
Specific Investment Policy and Procedures – Restricted and Unrestricted Funds

Board of Governors Manual

Approving Authority: Board of Governors

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Policy Statement

To comply with terms of the investment powers provided for under the Act, the Board of Governors establishes the University's Investment Policy and Procedures to provide appropriate parameters for the investment of the Funds of the University. The Board of Governors will approve Specific Investment Policies for each fund or grouping of funds, which in the determination of the Board of Governors, requires a separate investment policy. The management of a specific fund is governed by the Board's approved "*Statement on Investment Policy and Procedures*" and any "*Specific Investment Policy and Procedure*".

Scope

This Specific Investment Policy, and any associated procedures outlined below apply to the University's Unrestricted and Restricted Funds.

Description of Investment Policy

1.01 Description of Investment Portfolios

The investment portfolios of the University shall consist of investments that represent the assets of the restricted trusts and unrestricted trusts.

1.02 Investment Objective

- a) The investment objective for the Restricted (Endowment) Fund is to provide a sustainable income stream equivalent to the annual scholarship funding obligations associated with the Fund, to preserve the original capital in real terms and to provide capital growth.
- b) The investment objective for the Unrestricted Fund is to provide capital growth for future spending needs.

2.01 Asset Categories

The following investments are permitted within each of the listed categories:

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The following investments are permitted within each of the listed categories:

- a) Short-term instruments:
 - cash;
 - demand deposits;
 - term deposits and investment certificates issued by banks, insurance companies and trust companies having a term of less than 1-year;
 - short-term notes;
 - treasury bills;
 - bankers acceptances, and
 - commercial paper.
- b) Fixed income:
 - bonds, debentures or other debt instruments of corporations, the Canadian Government, Government agencies or guaranteed by Governments;
 - term deposits and guaranteed investment certificates;
 - coupons and residuals;
 - preferred shares, and
 - structured notes.
- c) Equities:
 - common and preferred shares;
 - American Depository Receipts;
 - international companies listed on North American exchanges;
 - index units;
 - rights and warrants, and
 - income trust units including real estate investment trusts.
- d) Derivatives:
 - a. Investment in derivative instruments may be used for hedging purposes to facilitate the management of risk or to facilitate an economical substitution for a direct investment.
 - b. Derivatives may not be used for speculative trading or to create leveraging of the portfolios.

- c. Asset-backed commercial paper is considered a prohibited investment.
- e) Pooled funds: Investments in open-ended pooled funds, closed-ended pooled funds and exchange-traded funds (ETFs) provided that the assets of such funds are permissible investments as set out in this policy. It is recognized that, where pooled funds are held, there may be instances where there is a conflict between these guidelines and the investment policy of a pooled fund. In that case, the pooled fund policy shall dominate, subject to the Investment Manager's compliance reporting obligations. The investment manager is required to advise SJU of any material discrepancies between these Guidelines and the pooled fund's own investment policy prior to purchasing units in the pooled fund or immediately upon identifying the conflict. The Investment Manager is required to detail the nature and extent of the conflict on a continuing basis so long as the material discrepancies persist.

2.02 Minimum Quality Requirements

- a) The minimum quality standard for individual bonds and debentures is 'BBB' or equivalent and for individual preferred shares is Pfd-3 (low) or equivalent as rated by a Recognized Bond Rating Agency at the time of purchase. Where an investment in the Funds is downgraded below 'BBB' or Pfd-3 (low), the following steps will be taken:
 - i. the Investment Manager will notify the University of the downgrade at the earliest possible opportunity;
 - ii. 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 and its rationale, and
 - iii. immediately upon downgrade, the Investment Manager will place the asset on a Watch List subject to monthly review with the University until such time as the security matures, is sold or is upgraded to a level consistent with the quality standards set out above.
- b) In cases in which multiple Recognized Bond Rating Agencies do not agree on a credit rating, the bond will be classified according to the methodology used by FTSE Canada, which states:
 - i. if two agencies rate a security, use the lower of the two ratings;
 - ii. if three agencies rate a security, use the most common, or
 - iii. if all three disagree, use the middle rating.
- c) The following rating agencies shall be considered to be 'Recognized Bond Rating Agencies': Dominion Bond Rating Agency, Standard and Poor's, and Moody's Investor Services.

2.03 Maximum Quantity Restrictions

- a) Fixed Income
 - i. Maximum 30% of the asset class by market value can have a credit rating between BBB- and BBB+ (or equivalent) if the security is a debt security or Pfd-3(low) and Pfd-3 (high) (or equivalent) if the security is a preferred share.
 - ii. There is no limit on the market value of securities issued or guaranteed by the Government of Canada and its agencies.
 - iii. No more than 40% of the asset class may be invested in issues of a single Province.
 - iv. Any foreign government issuers cannot exceed 15% of the asset class.

b) Equities

- i. Maximum of 20% of the asset class or 10% of the market value of the Funds can be invested in any single security.
- ii. There must be securities representing at least 5 of 10 industry sectors as defined by the S&P/MSCI Global Industry Classification Standard (GICS). Holdings in any one sector will not exceed 10% overweight based on the long term Benchmark Portfolios set out in Section 8.01.

2.05 Short Selling

Short selling and/or pair trading are not permitted.

2.06 Borrowing

The Funds shall not borrow money, except to cover short-term contingency and the borrowing is for a period that does not exceed ninety days, subject to the prior written permission of the University.

2.07 Stop Loss

The Investment Manager shall maintain a stop loss protocol and will be required to communicate to the University how the provision is being employed to protect the assets of the Funds.

3.01 Return Objectives / Expectations

The Funds are to be constructed with a view to generate a certain level of annual income from interest and dividends all the while allowing for long-term growth. Within this overall objective the Funds should seek to earn total returns exceeding the rate of inflation over the long term.

The annualized rate of return of the Funds must exceed the annualized rate of increase in the CPI by 400 basis points, net of the associated investment management fees, over a rolling 4-year period.

4.01 Expected Volatility

The expected volatility for the Funds is directly related to the asset mix. Since the Investment Manager does not have the authority to make any type of leveraged investment on behalf of the Funds, the volatility of Fund returns should be similar to the volatility of the long term Benchmark Portfolios set out in Section 8.01.

5.01 Liquidity

Investments should be liquid enough so that they can be sold in a reasonable period of time. The investments shall be valued at least monthly and selected to ensure sufficient liquidity to meet the University's withdrawal needs.

6.01 Legal and Regulatory Considerations

The Investment of the Funds shall be subject to complying with the restrictions and requirements under other applicable legislation, including but not limited to:

- a) the Income Tax Act (Canada), R.S.C. 1985, C.1 (5th Supp), in relation to permitted investments;
- b) (the Charitable Gifts Act (Ontario), R.S.O. 1990 c. C.8, in relation to the limitation on owning not more than a ten percent interest in any business as defined therein.

7.01 Investment Solution

Discretionary Asset Allocation (Restricted)	Target	Range
Cash Equivalents (including T-bills)	2%	0 - 20%
Fixed Income	33%	25 – 45%
Equity (International securities can be 0 – 25% ¹)	65%	50 – 75 %

Discretionary Asset Allocation (Unrestricted)	Target	Range
Cash Equivalents (including T-bills)	2%	0 - 20%
Fixed Income	23%	15 – 35%
Equity (International securities can be 0 – 25% ²)	75%	50 – 85 %

From time to time market fluctuations may cause the portfolios to be temporarily inconsistent with the asset allocation and/or the Investment Management Guidelines set out in this Investment Policy Statement. When this occurs, the Investment Manager will undertake to realign the portfolios within a reasonable period of time on a best efforts basis in accordance with this Investment Policy.

8.01 Performance Measurement

- (a) For the purposes of evaluating the performance of the Funds, all rates of return are net of investment management fees and include realized and unrealized capital gains or losses plus income from all sources.
- (b) Investment weightings, volatility and performance statistics are to be tested regularly against the following long-term Benchmark Portfolio designated for each Fund, or comparable Benchmark Portfolios as may be agreed with the Investment Manager.

Restricted Fund - Benchmark Portfolio

2%	FTSE Canada 91-Day T-bill Index
33%	FTSE Canada Universe Bond Index
20%	S&P/TSX Composite Index
45%	MSCI ACWI (CAD)

Unrestricted Fund - Benchmark Portfolio

2%	FTSE Canada 91-Day T-bill Index
23%	FTSE Canada Universe Bond Index
20%	S&P/TSX Composite Index
55%	MSCI ACWI (CAD)

¹ International securities include all securities outside North America.

² ibid