

University of New Brunswick
Board Investment Committee
STATEMENT OF INVESTMENT PRINCIPLES AND BELIEFS

1.0 INTRODUCTION

- 1.1 The University of New Brunswick receives contributions and gifts from various donors. These funds are pooled for investment purposes within the University endowment and other long-term trust account pool, the Fund.
- 1.2 The Board of Governors of the University is responsible for setting the mission and goals of the Fund and approving spending and investments policies. The Investments Committee supports the Board by providing advice and recommendations on these matters.
- 1.3 The Investment Committee has established and approved the following Statement of Investment Principles and Beliefs (the “Statement”) in order to set forth the underlying principles and beliefs, which form the basis for investment objectives and policies and serves as a guide for managing the assets of the Fund.

2.0 FUND MISSION AND OBJECTIVE

- 2.1 The objective of the Fund is to support current and future activities of the University in perpetuity. The Fund has a three-fold mission:
 - To foster an environment of academic excellence where superior teaching, learning, scholarship and research can be pursued.
 - To enable the University to achieve and maintain an enhanced level of financial strength and independence in its operations over the long run.
 - To support the attraction and retention of students to the University.

3.0 INVESTMENT OBJECTIVES

- 3.1 In support of this mission, there are three basic investment objectives for the Fund, in order of priority, they are:
 - Protection of the original capital
 - Protection of the purchasing power of the capital
 - Provide earnings to sustain the long-term spending rate and approach.

The objectives are to be attained with an acceptable level of risk.

4.0 RISK MANAGEMENT

- 4.1 The Committee believes that the prudent management of investment risk is a key aspect of its fiduciary responsibility in establishing appropriate investment policies for the Fund.
- 4.2 One of the key manners in which the Committee intends to manage investment risk is by investing in a portfolio of assets that is expected to provide a long-term real rate of return which meets or exceeds the spending rate with an acceptable level of return volatility.
- 4.3 The Committee believes that a risk management framework is an appropriate mechanism to use to identify, monitor and assess risks for the Fund.

5.0 ASSET CLASSES AND DIVERSIFICATION

Equities and Fixed Income

- 5.1 The Committee believes that the Fund should be primarily invested in both equity and fixed income assets.
 - Equity assets are expected to generate a higher long-term rate of return, and to provide a long-term hedge against inflation in order to maintain the purchasing power of assets over time.
 - Fixed income assets are useful as a source of ongoing cash flow, and for purposes of diversification in order to reduce the volatility of investment returns, and to protect the value of the Fund in a deflationary environment.
- 5.2 Equity assets should primarily include investment in stock markets in Canada, the U.S. and the major international developed economies.
 - Investments in emerging markets are acceptable, however, the proportion of funds invested in these markets should not exceed more than 10% of the total allocation to global equities.
- 5.3 Fixed income assets should primarily include investment in Canadian bonds. These may include government and corporate bonds and nominal as well as real return or inflation-indexed bonds.
 - Investments in non-Canadian bonds are acceptable, however, they should only be in recognized major markets and in total not represent more than 10% of the total allocation to fixed income securities.

Alternative Investments

- 5.4 The Committee believes there is a role for alternative investments within the Fund, primarily for reasons of diversification and lowered volatility. Alternatives currently acceptable are conservative highly diversified hedge fund of funds with a total commitment of no more than 5% of the fund.

6.0 INVESTMENT STRATEGIES

Asset Allocation

- 6.1 The Committee believes that strategic asset allocation is one of the key determinates in long-term performance of the Fund.

- The Committee believes that strategic asset allocation should integrate with long-term spending objectives and risk tolerances. There should be a periodic comprehensive analysis of these matters.

- 6.2 The Committee does not believe that a tactical approach to asset allocation is appropriate given the cost benefit of such an approach with the current size and governance model for the Fund.

Active and Passive Management

- 6.3 The Committee has a bias towards active investment management in particular with respect to equity investments.

- The Committee believes that appropriate combinations of active equity managers may provide diversification and protection from down market conditions.

- 6.4 The Committee believes there is the potential for marginal performance benefits as well as diversification benefits from active management of fixed income.

Rebalancing

- 6.5 The Committee believes that the allocation of the Fund across asset classes and investment managers should be rebalanced on a regular basis if actual allocations move outside of defined parameters.

Currency Management

6.6 The Committee believes that, over a long time frame, fluctuations in currency tend to offset. The Committee believes that there is a role for currency management within the fund (either at a specific manager level or on an overall basis) in order to reduce some of the volatility that may result from interim currency fluctuations.

- The decision as to the extent of currency management used is based on the trade off between cost of management verses benefits of reduced volatility and risk of adverse impact on spending patterns.

Derivatives

6.7 The Committee believes that derivatives and synthetic securities may be efficient tools , however, they should only be used when there is a full understanding of the related risks.

Leverage

6.8 The Committee does not believe in the use of leverage within the Fund other than specifically included within fund of hedge funds that monitor the nature and extent of the leverage.

7.0 INVESTMENT MANAGEMENT STRUCTURE

Balanced vs. Specialist Mandates

7.1 The Committee believes that the Fund should use mainly investment managers with specialist mandates.

Investment Style and Number of Managers

7.2 The Committee believes using managers with different and offsetting investment styles can reduce the variability of total Fund returns over time and thus achieve a more effective diversification of the assets of the Fund.

Internal vs External Management

7.3 The Committee does not believe that the Fund is currently large enough to allow the assets to be managed internally in a cost effective manner.

8.0 PERFORMANCE MEASUREMENT AND EVALUATION

- 8.1 The Committee believes that the main purpose for measuring the performance of the Fund should be to determine whether the total Fund return in real terms has exceeded the return objective based on the approved spending rate.
- 8.2 The performance of the Fund should be compared primarily against absolute return expectations, comparisons to passive benchmarks should also be made. The performance of individual managers should be compared against the return expectations established at the time the manager is hired, including passive benchmarks and or absolute return expectations as appropriate.
- 8.3 Total Fund performance should also be compared against that of other endowment funds to determine if the Fund is earning a competitive investment return.
- 8.4 Investment manager performance, as well, should be compared against a representative sample of other managers with similar mandates.
- 8.5 The Committee believes that the cost to oversee and execute the investment strategy is an important component of overall fund performance. Return figures should clearly reflect how investment management fees and other costs have been treated.

9.0 ROLES AND RESPONSIBILITIES

The Committee is of the view that it is important to have clarity on roles and responsibilities for the development, oversight, management and execution of the investment strategy.

10.0 REVIEW AND APPROVAL

- 10.1 This Statement shall be reviewed at least every three years to ensure that it continues to reflect the views and opinions of the Investment Committee. It may be reviewed more often if there is a significant change in the composition of the Committee, the outlook for capital markets, or the spending policy of the Fund.
- 10.2 The Statement has been approved by the Board Investment Committee of the University of New Brunswick Fund and is effective as of December 10, 2010.