

**University of New Brunswick
Investments Committee
Statement of Investment Objectives and Policy
Short-Term Investment Fund**

University of New Brunswick
Statement of Investment Objectives and Policy - Short-Term Investment Fund
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1. INTRODUCTION AND PURPOSE

- a. The purpose of this policy is to establish guidelines that will facilitate effective management and investment of the University of New Brunswick's operating cash balances. The cash flows of the University are generally predictable. As such, cash balances in excess of amounts required for the University's day-to-day operating needs are available for investment in fixed income investments generating investment income to be used in support of University operations. Sources of cash include:
- operating;
 - research and capital project funding received in advance;
 - self-insurance reserves, and
 - internally restricted funds set aside for capital renewal and other University priorities including departmental non-salary budget carryovers under the Board of Governors (the "Board") approved carryforward policy.

Cash balances are planned and managed to avoid the need for external borrowing and to ensure that funds are available as needed.

- b. Excess cash balances are pooled for investment purposes, forming the Short-Term Investment Pool (the "STIF"). Restricted trust accounts that have a spending and investment horizon of one year or less are also invested in the STIF.
- c. The Board has approved this Statement of Investment Objectives and Policy (the "SIOP – STIF" or the "Policy") for the STIF. The purpose of the Policy is to establish investment principles and guidelines that are appropriate to the University's needs and objectives, to set out the structure for the oversight and management of the STIF and the procedures for monitoring investment performance.
- d. University endowment accounts and non-endowed trust accounts that have a long-term spending and investment horizon are also pooled for investment purposes, forming the Long-Term Investment Fund (the "Fund"). A separate Board-approved Statement of Investment Policy and Objectives (the "SIOP") is in place for the Fund.

2. CORE AND VARIABLE AMOUNTS

- a. The purpose of the STIF is to pool for investment purposes capital that is predominantly short-term in nature. However, historical cash flow analysis indicates that there is a "Core" or baseline level of operating cash that has remained relatively stable over a number of years and is likely to be sustained on an ongoing basis.
- b. There is also a variable amount that reflects cash receipts and disbursements that fluctuate throughout the year. Management of the "Variable" amount is based on the short-to-medium cash flow requirements of the University.

- c. University management is responsible for determining the amount that is considered “Core” based on historical cash flow analysis and medium-to-long-term cash forecasts.

3. INVESTMENT OBJECTIVES AND RISK TOLERANCE

- a. The investment and spending horizon for the Core amount is medium to long-term in nature. Therefore, a maturity profile that is greater than would be expected for funds with a short-term investment horizon is appropriate for the Core component of the STIF.
- b. The University's objectives for the management of the STIF are:
 - To preserve capital; security of invested capital will be primarily achieved through portfolio diversification in accordance with the guidelines and constraints set out in Section 5 and the minimum quality standards set out in Section 6;
 - To minimize liquidity risk by limiting the portfolio to readily marketable securities;
 - To optimize returns consistent with the requirements for capital preservation and liquidity.
- c. Given that the University has limited staff resources, the investment strategy should be manageable without a significant requirement for day-to-day management.

4. MINIMUM TARGETED CASH BALANCE AND INVESTABLE AMOUNT

- a. To ensure a guaranteed level of liquidity, the Core component should be reduced by a minimum targeted cash balance, as determined by University management, and approved by the Committee.
- b. The Investable Amount applicable to the STIF represents the Core component or baseline level of operating cash that has remained relatively stable over a number of years and is likely to be sustained on an ongoing basis less the minimum targeted cash balance.

5. ROLES AND RESPONSIBILITIES

- a. The Board has ultimate responsibility for approving the overall investment objectives and investment policy for the STIF.

- b. The Investments Committee has been delegated the role of overseeing the management of the STIF.
- c. University Management is responsible for managing cash flows to meet liquidity needs, investing excess cash funds in accordance with this Policy, and reporting to the Committee on investment performance and compliance with this Policy.
- d. In addition, University Management is responsible for monitoring the core and variable amounts of the STIF, which are used to establish investing limits i.e. minimum targeted cash balance, and the Investable Amount. Management shall report any changes in these amounts to the Investments Committee.

6. PERMITTED INVESTMENTS/PORTFOLIO DIVERSIFICATION & CONSTRAINTS

- a. The University has entered into a Treasury Agreement with its Banker under which the bank pays daily interest on account balances calculated at the bank's Canadian Prime Rate for that day less a stated fixed percentage on all balances. The bank as the right to request twenty-four (24) hours prior notice of withdrawal.
- b. From time to time, and subject to this Policy, the balance in excess of the Investable Amount may be invested in any or all of the following asset categories:

| Category | Limit Per Issuer | Limit Total Category |
|---|--------------------------|----------------------------------|
| | % of Total Portfolio | % in Excess of Investable Amount |
| Bank balances permitted subject to the Treasury Agreement | Unlimited | Unlimited |
| Government of Canada treasury bills, notes, debentures, bonds, stripped coupons and residuals and any obligations unconditionally guaranteed by the Government of Canada with a term to maturity of less than 2 years | Unlimited | 50% |
| Provincial and municipal treasury bills, notes, debentures, bonds, stripped coupons and residuals and any obligations unconditionally guaranteed by a provincial government of Canada with a term to maturity of less than 2 years; | Unlimited | 50% |
| Guaranteed Investment Certificates, Banker's Acceptances, Bearer Deposit notes or equivalents issued by a Schedule I or II chartered bank with a term to maturity of less than 2 years; | 20% (See Section 6d.) | 50% |
| Aggregate | n/a | 50% |

- c. From time to time, and subject to this Policy, the Investable Amount may be invested in any or all of the following asset categories:

| Category | Limit Per Issuer | Limit Total Category |
|--|-------------------------------|---------------------------------|
| | Percentage of Total Portfolio | Percentage of Investable Amount |
| Bank balances permitted subject to the Treasury Agreement | Unlimited | Unlimited |
| Government of Canada treasury bills, notes, debentures, bonds, stripped coupons and residuals and any obligations unconditionally guaranteed by the Government of Canada; | Unlimited | Unlimited |
| Provincial and municipal treasury bills, notes, debentures, bonds, stripped coupons and residuals and any obligations unconditionally guaranteed by a provincial government of Canada; | Unlimited | Unlimited |
| Guaranteed Investment Certificates, Banker's Acceptances, Bearer Deposit notes or equivalents issued by a Schedule I or II chartered bank; | 20% (See Section 6.d) | 50% |
| Bonds, debentures and commercial paper issued by a Canadian or foreign corporation; | 5% | 20% |
| Bank issued Asset-Backed Commercial Paper (Bank Schedule 1 only) | 5% | 20% |
| Short term bond fund | n/a | 20% |
| Internal Loans | n/a | 40% |
| Aggregate | n/a | 20% |
| Long Term Investment Fund | n/a | 20% |
| Short Term Mortgage Fund | n/a | 10% |

- d. For greater certainty, the 20% limit per issuer for Schedule I or II chartered bank issued GICs, Bearer Deposit notes or equivalents applies to the University's Banker, BMO. The limit is to be applied inclusive of any balances held under the BMO Treasury Agreement. For example, when balances under the Treasury Agreement exceed 20% of the STIF, no investment can be made in GICs or similar instruments issued by BMO.

- e. All investments shall be denominated in Canadian dollars.

- f. The University has a Board-approved Internal Loans Program. The purpose of the Program is to provide a framework within which to consider, approve and establish market based terms for internal financing of capital projects. The Program provides a possible source of long-term financing for capital projects and/or major equipment purchases in appropriate circumstances. The Program may also be

used to provide interim or short-term financing of such projects until such time as appropriate external financing arrangements can be secured and implemented. Internal Loans are funded from the University's operating cash flows.

- g. A portion of the Investable Amount may be invested in units of the University's Long-term Investment Fund and/or in assigned short-term mortgage funds. Dollar limits for each individually and for both in aggregate will be set from time to time as percentages of the of the defined Investable Amount component of the STIF. The percentages and dollar limits approved will be set periodically by the Investments Committee and specified in Appendix A to this Policy. As protection against market volatility in either of these investment options, a reserve of \$5 million shall be established from returns on these investments that exceed the Treasury Agreement rate. The reserve will be used to restore the capital in any year that these investments incur a capital loss and/or to ensure a minimum rate of return equivalent to the Treasury rate.
- h. The limits and constraints set out in this section are applicable at the time of the investment.
- i. If a portion of the Investable Amount is invested in a pooled fund, the Committee will, with respect to the assets invested in the pooled fund, accept the investment policy or other governing documents of the pooled fund in lieu of this Investment Policy. In other words, the investment policy of the pooled fund would, with respect to assets invested in the pooled fund, override any specific requirements contained in this Investment Policy.
- j. Pooled funds may invest in instruments that are not authorized directly as per this Investment Policy. The Manager is required to notify Management promptly of any changes to the investment policy of the pooled fund.

7. MINIMUM QUALITY STANDARDS

The minimum quality standard for individual short-term investments is "R-1 mid" or equivalent and for bonds, a debt rating of "A" or higher as rated by a recognized bond rating agency, at the time of purchase.

- a. For the purposes of this Policy, the following rating agencies shall be considered to be "recognized bond rating agencies":
 - Dominion Bond Rating Services;
 - Standard and Poor's Ratings Services; and
 - Moody's Investors Service.

8. LIQUIDITY AND TERM

Liquidity and term of investments will be arranged so that, through maturities or sales,

cash will be available when required. Liquidity is achieved by heavily weighing the portfolio to readily marketable short-term securities.

- Cash forecasts and historical cash flow patterns will be used as a guide for matching the term of investments to cash requirements.
- To meet unforeseen requirements at least part of the portfolio must be in cash (Treasury Agreement) or in highly liquid investments that can be converted to cash quickly with minimum loss of principal. A minimum of 30% of the portfolio will be invested in securities with terms to maturity of less than 1 year.

9. PROHIBITED INVESTMENTS

a. The following investments are prohibited:

- Equity investments, except via the Long-term Investment Fund;
- Non-bank issued Asset-Backed Commercial Paper;
- Any investment not specifically permitted by the Policy.

10. PERFORMANCE MONITORING AND REVIEW

a. At each meeting of the Investments Committee management shall report on STIF holdings, investment performance, and actual investment strategy employed since the previous meeting. Investment performance shall be benchmarked against the FTSE TMX Canada 91-Day T-Bill Index.

11. POLICY REVIEW

a. The Policy may be reviewed and revised at any time but it must be formally reviewed by the Committee at least once in every two calendar years. Amendments become effective on the recommendation of the Committee and approval by the Board.

12. TRANSITIONAL PROVISION

a. It is recognized that certain holdings in the Short-Term Investment Fund at the date of adoption of this Policy do not comply with the per issuer limits set out in Section 5. These holdings will be deemed to be eligible holdings during their term to maturity. As these holdings mature, the Policy limits will apply to the reinvestment of funds.