



Investment Policy

Category:	Finance & Administration
Number:	4.08
Responsibility:	Vice-President, Finance & Administration
Approval:	Board of Trustees
Approval Date:	June 23, 2005
Issue Date:	September 2004
Next Review:	September 2007

INTRODUCTION

Brock University carries significant cash balances throughout the year. Most of this cash is committed for specific purposes (e.g. endowments, bursaries, capital projects, operational needs) and may not be used immediately. This allows the large cash balances to accumulate. To protect and optimize the value of these funds that may be both short term and long term in nature, the following policy has been adopted.

PURPOSE

The purpose of this policy is:

- To clarify the assets to which this policy applies.
- To identify investment objectives.
- To outline responsibilities associated with investment management.
- To establish guidelines for investment activities.
- To establish the framework to manage invested assets on a “total return” basis, not forfeiting one objective for another.

SCOPE

This policy includes, but is not limited to trusts, endowments, donations, funds set aside from tuition increases, and any other excess University cash balances.

In addition, the Brock University Foundation and the Friends of Brock University (a public foundation incorporated in USA) operate in accordance with this and all other Brock University Investment and Advancement policies.

OBJECTIVES

The investment of all assets, including excess cash balances must satisfy the following investment objectives:

- The terms of reference agreed with donors are respected.
- Investment yields that maximize returns to ensure continued growth without the capital erosion by inflation and a desired spending rate.
- A level of liquidity to provide the flexibility to adjust to changing market conditions.
- Maturity terms that ensure sufficient cash is available to meet the obligations of the University.
- Protecting the portfolio from loss due to market fluctuations and/or poor diversification.

POLICY

Guiding Principles

- An active management strategy is preferred to meet a real return objective of the fund so long as transaction costs are minimized (e.g. pooled fund minimizes transaction costs).
- A core equity investment style is preferred to allow for some flexibility for growth and value investments in a market and still provide returns that outperform the market indices.
- The number of investment managers may increase with the size of the fund.
- The type of investment manager would normally be a generalist or hybrid based on the value of the fund but will not exclude specialists who fill the gap created by the generalist/hybrid.

Responsibilities

1. Responsibility for investment of the trusts, endowment fund and any other cash or assets that are deemed excess to the daily operations of the University rests with the Investment Committee as delegated by the Board of Trustees.
2. The responsibilities of the Investment Committee with respect to investment management include:
 - Selecting the investment manager(s),
 - Selecting a custodian,
 - Selecting performance measurement consultants and/or reviewing, at least quarterly, the performance of investments,
 - Reviewing, at least annually, the custodian's and investment manager's performance,
 - Reviewing, at least annually the Policy Statement including a reassessment of the return expectations, risk tolerance, time horizon and recommending changes to the Board.
 - Reviewing and recommending the annual spending rate in accordance with the Trust and Endowment Policy.
 - Reporting annually to the Board of Trustees through the Planning, Finance and Human Resources Committee.
3. The Investment Manager(s) will
 - Invest the portfolio in accordance with this policy.
 - Confirm compliance with an Investment Statement and their Investment Policy.
 - Notify the Board or designate on a quarterly basis of any temporary departure from this policy and recommend suitable remedies.
 - Notify the Board or designate as soon after discovery as possible of any investment that becomes inactive and suggest alternatives for valuation if a market value is not available on an accepted exchange.
 - Exercise all rights, including voting rights, acquired through portfolio investments with the intent of fulfilling the investment objectives for the portfolio. However, in those situations where the exercise of voting rights could have significant financial impact, the Investment Manager will seek guidance from the Board or designate as to how the rights should be voted.
 - Provide a quarterly report to the Board or designate which will include a brief review and outlook for the economy and the capital markets, investment performance to date in relation to the objectives, a demonstration of compliance to this policy, a detailed listing of all transactions, changes in the approved list of stocks and an activity and asset analysis.
 - Make an annual presentation to the Board or designate which will include a brief summary of the year's results as provided in the quarterly reports.
 - Participate in review of this policy, at the Board's request.
 - Ensure that the investments meet all legislative requirements of trust and endowment funds.
4. To ensure that donor's wishes are respected, any restrictions on the use of funds or assets must be carefully considered before accepting the donation. Terms of reference will be determined and signed with the donor. These considerations are outlined in the Donations, and Trust & Endowment Management policies.

Benchmarks

5. Wherever possible, excess cash balances should be minimized. Cash receipts do not occur at the same time or frequency as cash disbursements in normal University operations. The objective of excess operational cash management is to earn enough interest income in periods of cash surplus to offset the

cost of borrowing in periods where the line of credit is utilized, over each fiscal year. For purposes of evaluating the portfolio of excess operating cash, the average rate of return will be calculated quarterly, and reported annually to the Board.

- To ensure the long term objectives of investment yield, the performance will be compared to appropriate benchmarks with the objective of exceeding it by 100 basis points or 1%. A secondary objective is the value added targets in the underlying assets classes. In the case of balanced portfolios, the total return will be compared to the aggregate benchmarks on a pro-rata basis. For purposes of evaluating performance of the investment portfolio and the investment manager, all rates of return (gross of fees) are calculated on a quarterly basis and evaluated over a three-year period and Investment Managers' fee relative to returns generated will be and reported annually to the Board

Benchmark:

Scotia Capital 91-Day Tbill Index	for Short term
Scotia Capital Universe Bond Index	for Fixed Income
S&P/TSX Composite Index	for Canadian equities
MSCI World Index	for Global equities

Asset Mix

- The asset mix policy adopted by the University is 55% equities and 45% fixed income and cash, plus or minus 5% for both. The following asset mix policy guidelines have been established, consistent with the objectives.

	Minimum	Maximum	Benchmark	Value Added Target
Cash & Short-term investments	0%	15%	5%	0.00%
Fixed Income securities	30%	50%	40%	0.20%
Canadian Equities	15%	45%	20%	1.25%
Global Equities	25%	45%	35%	1.50%

Permissible investments may be held:

- as individual securities,
- as a pool of individual securities in which each fund is allowed to participate (unitised), or
- in the underlying pooled funds.

There may be circumstances under which a temporary exemption to the asset mix policy is adopted. The Vice President, Finance & Administration and the Chair of the Investment Committee will decide if the exemption will be allowed and how the funds will be invested until such time as the Investment Committee reconvenes to discuss the matter.

Eligible Investment Guidelines

- Guidelines for the type, quality and quantity of the investment assets are summarized below.

The rating agencies used will be Canadian Bond Rating Services (CBRS) and Dominion Bond Rating Services (DBRS). If a government's or a corporation's securities are down-graded below the minimum acceptable ratings indicated below, no new investments may be made, but existing investments may be retained and disposed of at the discretion of the Investment Manager.

In the guidelines below, the term portfolio refers to the assets under the administration of the Investment Manager, and not the total portfolio of University investments.

Short-term Investments

- Government of Canada treasury bills, notes and bonds with maturity < 2 years *
- Government of Canada guaranteed notes with maturity < 2 years *
- Crown Corporations & Agencies notes with maturity < 2 years *

Provincial treasury bills, notes and bonds with maturity < 2 years
Canadian Schedule 1 Chartered Banks BAs, TDs, and GICs with maturity < 1 year

The minimum quality standard for short term investments will be

CBRS rating A-1 (Low) = Good (commercial paper & short term debt)

DBRS rating R-1 (Low) = Satisfactory Credit (commercial paper & short term debt)

DBRS rating A = Satisfactory Credit (bond)

Investment is limited to 10% of the market value of the portfolio per single issuer or 30% per category listed above except for *.

Fixed Income Securities:

Bonds (OECD government, provincial, municipal, corporate)

Debentures

Preferred shares

The minimum quality standard for bonds and debentures in the portfolio will be a BBB (Adequate) rating. The minimum quality standard for preferred shares in the portfolio will be a P-2 (CBRS) or Pfd-2 (DBRS). The more conservative rating assigned by either of the Canadian rating agencies will be used.

A minimum of 20% of the fixed income portfolio must be invested in Government of Canada securities.

The market value invested in any one issuer and its related companies/agencies of fixed income securities (other than the Government of Canada) shall not exceed 10% of the market value of the portfolio.

The market value of any one fixed income security (other than the Government of Canada) shall not exceed 5% of the market value of the portfolio.

Equities:

Common shares and securities convertible into common shares, income trusts, instalment receipts, rights, and warrants.

Canadian common shares listed on the Toronto or Montreal stock exchanges, U.S. common shares listed on the NYSE, ASE and NASDAQ stock exchanges, and common shares of companies in other OECD countries that are listed on a recognized stock exchange.

American Depository Receipts

The minimum quality standard of securities convertible to common shares will be an A or P-2 rating as noted above.

The market value of any one equity security shall not exceed 5% of the market value of the portfolio. Furthermore, no more than 10% of the portfolio may be invested in the equities of a single issuer and its related companies.

With the exception of the Financial Services sector, the proportion of the market value of Canadian equities invested in one Group Index of the S&P/TSX by the Investment Manager should not exceed the lesser of three times that industry's sector's weight in the S&P/TSX Index or 25% of the total Canadian equity portfolio. The proportion of the market value of the Canadian equities invested in the Financial Services industry sector should not exceed the lesser of 120% of this sector's weight in the S&P/TSX or 40% of the total Canadian equity portfolio.

Pooled Funds

The portfolio may be invested in pooled/mutual funds. Pooled/mutual funds are managed in accordance with the pooled fund's guidelines or mutual fund's prospectus, not according to individual client needs. As such, investment in a pooled/mutual fund is acceptable, so long as said guidelines are consistent with the spirit of this policy.

The minimum quality standard of pooled fund investments will be an AAi rating (CBRS) = High Quality.

Consideration should be given to limiting the amount invested in a single pooled/mutual fund.

Other Investments

A maximum of 10% of the market value of the portfolio may be placed in other investments of comparable quality to the various categories listed above.

Securities Lending

Invested securities may be loaned by the trustee/custodian under an arm's length contract with the University. The contract must specify: the revenue sharing arrangement, full indemnification by the custodian of the securities lent, collateral must be provided of at least 105% of the market value of the securities lent, and the collateral must be marked to market daily.

Derivatives

Forward exchange contracts may be purchased to fix the rate of exchange for a future payment to a supplier. Other hedges may be created to fix the rate of interest for a loan to be taken out in the future or to fix the cost of a commodity used in daily operations of the University (i.e. gas). These investments may be used to increase the return of excess operational cash.

Where the investment portfolio is exposed to clearly defined risks and derivative contracts exist which can be used to reduce those risks, the investment managers are permitted to use such derivatives for hedging purposes, but not for leverage or speculative purposes.

Ineligible Investments

9. No part of the portfolio shall be directly invested in:
 - Commodities,
 - Real estate (Investment in Real Estate Investment Trust (REIT) that is actively traded on a public stock exchange is permitted.)
 - Mortgages,
 - Mortgage-backed securities,
 - Non-marketable (e.g. restricted stock, private placements) securities other than GICs or similar instruments,
 - Non-arm's length transactions that may be considered a conflict of interest.

Conflict of Interest

10. A conflict of interest is defined as any event or circumstance that impairs the ability of any member of the Board or designate, or any employee or consultant to render unbiased and objective advice regarding any investment decision of the portfolio. In such cases, the conflict must be fully disclosed on a timely basis and the member shall withdraw from the meeting during the discussion and voting on the investment decision.

RELATED POLICIES

Donations
Trust & Endowment Management