University of Waterloo
Expendable Funds Investment Guidelines
As at May 18, 2023

Background and definition

Expendable funds include the University's unspent cash from operations, capital projects, ancillary operations, expendable donations/trust, expendable payouts from endowments, and research grants.

Objectives for the Funds

- The primary investment objective is capital preservation. This is prioritized above the other investment objectives. The University seeks to avoid the risk of capital impairment on these funds.
- The secondary investment objective is liquidity. This is prioritized above earning a return. Investments should be sufficiently liquid such that they can generally be sold/redeemed at any time.
- The third investment objective is earning a return.

Risk tolerances

In line with the objectives of the fund, the University's risk tolerance on expendable funds is minimal to low.

Return targets

The return target for expendable funds is the Government of Canada 3-year bond yield + 20 bps.

Permitted investments

Permitted investments are:

- Cash (Term: Available on demand)
- Money market investments (Term: 30 – 365 days)
- Bankers' acceptances (Term: less than 1 year)
- Treasury bills (Term: less than 1 year)
- GICs (Term: not longer than 5 years)
- Canadian Federal and Provincial government bonds (Term: 1 year – 5 years)
- High quality corporate bonds (Term: 1 year – 5 years)
    - The minimum quality standard for individual bonds and debentures is 'BBB' or equivalent as rated by at least two Recognized Bond Rating Agencies, at the time of purchase.
        - Recognized Bond Rating Agencies are Dominion Bond Rating Agency, Standard and Poor's, Moodys' Investors Services and Fitch Ratings.
    - In cases in which the Recognized Bond Agencies to do not agree on the credit rating, the bond will be classified in the following methodology
        - 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; or
        - If all four rate a security, use the middle of the three lowest ratings.
- Private equity typically arranged through WatCo as the result of their commercialization efforts.
    - Amounts in private equity are recorded at nominal value

All investments other than cash are to be from Canadian issuers in Canadian currency.

Up to 5% of expendable funds can be held on deposit in non-Canadian currencies to support cash requirements in these currencies.

Prohibited investments

Prohibited investments are any investments not specifically included as permitted investments.

Donations of equity or other prohibited investments are sold upon receipt based on standing instructions with the University's investment broker and are then reinvested in permitted investments.

Exceptions:

The University of Waterloo has received donated funds for various teaching (experiential learning) and/or research purposes. These funds, listed below, are considered separate from expendable funds and are governed by separate Statements of Investment Policies and Procedures or Investment Guidelines.

- Institute for Quantum Computing (IQC) Trust
- Student Venture Fund
- Student Investment Fund

Additional investment considerations

The following additional investment considerations will be taken into account when investing expendable funds:

- Cash flow requirements and investment horizon-based investing:
  - The University considers its cash flow requirements for the next 12 – 24 months in making investments of expendable funds.
  - The University maintains a minimum of 3 months' worth of forecasted Canadian dollar cash requirements in Canadian bank deposits.
  - The University determines the allocation of expendable funds to cash beyond the minimum versus other permitted investments and shifts this allocation over time dependent on business plans and results, capital spending, differential interest rates, market conditions and other factors.
  - A laddering term structure is applied for the non-cash investments, using terms of 1 – 5 years, to mitigate interest rate risk.
    - In managing interest rate risk, the University remains mindful of effectively mitigating liquidity.
- Diversification by issue and issuer, to mitigate investment risk and concentration risk
- The University is signatory to the UN Principles for Responsible Investment. As the University is committed to responsible investment, the University will be cognizant of any relevant opportunities to consider environmental, social and governance factors while managing its investments in expendable funds.
- Special factors, if any, which the University considers significant.

Guideline Review

The F&I Committee will review and approve these Guidelines at least annually.