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Purpose

Investment earnings are an important source of funding for the University. Therefore the protection and enhancement of the principal assets of all the University's portfolios is crucial if the University is to meet the expectations of stakeholders – be they students, academics, government, or donors. The purpose of this policy is to establish guidelines to ensure that the assets of Capilano University (the University) and the Capilano University Foundation (herein both referred to as the University) are invested in a prudent and effective manner.

Investment Portfolios

The University has two investment portfolios, which can be broadly categorized by type of spending obligations. Spending obligations dictate liquidity requirements, and thus have significant implications for investment time horizons. The two investment portfolios are:

1) **Short-term Portfolio** – surplus cash flows that may be needed in the near term (< 1 year) or earlier, and that relate to timing differences between sources and uses of funds. For example, the University receives its tuition revenue in concentrated amounts during certain months of the year, while expenditures for the delivery of courses occur more evenly throughout the year. Other sources are flow through or restricted funding arrangements whereby the University receives funds for a specific purpose, but there is a delay in the outlay of those funds, such as funds received for the purchase of capital items, awards financed on an annual or flow-through basis, and funds received from a variety of provincial or federal agencies for specific program deliverables. In each of these cases, an opportunity exists to invest these funds to defray additional operating costs of the University, but the investments must have a high degree of liquidity, as well as a low propensity for returns to be volatile. The investments may be directed toward short term Government of Canada Treasury Bills or Bankers' Acceptances of Schedule "A" Canadian Banks.

2) **Long-term Portfolio** – represents longer liability streams, including endowments and fund surpluses set aside for future use. Investment policies and practices must ensure that this portfolio may be able to sustain a stable flow of funds for the intended recipients or purposes. This requires maintaining the purchasing power against the erosive effect of inflation. Liquidity is not paramount as long as the regular payment requirements can be achieved. Given a longer investment time horizon, this portfolio is able to absorb some volatility of return in order to obtain the long-term benefits of those asset classes that have historically provided superior

rates of return. The investments may be directed toward short-term Government of Canada Treasury Bills, Bankers' Acceptances of Schedule "A" Canadian Banks, or R1 rated commercial paper.

Investment Objectives

1) **Short-term Portfolio**

- to maximize returns on excess funds not needed for operating purposes within acceptable levels of risk
- to ensure sufficient liquidity exists to meet cash disbursements as they become payable
- to maintain an adequate system of controls to protect University assets (safeguarding assets)

2) **Long-term Portfolio**

- to provide adequate cash flow to meet cash disbursement objectives (liquidity)
- to provide growth in cash flows to meet rising expenditures over the long term (growth expectations)
- to protect the value of the fund against the erosive effect of inflation by preserving capital in real terms (capital preservation)
- to maintain an adequate system of controls to protect University assets (safeguarding assets)

It is recognized that these objectives have competing demands for current cash flow and long-term asset growth. Operationally, the objectives are to be achieved by adopting an investment framework that emphasizes total return. Cash management is related but distinct – cash requirements are to be budgeted and communicated to the investment managers to ensure that cash is available when needed and in the appropriate amount.

Asset Mix

This investment policy may not attempt to stratify the list of assets eligible for inclusion in either the short-term or long-term portfolio. In selecting appropriate assets, the following criteria, in addition to any other relevant criteria, should be considered:

1. general economic conditions
2. the possible effect of inflation or deflation
3. the expected tax consequences of investment decisions or strategies
4. the role that each investment plays within the overall portfolio

5. the expected total return from income and appreciation of capital
6. needs for liquidity, regularity of income and preservation or appreciation of capital

Investment managers should comply with the entire *Code of Ethics and Standards of Professional Conduct* as set forth by the CFA Institute and, when selecting investments for the long-term portfolio, shall comply with Standard III C of the *Standards of Professional Conduct*. This standard requires that investment managers, when taking an investment action for a specific portfolio or client, consider its appropriateness and suitability for such portfolio or client. In considering such matters, investment managers shall take into account:

- the need and circumstances of the client;
- the basic characteristics of the investment involved; and
- the characteristics of the total portfolio.

Derivatives, defined as options, forward exchange contracts or futures:

- May be used to hedge foreign currency exposure or as a substitute for more traditional investments if the purpose is consistent with the University's investment objectives.
- Futures, options and hedging strategies under a structured program applicable to any mutual or pooled funds of the investment manager in which the University invests in as specifically approved by the Investment Management Committee are not permitted and leveraged positions are not permitted.
- Purchasing on margin is expressly prohibited.
- Short selling is prohibited, unless that is the nature of the fund and the Investment Management Committee has approved an investment in a fund that specializes in short selling as part of its normal course of investment.
- Under no circumstances may derivatives be used for speculative purposes or to create leveraging of the portfolio.

All investments shall be in assets that are the subject of regular price quotation by recognized investment dealers in Canada or listed on a recognized Canadian, US, or foreign country stock exchange.

Investment managers may provide recommendations subject to the general guidelines herein to achieve reasonable diversification and shall ensure that the fund is invested in quality securities. In judging quality, investment managers should be guided by the position of an issuer within the economy or company within its industry; earnings and dividend history; financial strength; debt rating; rate of return on capital, and other relevant factors.

Investment managers may recommend the appropriate asset mix and strategy based on this policy and present this to the University quarterly or some more frequent period, should circumstances prevail that could have a material impact on the investment strategy. A list of the current investment parameters shall be maintained at all times and be available to the University for review.

Target Asset Allocations and Ranges – Long Term Fund

The strategic investment mix for the long-term portfolio is set forth in the table below. The Investment Management Committee has been established to oversee the investments through a professional investment manager. The Investment Management Committee's principal duties are detailed in Board Resolution 309.

The Investment Management Committee has the latitude to invest up to the maximums as per the table below. Should the investment manager wish to invest funds outside the investment mix and maximum on a short-term basis, the proposed deviation shall first be discussed with the Investment Management Committee to obtain its agreement.

Asset Class	Maximum	Target
Fixed Income	100%	50%
Canadian Equities	40%	30%
Foreign Equities	30%	20%
Total Equities	*60%*	*50%*

Diversification

The investment portfolio must be diversified to an extent that is appropriate to,
- the requirements of the portfolio; and
- general economic and investment market conditions.

Fixed Income Investment Restrictions

Credit Quality	**Maximum in Bond Portfolio[1]**	**Minimum in Bond Portfolio[1]**	**Maximum Position in a Single Issuer**
Government of Canada[2]	100%	30%	No limit
Provincial Governments[2]	60%	0%	25%
Municipals	25%	0%	10%
Corporates	55%	0%	10%
AAA [3,4]	100%	0%	10%
AA [3]	70%	0%	10%
A [3]	50%	0%	10%
BBB	15%	0%	5%

1 Percentage of portfolio at market value.
2 Includes government-guaranteed issues.
3 Does not apply to Government of Canada or Provincial issues.
4 Ratings are at time of purchase.

The investment manager may not purchase government or corporate bonds that are rated lower than BBB or equivalent. If the rating of an existing bond in the portfolio should drop below BBB or equivalent, the investment manager shall inform the Investment Management Committee which is empowered to grant exceptions at its discretion.

Preferred securities may be rated P2 or better by at least one of the nationally recognized rating agencies at time of purchase. If the investment manager wishes to retain or purchase a preferred share that has a rating below P2 they must inform the Investment Management Committee, which is empowered to make exceptions at its discretion. The value of preferred securities in a portfolio of one issuer cannot exceed 5% of the market value of the portfolio.

Conflict of Interest

All investment activities must be conducted in accordance with *The Code of Ethics and Standard of Professional Conduct* adopted by the CFA Institute.

Members of the University's Board of Governors, investment managers, and any employee or agent retained by either the University or an investment management firm engaged to provide services related to University's investments must disclose any direct or indirect association or a material interest or involvement that would result in any actual, potential or perceived conflict of interest with regard to the selection of the University's investments.

<u>Voting</u>

Investment managers may be delegated all voting and related rights acquired through investments of the University provided they do not involve any of the following issues:

- public or social policy concerns of the University;
- precedent setting proposals;
- contested management or shareholder proposals; or
- concerns previously raised by a member of the University's Board.

Investment managers may exercise acquired voting rights with the intent of fulfilling the investment objectives and policies of the University.

All other proxies and pertinent reference material must be forwarded to the Board, who may then either vote the proxies or direct the investment managers to vote the proxies in accordance with the wishes of the University.

<u>Valuation of Investments</u>

It is expected that all the securities held may have an active market and therefore a valuation of the securities held may be based on their market value.

<u>Reporting & Review Process</u>

The reporting and review process is important to the University to enable it to monitor the performance of investment managers and to ensure the investments are being managed in accordance with this policy.

In order to ensure accurate and consistent investment performance data for reporting, recordkeeping, and presentations, investment managers may be expected to adhere to the *Global Investment Performance Standards (GIPS)* as adopted by the CFA Institute. These standards seek to ensure the performance information provided by investment management firms is complete, fairly presented, and comparable among investment management firms.

In addition to the regular reporting required by GIPS, investment managers are to make a presentation at least quarterly at a time and place to be determined by the University. This presentation should include a review of the items in the investment reports, a review of the capital market performance and expectations of future returns, comments on the continued appropriateness of the statement, answer any questions University representatives may have, and to discuss the outlook and revisions to planned investment strategies for the next period. Investment managers should also be prepared to make an annual presentation to the University's Board of Governors, if requested to do so. The presentation shall include a measurement of the return on the portfolio (calculated separately) net of trading expenses, investment management fees, and administrative fees (as those terms are defined in the GIPS), against the minimum annualized rate of return in excess of the Canadian Consumer Price Index.

Investment managers shall provide the University, when requested to do so but at least annually, a letter confirming:

- compliance at all times with this investment policy
- that no investigation or disciplinary action by the regulatory authorities has taken place since the last letter was issued, and
- the investment management firm's continued compliance with GIPS.

Lending of Securities

Investment managers are authorized to engage in securities lending provided that normal market convention is observed in terms of collateral security being greater than the value of the loaned security, the loan and security being valued daily on a "mark-to-market basis", and the collateral consisting of highly liquid and marketable securities.