

**University of New Brunswick  
Investments Committee  
Statement of Investment Beliefs**

## **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. Endowment accounts and non-endowed trust accounts that have a long-term spending and investment horizon are invested in the Long-term Investment Fund ("the Fund"). Trust accounts with a shorter spending and investment horizon are invested in the Short-term Investment Fund ("the Short-term Fund") established for the investment of the University's operating cash.
- 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 Investments Committee has established and approved this 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 serve 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:
  - To protect the original capital
  - To protection of the purchasing power of the capital
  - To 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 A certain level of risk must be taken to achieve the investment objectives of the Fund. This will involve a well diversified selection of asset classes, including certain asset classes with greater volatility but greater expected return over the long term. The Committee recognizes that the Fund is exposed to both long-term and short-term investment risk. The long-term risk is that the value of the assets of the Fund may not increase sufficiently over time to keep up with the rate of inflation, and thus fail to support spending requirements. The key short-term risk is that the volatility in capital markets could lead to short-term fluctuations in the value of assets that could result in excessive volatility in the level of annual spending. 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 both the target spending rate and observed inflation 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 INVESTMENT HORIZON**

- 5.1 The long-term investment horizon enables the Committee to:
- Tolerate short-term volatility in asset values and returns.
  - Undertake investment strategies that are not driven by short-term market volatility.
  - Invest in asset classes that are less liquid for reasons of diversification and lower volatility.

## **6.0 ASSET CLASSES AND DIVERSIFICATION**

### **Equities and Fixed Income**

- 6.1 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, to provide a long-term hedge against inflation in order to maintain the purchasing power of endowments 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.

- 6.2 Equity assets should primarily include investment in marketable equity securities across the market capitalization spectrum on domestic, international, and emerging market stock exchanges.
- 6.3 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.
- 6.4 Investments in non-Canadian bonds are acceptable, including marketable fixed income securities traded on international developed and emerging market exchanges.

### **Alternative Investments**

- 6.5 The Committee believes there is a role for alternative investments within the Fund, primarily for reasons of diversification and lowered volatility. Alternatives may include but are not limited to real estate and infrastructure investments.

## **7.0 INVESTMENT STRATEGIES**

### **Asset Allocation**

- 7.1 The Committee believes that strategic asset allocation is one of the key determinants in long-term performance of the Fund.
- 7.2 The Committee believes that strategic asset allocation should integrate with long-term spending objectives, capital purchasing power protection, and risk tolerances. There should be a periodic comprehensive analysis of these matters.
- 7.3 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**

- 7.4 The Committee has a bias towards active investment management in particular with respect to equity investments.
- 7.5 The Committee believes that appropriate combinations of active equity managers may provide diversification and protection from down market conditions.

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

7.7 Passive management may be considered within specific asset classes to gain market exposure or where it cannot be demonstrated that active management can consistently add value, net of fees.

### **Rebalancing**

7.8 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**

7.9 The Committee believes that, over a long-time frame, fluctuations in currency tend to offset. The Committee believes however that there may be a role for currency management from time to time 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.

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

### **Derivatives**

7.11 The Committee believes that derivatives and synthetic securities may be efficient tools for managing investment risk and return of the Fund, such as gaining market exposure and managing currency risk. However, they should only be used when there is a full understanding of the related risks. Derivatives should not be used to leverage the Fund, and the maximum expected net exposure in any one type of derivatives contract should be fully collateralized by cash or cash equivalents.

### **Leverage**

7.12 The Committee does not believe in the use of leverage within the Fund other than specifically included within pooled funds that monitor the nature and extent of the leverage. The use of leverage by external managers will be regulated by their approved mandates.

## **8.0 SUSTAINABLE INVESTING**

8.1 The Committee believes that consideration of environmental, social and governance ("ESG") factors can have a material impact on long-term investment performance. This is based on the belief that well-run companies with sound ESG

practices will outperform in the long term. The Committee therefore believes that ESG issues are a set of factors to be considered along with all other factors when making investment decisions.

## **9.0 INVESTMENT MANAGEMENT STRUCTURE**

### **Balanced vs. Specialist Mandates**

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

### **Investment Style and Number of Managers**

9.2 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**

9.3 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.

## **10.0 PERFORMANCE MEASUREMENT AND EVALUATION**

10.1. 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 met the return objective based on the approved spending rate and observed inflation levels.

10.2. The performance of the Fund should be compared primarily against absolute return expectations; however, 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.

10.3. Total Fund performance should also be compared against that of other endowment funds to determine if the Fund is earning a competitive investment return.

10.4. Investment manager performance, as well, should be compared against a representative sample of other managers with similar mandates.

10.5. 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.

## **11.0 ROLES AND RESPONSIBILITIES**

- 11.1 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.
- 11.2 The Committee expects Committee members and employees to act ethically, respectfully and with a high degree of integrity at all times in the conduct of our investment activities
- 11.3 Policies are designed to facilitate compliance with legal and regulatory requirements and support a culture of high ethical behaviour and accountability

## **12.0 REVIEW AND APPROVAL**

- 12.1 It is recognized that the Committee's beliefs may evolve over time. This Statement shall therefore 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 investment environment and/or the circumstances of the Fund.