

**1.0 Purpose**

- 1.1 The Board of Governors (the “Board”) of the University of New Brunswick (the “University”), through its Investments Committee (the “Committee”), is responsible for the management of the University’s investment portfolio assets (the “Assets”) and has adopted this Statement of Investment Objectives and Policy (the “Policy”).
- 1.2 This Policy’s purpose is to establish investment principles and guidelines that are appropriate to the University’s needs and objectives, to set out the structure for the management of the Assets and the procedures for monitoring investment performance.
- 1.3 The Committee shall select one or more Investment Managers (“Manager” or “Managers”) which will carry out the management of the Assets in accordance with this Policy. An investment mandate (“Mandate”) will be developed for each Manager which will outline the terms under which the Manager will operate, as agreed to and acknowledged by the Manager.
- 1.4 University Administration, in conjunction with the Committee, shall be satisfied that investments made by, and all other actions of, the Managers are in compliance with this Policy, and shall cause the performance of the Managers to be monitored and measured against the terms of their respective Mandates.
- 1.5 The Committee shall review this Policy and each Mandate at least annually to ensure continuing applicability. If appropriate, this Policy may be amended at any time, on the recommendation of the Committee and approval by the Board. Any such amendments shall be promptly communicated to the Managers.

**2.0 Applicability**

- 2.1 University-wide
- 2.2 The University’s objectives for the management of its endowment accounts are: to maintain a reasonably stable, competitive, inflation-adjusted spending rate, and to maintain an acceptable funding level so that the initial donations, adjusted for inflation, are available in perpetuity to the University.
- 2.3 In support of these objectives, the objective for the Assets is to provide a dependable and increasing source of income to the University by maximizing total return (including interest, dividends and both realized and unrealized capital appreciation) on a long-term basis while ensuring the safety of the principal.

**3.0 Definitions**

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- 3.1 None applicable

#### **4.0 Implementation**

- 4.1 The underlying principle of this Policy is that the Committee, the University Administration, and the Managers, shall ensure that the Assets are invested at all times in a prudent and diversified manner, which avoids a level of risk that would expose the University to an unacceptable level of loss under any plausible scenario.
- 4.2 The Committee and the Managers shall be responsible to ensure that:
- 4.2.1 all investments satisfy the requirements of applicable laws and regulations
  - 4.2.2 no part of the Assets is invested in any category of investment that is not specifically permitted by this Policy, and
  - 4.2.3 investments satisfy the requirements of any trust or donor restrictions placed upon the University and the University is to advise the Managers of these restrictions, if applicable.
- 4.3 Social objectives in the investment of the Assets are secondary to the basic objective of providing a dependable and increasing source of income.
- 4.4 This Policy only addresses the Assets (as defined in Subsection 1.1.) Other short-term assets (e.g. accounts receivable) and long-term assets (e.g. deferred charges, real estate holdings, investments in subsidiary companies or operations) of the University are not covered by this Policy.
- 4.5 The Managers shall comply with the requirements of this Policy and may exercise discretion only as provided in this Policy. Further, in making investment decisions, each Manager shall exercise such discretion with the care, skill and diligence that a prudent person would exercise in the circumstances then prevailing, and shall use all relevant knowledge and skill that the Manager possesses, or as a professional investment manager, ought to possess. All individual investment decisions shall be made so that there is a reasonable expectation of fair return or appreciation, given the nature of the investment, without undue risk of loss or impairment.
- 4.6 DESCRIPTION OF BUSINESS AND ASSET BASE:
- 4.6.1 The University provides higher educational opportunities and carries out research-based programs principally on its Fredericton and Saint John, New Brunswick campuses.
  - 4.6.2 The University is a registered charity and is exempt from corporate income taxes.
  - 4.6.3 The financial position of the University is set out in its annual audited financial statements.

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4.7 ANALYSIS OF FUND BALANCES:

4.7.1 An analysis of the nature of the fund balances related to the Assets is necessary to discern the investment policy and strategy to be followed. University fund balances fall into three broad categories, namely:

4.7.1.1 Endowed Funds such as Scholarships and Chairs which are intended to provide support to projects and activities in perpetuity, and similar long-term investment funds.

4.7.1.2 Mid-Term Funds, including building, equipment, and special purpose funds that will be built up over a period of approximately five to ten years and then spent on specific projects.

4.7.1.3 Short-Term Funds that will likely be utilized by the University within a time frame shorter than five years.

4.7.2 Endowment-type accounts generally comprise approximately 85% of the value of the Assets while Mid-Term Funds and Short Term Funds generally amount to approximately 10% and 5% of the value of the Assets respectively. These relative proportions will be reviewed on an annual basis to determine their ongoing applicability.

4.8 SPENDING RATE AND LIQUIDITY NEEDS:

4.8.1 Earnings equal to approximately 4.5% of the moving four-year average market value of the Assets (based on the 31 December market value in each of those four years) can be expected to be withdrawn from the Assets each year to support University spending requirements. This spending rate will be reviewed for appropriateness and established by the Committee at least annually.

4.8.2 There is also an expectation that there will be additional cash inflow from various funding sources to be added to the Assets on an annual basis. There is, therefore, no current anticipated need for non-routine withdrawals of capital from the Assets. If such a need should arise, then the Managers will be notified as required.

4.9 ASSET MIX CONSIDERATIONS:

4.9.1 A large portion of the Assets represent long-term endowment type funds that require a predictable long-term earnings rate while maintaining protection of the Assets from the effects of inflation, and providing, if possible, for real long-term growth in capital value.

## Investment Objectives

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- 4.9.2 Liquidity of the total Assets is currently not a major consideration in the determination of asset mix. Regular cash flow needs will tend to be met by investment income and additional inflows from funding sources.
- 4.9.3 The basic investment strategy should be to include a commitment of a significant portion of the assets to fixed income securities. The portfolio asset mix ("Asset Mix") should, however, also include a significant portion of equities to provide appropriate diversification and to obtain the higher long-term returns and inflation protection traditionally obtained through equity investments.
- 4.9.4 Accordingly, the Asset Mix range for the Assets (based on market value) is:

Category	Minimum	Maximum	Long-Term Average
Cash & Short Term			
Equivalents	0%	20%	0%
Fixed Income Securities	25%	55%	40%
Equities:			
Canadian	20%	50%	30%
Non-Canadian	15%	40%	25%
Total Equities	40%	70%	55%
Alternatives	0%	10%	5%

- 4.9.5 The Asset Mix is not intended to imply a fixed distribution of the Assets at all times. If permitted by their Mandate, variations from the Long-Term Average may be made by the Managers for short-term strategic reasons, at the Manager's discretion, to take account of

### 4.10 CATEGORIES OF INVESTMENTS / ASSET CLASSES ELIGIBLE FOR INVESTMENT:

- 4.10.1 From time to time, and subject to this Policy, investments may be made in any or all of the following asset categories, provided that the investments are permitted investments under the prudent person rules adopted by the Office of the Superintendent of Financial Institutions, and satisfy the criteria established therein -

- 4.10.1.1 bonds, debentures, mortgages, notes or other debt instruments of governments, government agencies or corporations with a credit rating of "A" or higher. All mortgage investments must be NHA-insured and backed by the Government of Canada or one of the following Schedule 1

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- domestic chartered banks: Bank of Montreal, Canadian Imperial Bank of Commerce, Royal Bank of Canada, The Bank of Nova Scotia, National Bank of Canada, and TD Canada Trust (hereinafter referred to as the "Major Canadian Chartered Banks").
- 4.10.1.2 guaranteed investment certificates, or equivalents, of the Major Canadian Chartered Banks or other eligible issuers insured by the Canada Deposit Insurance Corporation, or funds which primarily invest in such instruments
  - 4.10.1.3 term deposits or similar instruments of the Major Canadian Chartered Banks
  - 4.10.1.4 cash or money market securities issued by governments or corporations. No short-term investments should be made in instruments where the issuer has a credit rating of less than "R-1"
  - 4.10.1.5 publicly traded common and preferred equities, convertible debentures and convertible preferred securities. Preferred equities should have a credit rating of at least P2,
  - 4.10.1.6 a pooled fund of the Managers which includes holdings of "BBB" rated bonds, provided that the fund has received the approval of the Committee, and that the fund's total investment in "BBB" bonds cannot exceed 5% of the Assets invested in Fixed Income Securities, and
  - 4.10.1.7 other pooled funds of the Managers, including Funds of Hedge Funds, which have received the approval of the Committee. The Committee will inform the Board of approved pooled funds that permit investment in asset categories that do not conform to the general characteristics set out in this section, or that do not conform to the portfolio diversification guidelines and constraints set out in Section 9.
- 4.10.2 All investments with the exception of :
- 4.10.2.1 Global (Non-Canadian) Equity investments, and
  - 4.10.2.2 a maximum of ten percent of the total market value of bonds held by a Manager which may be invested by that Manager in Canadian-issued US-currency denominated bonds (provided that a positive favorable differential in interest rates exists compared with Canadian-issued Canadian-currency bonds such as to make it more likely that the University will realize an increase in overall return) shall be denominated in Canadian Dollars.

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- 4.10.3 Subject to the Asset Mix guidelines, Global ( Non-Canadian) Equities should primarily be investments in equity securities of companies listed on stock exchanges of any nation other than Canada. These securities shall be reasonably liquid and be well-diversified through investments in a cross-section of countries, regions and industries.
- 4.11 PORTFOLIO DIVERSIFICATION AND CONSTRAINTS:
- 4.11.1 All investments should exhibit a reasonable level of liquidity and, where appropriate, investments should be well-diversified by sector, industry and issuer.
- 4.11.2 Without the written consent of the Committee, the Assets shall be managed and the Mandates shall be written and applied so that
- 4.11.2.1 the total market value of the equity, debt and other securities of a single issuer, do not exceed 5% of the total Assets; provided, however, that the securities of the Government of Canada are not subject to such limit and the securities of any one of the Canadian Provincial Governments are subject to a 10% limit
- 4.11.2.2 the Assets are not unduly comprised of the securities of a limited number of issuers
- 4.11.2.3 securities are not purchased on margin or sold short
- 4.11.2.4 the Assets are not used to borrow money, pledged or otherwise encumbered, and
- 4.11.2.5 options contracts are not purchased (other than warrants, passive and index-linked investments and foreign currency hedging strategies for risk mitigation purposes).
- 4.12 RATE OF RETURN OBJECTIVES:
- 4.12.1 Primary Objective - The primary rate of return objective is to achieve an annual rate of return on the total Assets equal to approximately 4.5% in excess of the percentage change in the Consumer Price Index (all items Canada) over moving four-year periods.
- 4.12.2 Secondary Objective - The secondary rate of return objective is to earn an annual rate of return on the total Assets over moving-four-year periods which exceeds by 1% the aggregate return of the passive investment benchmarks as defined in Paragraph 4.18.3.
- 4.13 CALCULATION OF RATES OF RETURN: Market Value-Based Returns - investment returns for the investment objectives will be calculated after inclusion of dividends, interest, realized

and unrealized gains or losses and transaction costs but before inclusion of investment management fees.

**4.14 INVESTMENT MANAGER STRUCTURE:**

- 4.14.1 The Committee shall appoint professional investment managers after being satisfied as to their suitability and competence to act in that capacity.
- 4.14.2 For an investment management firm to be considered for appointment, the firm must have professional investment staff with relevant experience and expertise, should be financially sound, have experienced low turnover of key personnel, demonstrate an acceptable level of performance over at least the last four consecutive years and have the capacity to undertake the Mandate.
- 4.14.3 The Committee shall agree with each Manager upon a Mandate which will be a set of written guidelines within which the Manager is expected to operate. Each Mandate shall be consistent with this Policy.
- 4.14.4 No Manager shall be allocated more than 50% of the market value of the Assets. It is recognized that a manager's asset allocation may temporarily exceed this 50% limit due to market related changes in asset values. However, if a Manager's allocation exceeds 55% of the Assets, or exceeds 50% of the Assets for a period of more than 12 months, steps shall be taken by the Committee to rebalance the portfolio within the Asset Mix guidelines.

**4.15 CONFLICTS OF INTEREST:**

- 4.15.1 No officer or employee of the University and no member of the Committee involved with the administration of the Assets, may accept or be the beneficiary, either directly or indirectly, of any fee, brokerage, commission, gift or other consideration for or on account of any investment, purchase, sale, payment, or exchange made by or on behalf of the University. Individuals who are appointed as non-voting Advisors to the Committee are exempt from this provision.
- 4.15.2 The Committee shall be satisfied that an appropriate policy regarding conflicts of interest exists and is applied within each Manager. As a minimum, the Code of Ethics and Standards of Professional Conduct adopted by the Institute of Chartered Financial Analysts shall be expected to apply to each Manager. The following types of activities must be disclosed by the Manager to the Committee, in writing:
  - 4.15.2.1 Any material conflict of interest or any material beneficial ownership by the Manager of investments held by the University, which could reasonably be expected to impair the Manager's ability to render unbiased and objective advice. These disclosures shall be made

whenever the Manager wishes to buy, hold or sell for the account of the University any investment in which the Manager has a material beneficial interest or perceived conflict.

4.15.2.2 Any special compensation arrangements within the Manager or for its principals, employees or other related parties, that might place the Manager in a conflict position, such as bonuses based on short-term performance criteria.

4.15.3 The Managers shall have the discretion to execute securities transactions with brokerage firms of their choosing; however, this selection shall be based on the quality of execution rendered, the value of research information provided, the financial health and integrity of the brokerage firm, and the overall efficiency in executing the transaction. It is expected that brokerage commissions will be competitive in both price and execution for the specific transaction.

**4.16 LENDING OF CASH OR SECURITIES:**

4.16.1 Other than investment in eligible debt investments, as described in Section 8 of this Policy, no loans of cash are intended.

4.16.2 Lending of securities may be undertaken from time to time by the Custodian of the Assets, as appointed by the University, under a program of securities lending approved by the Committee, subject to applicable legislation, and provided that a minimum collateral coverage, in the form of cash or high-quality, liquid securities, as required under applicable legislation, of at least 105% of the market value of bonds lent and 110% of the market value of equities lent, is maintained at all times.

4.17 **VOTING RIGHTS:** The Managers shall have the sole and exclusive right to vote any and all proxies solicited in connection with securities comprising the Assets. The Managers shall furnish the Committee with their written proxy voting policy statement and shall maintain reports with respect to its voting decisions and submit a report on request to the Committee summarizing votes cast.

**4.18 PERFORMANCE MONITORING AND REVIEW:**

4.18.1 The Committee shall meet once annually or more often in its discretion with each Manager which manages more than \$20 million of the Assets on other than an indexed basis (i.e. replication of the return of one or more recognized security market indices without active security selection), and otherwise shall meet annually with or receive presentations from all other Managers.

4.18.2 At each meeting with a Manager, the Committee shall



- 4.18.2.1 review the investment portfolio, purchases, sales, and cash flow
- 4.18.2.2 discuss the shorter and longer term economic and investment outlook and the investment strategy to be followed and the prospects of meeting investment objectives
- 4.18.2.3 review the changes in the asset mix since the previous meeting and shifts expected to be made in the immediate future
- 4.18.2.4 assess the performance of the Managers, and
- 4.18.2.5 review any changes or turnover of key personnel and any other developments within the Manager.
- 4.18.3 The Committee shall cause the investment performance of each Manager, and of the total Assets to be measured, monitored and reviewed no less frequently than every three months. The performance of the Managers shall be reviewed in the context of their respective Mandates.
- 4.18.4 A comprehensive review and analysis of Manager and investment performance shall be undertaken by the Committee at least once each year. This shall include:
  - 4.18.4.1 absolute and relative performance and returns measured against objectives
  - 4.18.4.2 returns achieved for each major asset class and the total portfolio
  - 4.18.4.3 returns against benchmarks which for the total Assets shall be the return that could have been achieved by passive investment in the various market indices using the long-term average asset mix, as set out in Subsection 4.9.4 and 4.9.5 above and for the individual asset classes shall be the appropriate market index, as summarized below:

Asset Class	Market Index
Canadian Bonds	DEX Universe
Canadian Equities	S&P/TSX Comp. Index Capped @ 10%
Short Term	Three Month Treasury Bill Return Index
Global Equity	MSCI World Index (Ex Canada) C\$
Crestline Offshore Fund	Cdn Libor + 400bps

- 4.18.4.4 the value added or lost as a result of actual asset mix deviating from the long-term average asset mix.

#### 4.19 POLICY REVIEW:

- 4.19.1 The Committee, in conjunction with the University Administration, shall review and reassess this Policy at least annually or whenever changes in conditions warrant a review. Factors that may necessitate a review include:
  - 4.19.1.1 a major change in the funds supported by investment portfolio
  - 4.19.1.2 a significant shift in market conditions, the long-term relationship of returns between major asset classes or other socio-economic and political factors that may have an impact on investment returns, or
  - 4.19.1.3 a request from a Manager to do so.
- 4.19.2 Any amendments shall be promptly communicated to the Managers.
- 4.20 BREACH OF POLICY AND PROCEDURES: If there is a material intentional or unintentional breach of this Policy, then upon its discovery, the Managers and the University Administration must promptly inform each other and the members of the Committee of the breach.

## **5.0 Interpretation and Questions**

- 5.1 University Secretariat Office is located in Sir Howard Douglas Hall, Room 110. Questions concerning this policy may be directed to (506) 453-4613 [sjd@unb.ca](mailto:sjd@unb.ca).