



Investment Management Policy

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1. INTRODUCTION

The purpose of this document is to outline policies and procedures by which the University will discharge its responsibility with respect to maintaining, managing and enhancing its investment portfolio. This document follows the direction provided by the Board of Governor's Investment Governance guidelines. For the purpose of this policy, asset mix reset refers to changing the portfolio between various asset classes and asset mix rebalance refers to allocating portfolio funds within the current asset mix class to be in compliance with the investment policy guidelines.

2. INVESTMENT PHILOSOPHY

The University's investment philosophy is to guide and inform all investment decisions using a multi-dimensional portfolio to meet our objectives and specific performance standards. The University incorporates the Alberta *Post-secondary Learning Act* regulations for investing in our policies and practices. The University will partner with Investment Consultants and Investment Managers as deemed appropriate to provide services and expertise in our portfolio to achieve our objectives.

3. INVESTMENT OBJECTIVES

The University determines investment objectives based on the needs and purpose of the type of funding included in the investment portfolio. For the overall portfolio, the objectives include:

- preserve the principal invested
- earn an income component that meets annual spending allocations, cash flow requirements of funds, and inflation protects the principal balance
- provide a growth component above short and medium term spending needs
- add value through judicious management over returns that would have been realized through passive management
- meet our requirements in the Alberta *Post-secondary Learning Act* for investing

The University portfolio consists of the following:

- Operating funds
- Restricted funds – Endowment
- Restricted funds – Special Purpose including conditional grants
- Restricted funds –Capital grants
- Restricted funds – Research funding (government or other)

The following table describes each funding source and their individual objectives:

Approval Authority:	Responsibility:	Effective Date:	Related Policies:
Board of Governors	Vice-President (Finance & Administration)	Feb 14/19; Dec 18/17; Apr 28/15; Mar 15/12; Nov 1/11	Endowment Management Policy

Funding Type	Uses	Examples	Investment Purpose	Objective	Evaluation
Operating Funds					
	Funds used for day-to-day expenditures in the current year, future operating or ongoing expenses	Internal reserves, fees, miscellaneous income, unspecified donations, unrestricted or current year grants	Preserve principal, modest return earnings	Income - Liquid in the short term, low risk, earning exceed bank account rates	Was money available when needed? Was the return reasonable?
Restricted Funds – Endowment					
	Funds with external stipulations requiring the principal be held in perpetuity or a defined period, with earnings being spent for an intended purpose	Bequest received, where earnings on the money are used to fund an annual scholarship or designated purpose	Preserve principal, meet spending requirements per the Endowment Management Policy plus inflation to accommodate scholarship spending	Income and growth - Earnings are liquid in the short – mid term and meet spending requirements plus inflation protection	Did we earn and receive enough for current year spending or did we encroach on the principal? Did earnings above spending requirements exceed inflation?
Restricted Funds – Special Purpose including Conditional Grants					
	Conditional grants or gifts received from donors who designate the funds plus earnings be used for a specific purpose	Bequest received, where the funds plus any earnings are given as scholarships over X years, or the Health Workforce Action Plan conditional grant	Preserve principal, moderate return earnings either to grow the fund to meet endowment criteria or for annual spending	Income and growth- Liquid in the short term, low risk, earning exceed bank account rates	Was money available when needed? Was the return reasonable?
Restricted Funds – Capital Grants					
	Government grants and gifts received for capital	New building grant	Preserve principal, modest returns to spend on the project	Income and growth - Liquid in the short –mid term, earnings cover inflation and expected project cost increases	Was money available when needed? Did earnings cover inflation and cost increases?
Restricted Funds - Research					
	Monies from government or other sources restricting expenditures to research	Specific research project funding	Preserve principal, modest returns to spent on project	Income - Liquid in the short term, low risk, earning exceed bank account rates	Was money available when needed? Was the return reasonable?

4. INVESTMENT RESPONSIBILITIES

4.1 The Board of Governors of the University of Lethbridge

4.1.1 Establish overall responsibility for the investment policy of the University as empowered by the Alberta *Post-secondary Learning Act, 2003* as follows:

- Section 75(2)- *When making investments a board must adhere to the investment and lending policies, standards and procedures approved under subsection (3).*
- Section 75(3)- *The board must, by resolution, approve policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and to obtain a reasonable return.*
- Section 76(1)- *In this section, "pooled trust fund" means a fund that consists of 2 or more trusts combined for the purpose of investment and that allocates to each trust an amount computed by reference to the value of that trust's proportionate interest in the assets of the fund.*
- Section 76(2)- *A board may:*
 - (a) *provide for the establishment, management, investment and winding-up of a pooled trust fund;*
 - (b) *alter the terms and conditions of a trust to allow the trust to participate in a pooled trust fund;*
 - (c) *alter the terms and conditions of a trust to enable income earned by the trust to be withheld from distribution to avoid fluctuations in the amounts distributed and generally to regulate the distribution of income earned by the trust;*
 - (c.1) *alter the terms and conditions of a trust to enable the board to encroach on the capital of the trust to avoid fluctuations in the amounts distribute and generally to regulate the distribution of income earned by the trust if, in the opinion of the board, the encroachment benefits the public post-secondary institution and does not impair the long-term value of the fund, and*
 - (d) *provide for the remuneration for the trustee of a pooled trust fund and the trusts that participate in the pooled trust fund out of the income earned by the pooled trust fund.*

- 4.1.2 Through its Finance Committee, monitors the performance of the Investment Managers acting with advice from an external Investment Consultant. University Administration is delegated the administrative responsibility for the portfolio.
- 4.1.3 The prime directive of the Finance Committee is to monitor the performance of the investment portfolio in meeting the objectives and philosophy, and recommend betterments as needed. Concurrently, the Board of Governors and the Finance Committee recognize that the achievement of the objectives and philosophy necessitates the incurring of generally accepted investment risks inherent through ownership of financial securities and so states as a policy that the incurring of such financial, market, inflationary, interest rate and business cycle risks must at all times be for the protection of principal and assurance of income.
- 4.1.4 Responsibility for recommendations to change this Investment Management Policy rests with the Board of Governors of the University of Lethbridge based on recommendations of the Finance Committee. External Investment Managers (hereinafter referred to as the "Managers") are retained as portfolio managers to manage assets in compliance with the University Investment Management Policy.
- 4.1.5 Through its Finance Committee, assess reports from University Administration and the Investment Consultant to initiate asset mix reset, market changes, compliance with Investment Management Policy and performance.

4.2 Investment Consultant

- 4.2.1 A consulting firm ("the Consultant") is retained as an independent agent of record to measure, compare, evaluate performance and provide advice and recommendations to the University's investment program.
- 4.2.2 The Consultant will report all material changes in key personnel of our Managers, including changes in their strategy that may impact our portfolio.
- 4.2.3 The Consultant is charged with assessing and reporting on compliance with the Investment Management Policy as exercised by the Managers and for the Total Portfolio, with reporting quarterly in writing or in person to the Finance Committee with respect to investment progress in accordance with generally accepted evaluation principles.
- 4.2.4 The Consultant will provide advice and recommendations for this policy, Manager Evaluation and the overall investment program based on evaluating the economy, industry, environment and markets, including the possible reset of our asset mix on a quarterly basis.

4.3 University Administration

- 4.3.1 Manage the operational component of investments including communications with Consultants and Managers, record and reconcile investment accounts, make recommendations to the Board Finance Committee of suggested policy or procedural changes.

4.3.2 Report matters of (non) compliance with University policies, Managers organizational structure changes, results of Managers, and market or environmental changes, asset mix reset, or any other recommendations via the Investment Consultant on a quarterly basis.

4.4 General

The Board of Governors and the Finance Committee and their appointed advisors shall exercise the degree of care, diligence and skill that persons of ordinary prudence would exercise in dealing with the property of another person.

Members of the Board of Governors and the Finance Committee and their appointed advisors who possess, or because of their profession or business ought to possess, a particular level of knowledge and/or skill relevant to their responsibilities to the Portfolio, shall employ that particular level of knowledge and/or skill in the interest of the Portfolio.

5. INVESTMENT POLICIES

Investment of the funds should be made to meet the objectives and philosophy of this policy concurrently, within the constraints with respect to risk tolerance, liquidity, diversification and quality of investments.

5.1 Strategy

5.1.1 General

Investments may be made in the below asset classes (5.1.3 – 5.1.6) directly or by holding units of pooled funds or through a limited partnership. The Finance Committee shall monitor, or cause to be monitored, the contents of such portfolio for their degree of compliance with the foregoing expectations, and may make or cause to be made such changes in their choice of portfolios as are deemed appropriate to meet the objectives of the Policy. The Finance Committee engages the services of the Consultant to monitor compliance with the Policy. This in no way relieves the Manager of its own responsibility to monitor its compliance with the Policy.

a. Quality

The quality of investments for the investment portfolio should generally be the same as those permitted in major endowment funds management, and subject to regular review by the Finance Committee for constraints with respect to risk, liquidity, diversification and quality of investments.

b. Risk

The University evaluates the risk tolerance over the short and long term as the security of principal is a key objective, followed closely by the requirement for returns. The University manages risk through this policy by diversification of Managers, asset mix, limitations for eligible investments and employing appropriate risk mitigation practices. Managers are required to employ appropriate risk mitigation practices within their portfolio including liquidity, rebalancing of the portfolio, foreign currency risk mitigation and employing the criteria set forth in this policy.

5.1.2 Total Portfolio

The University balances the risk and return at the total portfolio level, including assessing the asset mix of equities, bonds, alternative investments and short-term investments. The normal asset mix defined in this policy is to be considered as a mid-point through market cycles. The Managers are given discretion within the allowable range in order to position the portfolio appropriately throughout those market cycles. Portfolio performance and capital preservation should be served through asset mix redeployment within the markets of securities which are eligible investments for the Total Portfolio.

5.1.3 Short-term

The short-term portfolio shall be invested in cash and cash equivalents which allow for their retrieval for day-to-day needs.

5.1.4 Bonds

The bond portfolio shall be invested according to future projected funding needs, including investing in short or long term bonds.

5.1.5 Equities

The equity portfolio shall be invested in Canadian and Global equities with a longer term growth and income generation strategy to allow for annual spending requirements and preservation of principal. Global equities include those in the United States of America.

5.1.6 Alternative Investments

The alternative investment portfolio shall be invested in real estate, infrastructure, private equity (including secondary private equity funds) and distressed credit.

5.2 Asset Mix

The Total Portfolio's asset mix shall be administered in accordance with the following table, plus/minus a tolerance of 20% (to a minimum of 0%) between and within:

	Objective	Normal	Minimum	Maximum
Fixed Income				
Short-term & Cash	Income	0.0%	0.0%	10.0%
Bonds	Income	20.0%	10.0%	30.0%
Equities				
Canadian Equity	Growth	20.0%	10.0%	30.0%
Global (including US) Equity	Growth	50.0%	40.0%	60.0%
Alternative Investments	Growth, Income, Diversification	10.0%	0.0%	20.0%

The asset mix is modified based on meeting the objectives of capital preservation, liquidity, meeting spending needs and duration of investment that considers both income and growth earnings. The assets of the plan are reviewed annually to ensure adequate diversification by both asset class and Manager according to the Investment

Governance document and recommended asset mix allocations. Diversification of asset mix is first based on the purpose of the funds and secondly for risk mitigation. The asset mix excludes the Operational Cash Management mandate (Appendix 1).

The Board of Governors may, upon recommendation from the Finance Committee, authorize investment of funds in any vehicle not specifically covered in the foregoing policy.

5.3 Short-term and Cash

- 5.3.1 Short-term investments shall be in readily liquid securities maturing within one year, or in cash.
- 5.3.2 Bonds maturing within one year are permitted provided they have a rating of at least A on the Dominion Bond Rating Service (DBRS) (or equivalent).
- 5.3.3 Short-term paper shall be rated at least R-1 (low) by the DBRS (or equivalent).
- 5.3.4 Not more than 10% of each Manager's short-term portfolio and of the Total Portfolio shall be invested in any one issuer except for securities of, or guaranteed by:
- the Government of Canada;
 - a Province of Canada having at least a A DBRS or equivalent rating; or
 - a Canadian bank having at least an AA DBRS or equivalent rating and whose short- term investments are rated R-1 (high) or equivalent.
- 5.3.5 Permitted categories
- a. Term deposits or similar instruments issued or unconditionally guaranteed by trust companies or banks.
 - b. Cash or money market securities issued by governments, government agencies or corporations

5.4 Bond

- 5.4.1 Not more than 10% of bond holdings shall be invested in the debt issues of any issuer, except for securities of or fully guaranteed by the Government of Canada or a province of Canada having an AA credit rating or higher.
- 5.4.2 Quality standards for bond investments shall be as follows:

DEBT RATING¹	MAXIMUM % OF BOND PORTFOLIO
Lower than BBB	0%
BBB or Lower	12%
A or Lower (Total)	70%
AA or Higher	No Limit

¹ Split rated debt shall be classified in the lowest rating of the major credit rating agencies DBRS and CBRS and/or Moodys and Standard and Poors.

The above limits will be applied with some latitude in the event of the downgrading of a security. Not more than 25% of the bond portfolio shall be:

- i. denominated for payment in foreign currency; or
- ii. invested in "Maple Bonds", being Canadian-dollar- denominated bonds of foreign issuers.

5.4.3 All securities shall be readily marketable. For any security which is not the subject of regular price quotation by a recognized dealer, the Manager shall provide an estimated realizable price at the end of each month.

5.4.4 The Bond portfolio can be passively invested through a bond index.

5.4.5 Permitted categories

- a. Publicly traded bonds, debentures, mortgages, notes or other debt instruments of governments, government agencies or corporations.
- b. Mortgage loans.
- c. Guaranteed investment contracts or equivalent of insurance companies, banks or other eligible issuers that invest primarily in such investments.
- d. Annuities, deposit administration contracts or equivalent of insurance companies, banks or other eligible issuers that invest primarily in such instruments.
- e. Pooled or segregated funds and limited partnerships that may invest in any or all of the above instruments or assets.
- f. Managers may utilize the following derivative financial instruments provided that participation has been specifically approved by the Finance Committee:
 - options;
 - currency forwards and futures to hedge foreign investments and the foreign pay obligations of the Canadian government, Provincial governments and related government agencies with respect to the Canadian dollar; or
 - foreign equity indices.

5.5 Canadian Equity

5.5.1 Not more than 10%, based on the market value, of the Canadian equity portfolio shall be invested in the common stock, preferred shares or other equity issues of any one corporation.

5.5.2 Not more than 20% of the total Canadian equity portfolio shall be invested in small capitalization companies, defined as a capitalization of less than C\$500 million. Each holding of a small stock issue shall not exceed 2% of the total Canadian equity portfolio.

5.5.3 Small capitalization issues of less than C\$100 million are not permitted within the Canadian equity portfolio.

5.5.4 Permitted categories

Publicly traded equity being common stocks, convertible debentures or preferred securities, limited partnerships that are listed on a major stock exchange and trusts (Income and Royalty Trusts and REITs).

5.6 Global Equity

Global equity holdings include the US markets and shall be broadly diversified among countries and industry sectors and may include companies in Canada and Emerging Markets. Managers are required to employ appropriate currency exchange risks through their mandate.

- 5.6.1 Not more than 10%, based on market value, of the Global equity portfolio, shall be invested in the common stock, preferred shares or other equity issues of any one corporation.
- 5.6.2 Not more than 20% of the Global equity portfolio shall be invested in small capitalization companies, defined as a capitalization of less than US\$1 billion. Each holding of a small stock issue shall not exceed 2% of the Global equity portfolio.
- 5.6.3 Purchases of small capitalization issues of less than US\$350 million and non-traded investments are not permitted within the Global equity portfolio.
- 5.6.4 Currency hedging is permitted with the prior approval of the Finance Committee.
- 5.6.5 Not more than 20% of the Global Equity portfolio should be invested in Emerging Market companies.
- 5.6.6 Permitted categories:
 - a) Publicly traded investments in foreign property as defined by The Income Tax Act of Canada.
 - b) Publicly traded equity being common stocks, convertible debentures or preferred securities, limited partnerships that are listed on a major stock exchange and trusts (Income and Royalty Trusts and REITs).

5.7 Alternative Investments

Alternative investment holdings include private equity (and secondary private equity), real estate, infrastructure and opportunistic credit strategies.

5.8 Non-Permitted categories

The Portfolio may not invest in:

- commodities or derivative instruments related thereto;
- collectibles;
- non-listed shares;
- securities issued by The University of Lethbridge;
- investments not permitted under the Income Tax Act (Canada); and
- tobacco companies

6. PERFORMANCE STANDARDS

6.1 Total Portfolio

- 6.1.1 Measurement of value added above passive investment is completed over moving four- year periods by comparing the Portfolio's return to that of a composite benchmark portfolio. The Total Portfolio's annualized return is expected to exceed

the return computed by linking the quarterly index returns of a composite portfolio consisting of:

Index	Weight
FTSE Canada Universe Bond Index	20.0%
S&P/TSX Composite Index	20.0%
MSCI ACWI Index (\$CAD)	50.0%
Absolute Return of 11.0% per annum	10.0%

The Sharpe ratio will be calculated for the composite and Total Portfolio to assess our risk tolerance in relation to returns earned.

6.1.2 A percentile ranking of the Total Portfolio will be determined relative to a peer universe of Canadian balanced fund investment managers. The Portfolio's return will be compared to the representative peer universe over four year period. The Portfolio will be expected to achieve a relative return standard ranking 40th percentile or higher within the Balanced Fund Universe. Annually, the performance standard is to exceed the rate of inflation (Canada Price Index) plus 3%.

6.2 Fixed Income

The Portfolio return will be compared to the range of total portfolio results from representative funds as measured by the Consultant's Canadian Bond and Short-term Universe, and the percentile determined. Over completed market cycles or four years, whichever is the shorter, the Fund will be expected to achieve a relative return standard which will Rank 50th percentile or higher within the Universe (Canadian Bond and Short- term). The portfolio should at a minimum meet the benchmark net of fees.

The time-weighted return of the Fixed-Income Portfolio will be calculated quarterly. The benchmark will be the FTSE Universe Bond Index.

6.3 Equities

The Portfolio return will be compared to the range of total portfolio results from representative funds as measured by the Consultant's Canadian/US Equity universe, and the percentile determined. Over completed market cycles or four years, whichever is shorter, the Fund will be expected to achieve a relative return standard which will Rank 50th percentile or higher within the Universe (Canadian /US Equity). This comparison and universe applies to both Canadian and Global equities.

The quarterly return of Canadian portfolio will be calculated and compared to the benchmark S&P TSX Composite Index. The quarterly return of Global equity portfolio will be calculated and compared to the benchmark MSCI ACWI Index in Canadian Dollars.

7. INVESTMENT MANAGERS

7.1 General Structure

7.1.1 The Finance Committee may choose to use a balanced Manager(s) or specialty structure. The Finance Committee is responsible to operate the

structure and the mandates so as to achieve the objectives of the Plan. Changes to the mandate structure shall be undertaken only after consideration of recommendations from the Consultant.

- 7.1.2 The Total Portfolio shall retain Managers for domestic assets who are, or their parent company is registered and in good standing with the Alberta or Ontario Securities Commission and Managers for non-domestic assets who are, or their parent company is registered and in good standing with the U.S. Securities Exchange Commission or another jurisdiction as is appropriate for the mandate.
- 7.1.3 The Finance Committee shall monitor the performance of each Manager. Such monitoring shall include quarterly performance measurement and annual presentation by the Manager. The Finance Committee shall also monitor or cause to be monitored each Manager's turnover of personnel, consistency of investment style, discipline in portfolio construction, and record of service.
- 7.1.4 Review of Manager performance and philosophies are in accordance with the Investment Governance document. Performance is evaluated after fees.
- 7.1.5 The Finance Committee shall take such steps as it deems appropriate to address any concerns which may arise from such monitoring. Ultimately, if the Finance Committee loses confidence in the ability of a Manager to achieve the performance objectives of the Mandate, the Finance Committee will approve the replacement of that Manager. Manager philosophies will be reviewed on an ongoing basis including quartile standings on a rolling 4 year basis.

7.2 Manager Criteria and Mandates

- 7.2.1 Managers are engaged under the condition that they agree to be bound by the Code of Conduct, Ethics and Practices of the CFA Institute, or comparable standard.
- 7.2.2 Each Manager shall provide the Finance Committee with a copy of its policy regarding conflict of interest.
- 7.2.3 Each Manager shall annually confirm in writing that it continues to meet the registration requirements, the Code of Conduct, the conflict of interest policy, and compliance with this policy in general.
- 7.2.4 A set of guidelines shall be established within which each Manager is expected to operate, including discretion limits, diversification, quality standards and performance expectations. These guidelines are set out in Appendix 1 - Manager Mandates.
- 7.2.5 In the case of segregated investment management, each Manager will be required to read this Policy and shall manage its portfolio in a manner that is compliant with it. Each Manager shall provide a quarterly letter of compliance which explains any breach of investment guideline contained in this Policy or his mandate. If a Manager does not plan to meet the guideline by the end of the following quarter, they shall request written approval from the Trustees for such variation. A Manager may make a written request for a change to the Policy as it affects its portfolio. The Finance Committee will review the area of concern with the advice of the Consultant within four (4) months of such a request. The Manager is also required to advise the Trustees in writing immediately, in the event of any staff or organization changes which may affect the administration and/or performance of the manager's portfolio.

- 7.2.6 It is acknowledged that pooled funds follow restrictions established for a group of clients and that these may be more or less restrictive than this Policy. In the case of holding an investment in a pooled fund, the investment policy guidelines for the pooled fund will take priority over this Investment Management Policy. However, each Manager using a pooled fund within its mandate shall identify in its quarterly written report any area in which the pooled fund does not comply with this Policy. The Finance Committee will determine whether the policies of the pooled fund are acceptable in totality, whether the pooled fund is to be discontinued, or whether this Policy is to be amended.
- 7.2.7 Each Manager shall notify the Finance Committee promptly in writing of any conflict of interest, direct or indirect, or a substantive change in investment philosophy, key personnel or corporate organization.
- 7.2.8 Directed Commissions (Soft Dollars) are not to be used by the Portfolio, but may be used by a Manager provided that use meets the standards set by the CFA Institute.
- 7.2.9 Should the registration of an incumbent Manager be declined or revoked, the Manager shall immediately notify the Finance Committee, who shall discuss their course of action within 14 days of such notification
- 7.2.10 Investments may be held in a segregated account, or in a Manager's pooled funds.
- 7.2.11 The investment mandate allocation is set out in Appendix 1. The mandates have been selected to assure a generally accepted level of diversification and investment risk.
- 7.2.12 The total asset allocation will be re-adjusted at the discretion of the Finance Committee.
- 7.2.13 The Investment Mandates will be reviewed by the Finance Committee on an annual basis along with this Policy.

8. INCOME AND SPENDING POLICIES

8.1 Income

The allocation of earnings will depend upon the Portfolio's classification. The general policy is that all earnings will be pooled together and allocated to the University's general revenue, with the following exceptions:

8.1.1 Endowments

Income earned on endowment funds will be allocated in accordance with the Endowment Management Policy.

8.1.2 Special Purpose Funds

Earnings on special purpose funds will be allocated proportionately to each individual fund based upon its beginning monthly balance, as required by stipulations imposed by the funding source.

8.1.3 Capital and Infrastructure Funds

Earnings on capital and infrastructure funds will be allocated according to terms of the funding agreements.

8.2 Spending

The spending of earnings will depend upon the Fund's classification as determined in the recording of the income. The general policy is that spending will occur based on the requirements imposed in the University's fund classification. The following are specific restricted fund spending policies:

8.2.1 Endowments

- a) Income earned on Endowments will be spent in accordance with the specific terms and conditions of each trust.
- b) Unspent income as at the end of each fiscal year will be allocated in accordance with the Endowment Management Policy.
- c) In some years, the spending allocation made in accordance with the Investment Management Policy may exceed investment returns. In such cases the University is permitted to temporarily encroach on Endowment funds provided there is a reasonable expectation that the encroachment will be reversed as soon as possible. In other cases where the annual spending allocation to a particular Endowment is insufficient to meet requirements, temporary encroachment on Endowment funds must be approved by the Vice President (Finance and Administration).

8.2.2 Special Purpose Funds

Expenditures will be made from Special Purpose funds only for the specific purposes designed by the terms and conditions.

8.2.3 Capital and Infrastructure Funds

Expenditures will be made from Capital and Infrastructure funds only for the specific purposes designated by the external parties that contributed the funds.

9. REVIEW OF POLICIES

The Investment Management Policy shall be reviewed annually by the Finance Committee and any amendments shall be duly authorized by the Board of Governors.