investment policy of a pooled fund. In that case, the pooled fund policy shall dominate, subject to the compliance

reporting procedures outlined in this section. However, the Investment Manager is required to advise University staff, in advance, if there are any material discrepancies between the SIPP and the pooled fund's investment guidelines. In addition, the Investment Manager will ensure that University staff have received a copy of the most recent version of the pooled fund policy and of any amendments made to the pooled fund policy.

#### **4) Monitoring of Asset Mix**

In order to ensure that the assets of the Fund operate within the minimum and maximum ranges, the University shall review the asset mix at least quarterly. Please refer to the section on Rebalancing Policy.

#### **5) Selecting Investment Managers**

Should F&I determine that there is a requirement for an additional Investment Manager, F&I will either establish a sub-committee to undertake an Investment Manager search, or, at its discretion, rely upon the due diligence of the Pension Investment Committee in making decisions on investment managers.

The criteria used for selecting an Investment Manager will be consistent with the investment and risk philosophy set out in the SIPP. Although each search process will apply a specific list of considerations, the evaluation criteria shall include:

- i. establishing the relevant performance benchmark;
- ii. performance history;
- iii. quality of the firm and the fund specific investment team;
- iv. quality and consistency of the fund's investment process;
- v. quality and transparency in reporting including valuation methods;
- vi. ESG integration within the investment process and related reporting, including reporting on the Manager's integration of climate related risk factors and disclosure of carbon metrics;
- vii. risk management approach;
- viii. competitiveness of fees; and
- ix. terms of the applicable investment management agreement

#### **6) Monitoring Investment Manager Performance**

At least quarterly, the University will monitor and review:

- i. each Investment Manager's staff turnover, consistency of style and record of service;

- ii. each Investment Manager's current economic outlook and investment strategies including ESG approach;
- iii. each Investment Manager's compliance with the SIPP, FIP and RIP; and
- iv. Investment performance of the assets of the Fund in relation to the rate of return expectations

## **7) Dismissal of Investment Manager**

Reasons for considering the termination of the services of an Investment Manager include, but are not limited to, the following factors:

- i. performance results which are below the stated performance benchmarks;
- ii. changes in the overall structure of the Fund's assets such that the Investment Manager's services are no longer required;
- iii. change in personnel, firm structure or investment philosophy which might adversely affect the potential return and/or risk level of the portfolio; and/or
- iv. failure to adhere to the SIPP, FIP, or RIP

## **8) Rebalancing Policy**

Rebalancing will occur when the market value of an asset class varies from the limits set out in the SIPP, or if any individual Investment Manager's component exceeds a limit set out in the SIPP.

Rebalancing will be generally implemented within two quarters by:

- i. redirecting the net cash flows;
- ii. transfer of cash between portfolios; and/or
- iii. liquidating exceedances and directing those to assets below the benchmark taking into account the transaction costs and liquidity of the particular asset class

Notwithstanding the rebalancing policy, in certain circumstances, F&I may adjust the weight of any asset class within the permitted ranges for the purpose of protecting capital and managing risk.

**Appendix A – Investment Manager Compliance Letter**

*To be completed by Investment Managers each quarter.*

**UNIVERSITY OF WATERLOO**  
\_\_\_\_\_, 202\_\_

This is to certify that I/we have adhered to the guidelines contained in the <insert new effective date> version of the Statement of Investment Policies and Procedures and the Responsible Investment Policy, as approved by the University’s Board of Governors and in the <insert new effective date> version of the Fund Implementation Procedures, as approved by the University’s Finance and Investment Committee, for the University of Waterloo Endowment Fund.

Signed \_\_\_\_\_

On behalf of \_\_\_\_\_

Date \_\_\_\_\_