

## **Statement of Investment Policies and Procedures**

University of Waterloo Endowment

Effective: November 1, 2024

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## Introduction

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### 1) Purpose and Scope of Policy

This Statement of Investment Policies and Procedures (the “SIPP”) provides the framework for the investment of the assets for the University of Waterloo Endowment Fund (“Fund”).

To provide investment income within acceptable risk tolerances, it is necessary to strive for sufficient/appropriate real investment returns on the Fund assets over medium- and long-term periods. The investment philosophy, policies and procedures adopted in this document will assist in the achievement of this goal in a prudent and effective manner.

This document has been developed taking into account factors such as:

- i. The nature of the Fund’s spending requirements;
- ii. Historical and expected capital market returns; and
- iii. The benefits of investment diversification.

The Finance & Investment Committee shall annually review and either confirm or recommend amendments to this Policy to the Board who may amend this Policy. The University of Waterloo (the “University”) will provide any amended copy of this Policy to the Investment Managers.

### 2) Administration

The University is the legal owner of the Fund and is therefore responsible for all matters relating to the administration, interpretation and application of the Fund. University shall exercise the care, diligence and skill in the administration and investment of the Fund that a person of ordinary prudence would exercise. Such persons must further use all knowledge and skill that they possess, or ought to possess.

## Investment Principles

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### 3) General Guidelines

The investments of the Fund must comply with the requirements and restrictions imposed by the applicable legislation.

### 4) Objective of the Fund

The objective of the Fund is to provide an annual revenue stream in perpetuity to fund specific activities of the University and to preserve its purchasing power.

## 5) Investment Objectives

Return objectives for the Fund are established taking into consideration factors including; earning a rate of return sufficient to meet the annual expendable obligations, earning a rate of return sufficient to maintain the purchasing power of the endowed capital, investment horizon of the Fund, historical and expected capital market returns, volatility of different asset classes, financial implications of Environmental, Social and Governance (“ESG”) factors, benefits of investment diversification, and the University’s risk tolerance with respect to the Fund.

## 6) Portfolio Return Objectives

The return objectives of the Fund are:

- i. Earn a minimum rate of return, after investment expenses, of CPI<sup>1</sup> + 3 % over four-year moving periods.
- ii. Achieve a minimum absolute rate of return, after investment expenses, which exceeds the benchmark return by 0.25% over four-year moving periods.

## 7) Expected Volatility

The volatility of the assets of the Fund is directly related to its asset mix. The Benchmark Portfolio has been constructed with the expected returns and related risks in mind. Provided the Fund’s investment structure stays within the permitted ranges for each asset class, the volatility of the Fund’s returns should be similar to that of the Benchmark Portfolio.

## 8) Risk Factors

The Fund’s investments are subject to the following risk factors:

- a) Equity market
- b) Interest rates
- c) Credit
- d) Liquidity
- e) Inflation
- f) Currency
- g) Active manager underperformance
- h) Governance
- i) Operational

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<sup>1</sup> CPI source: Bank of Canada CPIX

j) Regulatory

The primary method for managing these risks is diversification. The Plan will be diversified by asset class, geography, security (through well-diversified portfolios of bonds, equities and alternatives), investment manager and investment style.

9) Liquidity

The investment strategy should provide sufficient liquidity to meet the Fund's financial obligations, while ensuring the Fund does not contain excessive cash or low yielding liquid assets. Provided the liquidity requirements of the Fund are met, the Fund may consider investing a portion of the Fund in illiquid assets, where such investment has the potential of enhanced returns, in part, due to the illiquidity premium.

10) Currency Hedging

Currency movements relative to the Canadian dollar are not expected to have a significant impact over the long term. The Fund policy is to not hedge currency at the total fund level. Over shorter periods, currency movements may increase volatility and currency hedging may be employed by Investment Managers where expressly permitted.

11) Asset Mix

The Fund will be invested in a broad range of assets with the goal of meeting or exceeding return expectations and mitigating investment risks. The following benchmark portfolio ("Benchmark Portfolio") is representative of the long-term asset mix policy for the Fund.

<b>Assets</b>	<b>Minimum %</b>	<b>Maximum %</b>	<b>Benchmark Portfolio %</b>	<b>Benchmark</b>
Cash	0	2	0	
Fixed Income	20	35	27	FTSE Canada Universe Bond Index
<b>Total Fixed Income</b>	<b>20</b>	<b>37</b>	<b>27</b>	
Canadian Equity	0	20	10	S&P/TSX Composite Index
Global Equity	50	70	57	MSCI ACWI (Net) (CAD)

Venture Capital	0	5	0	
<b>Total Equity</b>	<b>60</b>	<b>75</b>	<b>67</b>	
Infrastructure	0	5	3	FTSE Developed Core Infrastructure 50/50 (CAD)
Real Estate	0	5	0	
<b>Total Real Assets</b>	<b>0</b>	<b>10</b>	<b>3</b>	
Private Debt	0	5	3	SOFR + 4%

For the purpose of the total asset mix described above, the Investment Managers' asset class pooled funds are deemed to be 100% invested, even though these funds may contain a portion held in cash and cash equivalent instruments.

## 12) Rebalancing

At all times, the market value of the individual asset classes will be within the minimum and maximum aggregate investment limits prescribed in Section 12 (Asset Mix) but may deviate from the benchmark portfolio.

## 13) Responsible Investing

Consistent with its obligation to act in the best interest of the Fund, the University chooses investments and Investment Managers that it believes will deliver superior financial performance over the long term. In this regard, when selecting Investment Managers or direct investments, the University considers criteria that include: the Investment Manager's business and staff; historical performance; and the consideration of environmental, social and governance ("ESG") factors in the investment process, including climate change risks and opportunities, which may have a financial impact on the investments, as well as the Investment Manager's Responsible Investment Policy. The adoption of sound ESG practices is intended to reduce financial risk over all time periods and offer enhanced long-term value to the Fund.

The Fund's ESG practices are further detailed in the University of Waterloo Responsible Investment Policy.

## **14) Permitted Investments**

In general, and subject to the restrictions in this document, the Investment Manager may invest in any of the following asset classes and in any of the investment instruments listed.

### **a) Cash and Short-Term Investments**

Cash on hand, demand deposits, treasury bills, short-term notes and bankers' acceptances, commercial paper, term deposits and guaranteed investment certificates having a term of less than or equal to one year.

### **b) Fixed Income**

Bonds, debentures, or other debt instruments of corporations, Canadian Governments, Government agencies, or guaranteed by Governments, supranationals, federal real return bonds, mortgage-backed securities, mortgages, asset-backed securities, non-convertible preferred shares, term deposits, guaranteed investment certificates, insurance contracts, private placements and bonds where capital, interest or both are linked to increases in the cost-of-living (i.e. real return bonds).

### **c) Equities**

Common shares, preferred shares, American Depository Receipts, Global Depository Receipts, rights, warrants, installment receipts, index units, income trust units and securities convertible into common shares.

### **d) Private Equity**

Investments in non-public equity securities through co-investments and limited partnerships pursuing strategies including buyouts, venture capital, and distressed opportunities.

### **e) Derivatives**

Derivatives are a type of financial contract which can be traded on an exchange or over the counter for which the value is dependent on an underlying asset, group of assets or a benchmark; common derivatives include futures contracts, forwards, options and swaps. The pooled funds in which the Fund invests may invest directly in derivatives to create synthetic exposures, or for hedging purposes, if their objectives and strategies permit, and if the exposure to derivatives is subject to limits based on the intended use and strategies for derivatives and the risks associated with them. Derivatives may also be used to hedge currency and provide downside protection. Derivatives may not be used for speculative trading or to create a portfolio with leverage. Investment funds that invest in derivatives must comply with

all applicable law and must be invested and managed in accordance with regulatory derivatives best practices.

**f) Infrastructure**

Listed, direct or indirect investments in the debt or equity securities of infrastructure entities including the transportation, energy, utilities, telecommunications, and social infrastructure sectors.

**g) Real Estate**

REITs, direct or indirect investments in the debt or equity securities of real property assets including industrial, office, retail, multi-residential, agriculture and timberland properties.

**h) Private Debt**

Senior and junior debt instruments including secured and unsecured loans, bonds and other related instruments.

**i) Pooled Funds**

Investments in open-ended or closed-ended pooled funds, or private/limited partnerships, provided that the assets of such funds are permissible investments under the SIPP. While the SIPP is 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 Section 3 of the Fund Implementation Procedures. However, the Investment Manager is expected to advise the University in the event of any material discrepancies between the above guidelines and the pooled fund's own investment guidelines. In addition, the Investment Manager will ensure that the University has received a copy of the most recent version of the pooled fund policy and of any amendments made to the pooled fund policy.

**15) Minimum Quality Requirements**

**a) Quality Standards**

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

- i. The minimum quality standard for publicly-traded bonds and debentures is 'BBB' or equivalent as rated by at least one Recognized Bond Rating Agencies, at the time of purchase. Where an investment in the portfolio is downgraded below a 'BBB' rating, the following steps will be taken:



- The Investment Manager will notify the University of the downgrade by telephone at the earliest possible opportunity;
  - Within ten business days of the downgrade, the Investment Manager will advise the University in writing of the course of action taken or to be taken by the Investment Manager, and its rationale; and
  - Immediately upon downgrade, the Investment Manager will place the asset on a Watch List subject to monthly review by the Investment Manager with the University until such time as the security matures, is sold or until it is upgraded to a level consistent with the purchase quality standards as expressed in the guidelines mentioned above.
- ii. In cases in which the Recognized Bond Agencies do not agree on the credit rating, the bond will be classified as follows:
    - If two agencies rate a security, use the lower of the two ratings;
    - If three agencies rate a security, use the middle of the three ratings.
  - iii. Private Debt investments that are rated internally by the investment manager as investment grade and non-investment grade are permitted.

#### **b) Rating Agencies**

For the purposes of the SIPP, the following rating agencies shall be considered to be 'Recognized Bond Rating Agencies:

- i. Morningstar DBRS;
- ii. Standard and Poor's; and
- iii. Moody's Investors Services

### **16) Maximum Quantity Requirements**

#### **a) Total Fund Level**

The Fund shall not, directly or indirectly, lend or invest moneys of the Fund to or in any one person, any associated persons or any affiliated corporations if:

- i. 10% or more of the total market value of the Fund's assets has already been lent or invested in total to, or in, the person, the associated persons or the affiliated corporations; or
- ii. 10% or more of the total market value of the Fund's assets would be lent or invested in total to, or in, the person, the associated persons or the affiliated corporations as a result of the loan or investment.
- iii. Holdings issued by the Government of Canada and its agencies are exempt from the above mentioned 10% limitation.

The Fund shall not directly or indirectly, invest the moneys of the Fund in the securities of a corporation to which are attached more than 20% of the votes that

may be cast to elect the directors of the corporation.

**b) Fixed Income**

- i. Maximum 15% of the market value of the Canadian fixed income securities shall be invested in BBB bonds or debentures
- ii. Maximum 10% of the actively managed fixed income portfolio may be invested in debt denominated in US currency, including debt issued by the US Government, its agencies and instrumentalities. Fixed Income in any other foreign currency will not be purchased.

**c) Equities**

No one equity holding shall represent more than 10% of the total market value of the Investment Manager's portfolio.

**17) Investment Manager Compliance**

Investment Managers must be compliant with this Policy, the Fund's Fund Implementation Procedures and the University's Responsible Investment Policy.

The Investment Managers shall not make investments in asset categories other than those explicitly permitted in this Policy, unless the University first consents in writing.

**18) Securities and Cash Lending**

The Investment Managers and custodian may participate in securities lending programs for the purpose of generating revenue.

Such loans must be secured by cash and/or readily marketable government bonds, treasury bills and/or letters of credit, discount notes, banker's acceptances of Canadian chartered banks or high quality, liquid equities. The amount of collateral taken for securities lending should reflect OSFI standards and best practices in local markets. This market value relationship must be calculated at least daily.

Investment Managers and custodians participating in securities lending will make available the terms and conditions of any securities lending program(s) with the University.

**19) Short Selling**

Short selling and/or pair trading are not permitted.

## **20) Borrowing**

The Fund shall not borrow money, except to cover short-term contingency and the borrowing is for a period that does not exceed ninety days.

## **21) Monitoring**

Compliance with this Policy, together with relevant risk metrics, will be monitored quarterly including:

- i. Achievement of the total return objective
- ii. Liquidity requirements
- iii. Asset mix limits
- iv. Credit quality requirements
- v. Single issuer limits
- vi. Investment Manager Performance and related ESG integration

## **General Provisions**

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### **22) Conflicts of Interest**

#### **a) Responsibilities**

This standard, which is consistent with University Policy 69 (Conflict of Interest), applies to the University and the members of the University, as well as to all agents employed by them, in the execution of their responsibilities (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 assets of the Fund.

#### **b) 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 assets.

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 they deal with in the course of

performance of his or her duties and responsibilities for the Fund.

It is incumbent on any Affected Person who believes that he or 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 University immediately. The University, 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 F&I Committee.

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.

### **23) Voting Rights**

The voting rights acquired through the investments held by the Fund are delegated to the Investment Managers of the securities. Investment Managers are expected to exercise all voting rights related to investments held by the Fund in the interests of the University. Investment Managers shall report their voting activities to the University on a quarterly basis documenting how they voted as well as how ESG factors were included in the rationale for the voting decision.

### **24) Valuations of Investments Not Regularly Traded**

The following principles will apply for the valuation of investments that are not traded regularly:

#### **a) Equities**

Average of bid-and-ask prices from two major investment dealers, at least once every month.

#### **b) Fixed Income**

Same as for equities.

#### **c) Real Assets and Private Debt**

The fair value of infrastructure, real estate and private debt investments is determined by the general partner, or the pooled fund Investment Manager, based on industry standards which may include consideration of previous transaction prices, discounted cash flow, and the valuations of other comparable publicly traded investments. Limited partnerships and pooled funds will be audited annually by a qualified independent third party appointed by the fund's general partner or Investment Manager.

## 25) Related Party Transactions

The University, on behalf of the Fund, may not enter into a transaction with a related party unless:

- i. The transaction is made for the operation or administration of the Fund under terms and conditions that are not less favourable to the Fund than market terms and conditions and such transaction does not involve the making of loans to, or investments in, the related party; or
- ii. The combined value of all transactions with the same related party is nominal or the transaction(s) is immaterial to the Fund.

For the purposes of this section, only the market value of the combined assets of the Fund shall be used as the criteria to determine whether a transaction is nominal or immaterial to the Fund. Transactions less than 0.5% of the combined market value of the assets of the Fund are considered nominal.

In addition, the prohibition to entering into transactions with a related party does not apply to investments:

- i. In securities issued or fully guaranteed by the Government of Canada, the government of a province, or an agency of either one of them;
- ii. In a fund composed of mortgage-backed securities that are fully guaranteed by the Government of Canada, the government of a province, or an agency of either one of them;
- iii. In a fund that replicates the composition of a widely recognized index of a broad class of securities traded at a marketplace; and
- iv. That involve the purchase of a contract or agreement in respect of which the return is based on performance of a widely recognized index of a broad class of securities traded at a marketplace.

A “related party” in respect of the Fund means:

- i. A person who is the administrator of the Fund including any officer, director or employee of the administrator. It also includes the Managers and their employees, a union representing employees of the employer, 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.
- ii. An officer, director or employee of one of the administrators of the Fund;
- iii. A person responsible for holding or investing the assets of the Fund, or any officer, director or employee thereof;
- iv. An association or union representing employees of the University, or an officer or employee thereof;
- v. The spouse or child of any person referred to in any of paragraphs (i) to (iv);
- vi. An affiliate of the University;
- vii. A corporation that is directly or indirectly controlled by a person referred to in

- any of paragraphs (i) to (vi); and/or
- viii. An entity in which a person referred to in paragraph (i) or (ii), or the spouse or a child of such a person, has a substantial investment.