NIPISSING UNIVERSITY

Policy Category:	Financial
Policy Number:	2.7.2012.B
Policy Name:	Investment Policy and Guidelines for Trust and Endowment Funds
Responsible Department:	Vice-President, Finance and Administration
Original Approval Date:	May 2012
Approval Authority:	Board of Governors
Last Reviewed/Updated:	September 2021
Next Review Date:	2023

A. Purpose

The purpose of this policy is to provide specific guidance to fund fiduciaries and investment managers for the segregation of funds held as trusts and endowments, and for the investment, monitoring and reporting on the management of these funds. This policy specifies the University's position regarding the asset mix of the trust and endowment funds, identifies appropriate goals for the fund assets and provides guidelines within which the investment manager or managers may formulate and execute investment decisions.

B. Scope

This policy applies to all trust and endowment funds invested by Nipissing University. Operating funds required for the liquidity needs of the University are outside the scope of this policy. The primary objectives regarding operating funds are to preserve capital and minimize risk while obtaining a reasonable level of return commensurate with risk, terms and liquidity; any investment direction regarding such funds is to be provided by the Vice-President, Finance and Administration, and reviewed by the Audit and Finance Committee of the Board of Governors periodically and as necessary.

For funds governed by this policy, investment managers are to adhere to the asset mix, general investment guidelines and other requirements contained within this policy for each portfolio of assets under their management. A portfolio may include more than one investment account segregated for reporting purposes but managed as a single pool in order to optimize net return and diversification of risk. The accounts included within each portfolio and managed as a single pool are to be determined by the investment manager in accordance with instructions provided by University management, specifically the Vice-President, Finance and Administration, and/or the Assistant Vice-President, Finance & Infrastructure.

C. General

1. Funds are to be managed on a going concern basis. Within the levels of risk identified in this policy, the overriding objective is to:

    a) maximize each fund's total long-term investment return;
    b) generate sufficient income to meet annual spending requirements;
    c) prevent capital erosion; and
    d) provide consistent results.

    While this objective implies a willingness to incur some short-term return volatility to achieve greater long-term results, efforts to achieve this objective must not expose the fund to unacceptable high levels of liquidity risk.

2. Investment strategies must not subject fund assets to extreme swings in value and must provide for sufficient liquidity at all points in an economic cycle.

D. Definitions

"Asset allocation or mix" refers to the allocation of fund assets among the major asset classes, including, but not limited to, Canadian and foreign equities, Canadian bonds and cash.

"Best execution" refers to the obligation of an investment services firm executing orders on behalf of customers to ensure that the prices those orders receive reflect the optimal mix of price improvement, speed and likelihood of execution.

"Endowed Funds" are funds received from external, non-operating fund sources, restricted to provide financial support for a specific purpose in perpetuity. Endowments are funds with provisions that prohibit encroachment on the donor's capital contribution. Only net investment income earned on the donor's capital contribution may be used to support the purpose designated by the donor.

"Liquidity risk" is the risk that it will become necessary to liquidate fund assets under unfavourable market conditions in order to meet spending requirements.

"Policy Index" is a benchmark designed to indicate the returns which a passive investor would earn by consistently following the asset allocation targets set forth in this policy. The Policy Index is useful in separating the impact of investment policy from execution of the investment strategy in evaluating the performance of the fund's investment program. The Policy Index is calculated by multiplying the target commitment to each asset class by the rate of return of the appropriate market index. The resultant average represents investment return which the investment fund would have earned if the fund were identical to the policy targets and the component returns identical to the market index levels.

"Real rate of return" is the rate of return after considering the effects of inflation. For example, if fund assets started at a value of $100 and rose to $110, a nominal rate of return of 10% would have been earned. If inflation was 4%, a real return of 6% (10% - 6%) would have been earned.

"Risk-adjusted returns" are usually calculated by isolating the return earned in excess of the risk-free rate (i.e. the T-bill rate) and evaluating that return in relation to the extra risk (volatility or standard deviation) incurred in earning the incremental return. For example:

	Return	Risk	Excess Return	Excess Return/Risk
T-Bill	5%			
S&P/TSX Composite Index	9%	18%	9% - 5% = 4%	4 / 18 = 0.22
University Investment Manager	9%	20%	9% - 5% = 4%	4 / 20 = 0.20

In this example, the investment manager and the market both earned 4% over the T-Bill rate. However, the investment manager incurred somewhat more risk and had lower risk-adjusted returns. Too much risk for commensurate return would not be an ideal situation for the University.

"Trust Funds" include funds received from external donors for the purpose of meeting certain commitments and not to be considered as endowments, such as to pay for a one-time only scholarship award. Trust funds also include funds received and invested from general revenues, capital or other sources for purposes determined by the Board of Governors, such as the prior accumulation of excess University funds designated for scholarship purposes.

E. Policy

1. Asset Mix

i. The determination of the asset mix of a fund is the principal means of defining the fund's risk and return parameters. The asset classes, asset allocation targets and permissible ranges for the University's trust and endowment funds are as follows:

Asset Class	Target*	Permissible Ranges*
Fixed Income:	**50%**	**30% - 70%**
Cash and Equivalents	5%	0% - 20%
Canadian Bonds	45%	30% - 65%
Equities:	**50%**	**30% - 60%**
Canadian	20%	15% - 35%
Foreign	30%	15% - 40%
* Expressed as a percentage of the total fund		

2. Investment Guidelines

i. Investment guidelines must be adhered to by fund managers when making decisions with respect to the selection of individual investments within the fund portfolio and include:

a. No individual portfolio shall hold more than 5% of its assets in the equity securities of any single entity, and no more than 10% of its assets in the fixed income securities of any single entity, with the exception of issues of Canadian or Provincial Governments or their Agencies;

b. Investment managers shall use their best efforts to ensure that all transactions are accomplished on a "best execution" basis;

c. There shall be no specific limitation to portfolio turnover. However, the average turnover should be justified by performance;

d. No short selling of securities is permitted;

e. Derivatives are not permitted except as discussed under Foreign Equities section below;

f. Covered calls are permitted;

g. Must consider the amount required to satisfy the University's annual payout requirements;

h. Only invest in securities for which resale is not restricted and where an effective reliable market is normally maintained;

i. Investments in pooled funds, mutual funds or index funds shall be managed in accordance with the objectives, policies and restrictions set forth in the pooled fund's guidelines or mutual/index fund's prospectus, so long as said guidelines are consistent with the spirit of this policy;

j. Investments in the following securities are prohibited:

   i. Privately placed or other non-marketable debt and equity
   ii. Lettered, legend or other restricted stock
   iii. Naked options or futures contracts
   iv. Uncovered short positions
   v. Leverage positions
   vi. Commodities (unless specifically requested and approved)

ii. Money Market Investments

   a. Money market investments may include Federal and Provincial Government and Agency obligations, corporate bonds, cash and other such instruments as deemed prudent by the investment manager;

   b. Money market securities are to be managed to ensure appropriate balances in quality and maturities consistent with current market and economic conditions;

   c. Cash investments should be made primarily on the basis of safety and liquidity of the investment, and only secondarily by the yield available. The investment managers are responsible for making independent analyses of the credit worthiness of securities and their appropriateness as investments regardless of the classifications provided by the rating services;

d. The investment manager shall have the flexibility to adjust the maturity structure to take advantage of current and anticipated market conditions and yield curve opportunities.

iii. Balanced Fund Management

a. Balanced fund managers may vary equity, bond and cash commitments within ranges set by this policy.

iv. Canadian Fixed Income

a. Canadian fixed income may include Canadian and Provincial Government and Agency obligations, municipal bonds and corporate bonds. These are to be managed to ensure appropriate balances in quality and maturities consistent with current market and economic conditions;

b. Each portfolio shall possess an average quality rating of AA or better at all times;

c. The minimum quality rating per issue shall be BBB.

v. Domestic Equity

a. Securities may include common shares, preferred shares, convertible securities, mortgages, trust units and real estate funds;

b. The majority of equity holdings must be mid to large companies as measured by market capitalization.

vi. Foreign Equity

a. Securities may include common shares, preferred shares, convertible securities, mortgages, trust units and real estate funds;

b. Global equity management may include forward exchange contracts on currency provided that the use of such contracts is designed to dampen portfolio volatility rather than leverage portfolio risk exposure. Currency contracts may be utilized to either hedge the portfolio's currency risk exposure or in the settlement of securities transactions. The use of futures and options to establish a leveraged position is prohibited;

c. Global equity investments in the Emerging Market countries will be limited to no more than 10% of the market value of the global equity portfolio.

3. Portfolio Rebalancing

i. Market fluctuations may cause the portfolio to be temporarily inconsistent with the asset allocation and/or other guidelines contained in this policy. Investment managers must regularly review the asset mix of the portfolio to ensure that the actual mix is in compliance with Section E. i. of this policy. The portfolio must be rebalanced at least quarterly.

4. Performance Goals

i. Investment fund performance shall exceed the blended return of the total benchmark index as follows:

Asset Class	Policy Mix	Asset Class Benchmark
Cash	5%	Dex 91 Day T-Bill Index
Canadian Bonds	45%	Dex Universe Bond Index
Canadian Equity	20%	S&P/TSX Composite Index
Foreign Equity	30%	MSCI World Index in C$
Total Benchmark	**100%**	

ii. Risk exposure as measured by the standard deviation of return and risk-adjusted returns shall be regularly evaluated for each investment option and compared with other comparable funds and managers. Risk exposure should generally rank in the midrange of comparable funds, but should be no higher than the 25th percentile. Risk-adjusted returns are expected to consistently exceed comparable market indices and consistently rank in the top half of comparable funds.

iii. The overall objective is to achieve real rate of return on the portfolio over the long-term sufficient to exceed the University's spending requirements plus the costs of investing and administering the funds within the acceptable level of risk provided for under this policy and also add to the overall capital funds available for future long-term use. The real rate of return will be monitored on a four (4) year annualized basis.

5. Evaluation of Investment Managers

i. Performance of the investment manager(s) will be monitored on a regular basis by the Vice-President, Finance & Administration, with a formal review to occur on an annual basis. Emphasis will be placed on the degree to which performance results meet performance goals outlined in this policy:

   a. Compliance with asset mix and investment guidelines;
   b. Performance over a four-year period; and
   c. Reporting and Communication as required in Section G of this Policy.

ii. Investment services are to be periodically revaluated via a Request for Proposal to be procured on a five year term, with an option in favour of the University to extend the terms of the agreement on the same terms and conditions for up to two additional periods of up to two years each.

6. Conflict of Interest

i. The Audit and Finance Committee will follow the Board of Governor's ***Conflict of Interest, By-law XVI***, for all investment decisions.

F. Investment Manager Responsibilities

The investment manager must:

1. Adhere to this policy and follow any additional recommendations of the Audit and Finance Committee;

2. Propose to management any recommendations to modify or deviate from this policy to enhance the performance of the funds;

3. Stay informed about investment opportunities and about economic conditions in general;

4. Meet at least annually with the Audit and Finance Committee, or more frequently upon request;

5. Provide to the Vice-President, Finance and Administration:

   a. INITIALLY:

      1. a written statement acknowledging acceptance of the Investment Policy and Guidelines for Trust and Endowment Funds and the performance standards therein stated, and acknowledging awareness of the Trust and Endowment Management Policy;

   b. MONTHLY:

      1. Account statements that include: the monthly cost basis and market value of the fund shares, the number of shares owned and all principal and income cash transactions for the various funds;

      2. the fund holdings broken out, minimally, by equity, fixed income, cash equivalents and uninvested cash balances; and

      3. Fund positions, by individually named securities

c. SEMI-ANNUALLY:

A report, within 30 days after the end of the 6-month period (i.e. 6 months ending October 31st and April 30th), in the following format:

i. Review of Organizational Structure

a) Organizational changes of investment option managers (i.e. ownership, staff, clients);
b) Assets and accounts under management for those firms in total and by product;
c) Product asset growth for each of the last three years.

ii. Summary of Investment Guidelines

a) Summarize guidelines and objectives;
b) Discuss adherence to guidelines;
c) Provide any comments and suggestions regarding policy constraints, guidelines, etc.

iii. Review of Investment Process and Evaluation of Portfolio Management Process for Investment Manager(s)

a) Brief review of investment process;
b) Discussion of any changes to the investment process;
c) Investment strategy used over the past 6 months and underlying rationale;
d) Evaluation of current strategy's success/ disappointments;
e) Current investment strategy and underlying rationale;
f) Outlook on capital markets for upcoming 6 months and proposed strategies and tactics to be employed during the next 6 months.

iv. Performance Review

a) Present total fund and asset class returns for last 6 months, year-to-date, last year, last four years and since inception versus benchmarks designated in the investment manager guidelines;
b) Discuss performance relative to benchmarks;
c) Provide portfolio characteristics relative to benchmarks, including analysis of risk;
d) Listing of Portfolio Holdings for each Account:

   1. Present book value and current market value
   2. List individual securities by sector
   3. Transaction history
   4. Investment income by type (i.e. interest, dividends, realized and unrealized capital gains and losses)

v. Other Business

a) Includes any other comments or information.

d. ANNUALLY:

1. A presentation to the Audit and Finance Committee, with a summary of the year's results, disclosure of any and all fund fees and management fees, and strategies they intend to adopt for the subsequent year;
2. A signed report indicating compliance with Investment Policy and Guidelines for Trust and Endowment Funds.

e. UPON WRITTEN OR ORAL REQUEST:

1. Copies of all documentation in support of any investment activity;
2. Certified financial statements of the investment management organizations selected;
3. Evidence of suitable insurance coverage of the investment manager's fiduciary responsibilities.

G. Audit and Finance Committee Guidelines

1. The Audit and Finance Committee (the "Committee") reports to the Board of Governors of Nipissing University. The Committee's purpose is to oversee the investment management and related administration of the Trust and Endowment Funds of Nipissing University.

2. The Committee receives an annual report from the investment manager(s) selected which indicates their compliance with this policy and the results of the portfolio as compared to the stipulated benchmarks.

3. The Committee makes recommendations concerning the engagement and termination of investment managers, consultants providing performance measurement and investment advice and custodians.

4. The Committee must stay informed about investment opportunities and about the economic situation in general.

5. The Committee may recommend to the Board of Governors changes to the payout policies for trust and endowed funds of the University.

Inquiries regarding the interpretation, practices and procedures to be following in administering matters relating to this policy should be directed to the Vice-President, Finance and Administration or the Assistant Vice-President, Finance & Infrastructure.

The policy will be reviewed periodically and may be revised to reflect changes in objectives, fund risk characteristics, and business and financial market conditions.

Originally approved by the Board of Governors: Resolution #2012-05-06

Revised Jun 2016: Resolution #2016-06-05

Reviewed by Audit & Finance Committee in May 2020; no substantive changes accepted (changes to titles only).

Reviewed by VPFA in September 2021; no substantive changes made (changes to titles only).