TRU Foundation TRU Foundation

Policy Manual Investment Policy statement

Date: February 11, 2019 Objectives and Guidelines

**Thompson Rivers University Foundation**

**Investment policy Statement**

**Investment Objectives and Guidelines**

**Contents**

1. Introduction

* 1. Purpose of the Investment Policy...........................................
  2. Nature of the Student Assistance Endowment Fund (the Fund)

2. Asset Mix and Diversification Policy

* 1. Long Term Goal.....................................................................
  2. Total Fund Objective and Asset Mix Guidelines....................
  3. Portfolio Rebalancing Guidelines..........................................

3. Permitted and Prohibited Investments

3.1 Canadian and Global Equities................................................

3.2 Bonds.....................................................................................

3.3 Alternate Investment Assets ……………………………………

3.4 Mortgages...............................................................................

3.5 Cash and Short Term Investments.........................................

3.6 Other Investments..................................................................

3.7 Minimum Quality Requirements.............................................

3.8 Maximum Quantity Constraints..............................................

4. Responsibilities

4.1 TRU Foundation....................................................................

4.2 The Investment Manager.......................................................

4.3 The Custodian........................................................................

5. Monitoring and Control

5.1 Performance Measurement.....................................................

5.2 Monitoring Portfolio Managers …............................................

6. Other Issues

6.1 Conflicts of Interest.................................................................

6.2 Related Party Transactions.....................................................

6.3 Voting Rights..........................................................................

6.4 Reasons for Terminating a Portfolio Manager........................

Appendix 1

Definitions…………………………………………………………….

**1. Introduction**

* 1. Purpose of the Investment Policy  
       
     The purpose of the investment policy is to provide a framework for management of the TRU Foundation’s investments to achieve a return objective with levels of risk acceptable to the Foundation.   
       
     A major goal of this policy statement is to establish ongoing communication between the TRU Foundation and the Investment Manager. Effective communication will contribute to management of the portfolio in a manner that is consistent with market conditions and with the objectives of the TRU Foundation.
  2. Nature of the Student Assistance Endowment Fund **(the Fund)**  
        
     In order to establish an appropriate policy for the investment and administration of the assets, it is important to understand the nature of the fund and any ongoing obligations. Accordingly, this section of the policy summarizes various aspects of the Fund that impact investment return requirements and risk tolerance.  
       
     The purpose of the Fund is to provide annual scholarship, bursary and award distributions to students.

Annual distribution to students in the current fiscal year is to be equal to 4.0% of the market value of the Fund as of the previous fiscal year’s beginning balance. As such, distributions will not be made on newly gifted endowments until after the end of the following fiscal year. Subject to Board approval, the 4.0% distribution rate may be varied to reflect special or unusual circumstances.

A fee of up to 1.25% of the market value of the Fund as of the previous fiscal year’s beginning balance may be taken to fund general operations of TRU Foundation in the current fiscal year.

Distributions to students and operations are to be made from total income (interest, dividends, realized and unrealized gains) only. Capital is not intended to be encroached upon for distribution purposes although fluctuations in investment markets may push values below original capital levels.

To maintain a distribution rate of 4.0% to students and an operations allocation of up to 1.25%, a portfolio return of approximately 5.25% (net of fees) is necessary.

New donations to the Fund are expected to provide sufficient cash flow to meet liquidity needs for annual distributions. In the event that new donations do not meet cash flow needs, sufficient liquidity must be maintained in the portfolio investments.

The Fund’s investment time horizon is perpetual. Investment decisions are to be made and evaluated on a long-term (>10 year) basis. Short-term market conditions are not to sway decision makers from following the guidelines of this Investment Policy.

When funds are donated or are provided to the TRU Foundation with guidelines or restrictions articulated by an external donor the TRU Foundation will insure that these guidelines and requirements are adhered to on a best efforts basis.

1. **Asset Mix and Diversification Policy**
   1. Long Term Goal  
      The long term investment goal of the Fund is to meet the distribution needs of TRU Foundation.

Unsystematic risk is to be mitigated by investing in a well-diversified portfolio of individual fixed income investments with staggered maturity dates. A Diversified equity portfolio will be used for the higher risk asset classes, such as high yield bonds, equities, and alternate investments.

* 1. Total Fund Objective and Asset Mix Guidelines  
       
     The objective of the Fund is to earn a 5.25% rate of return (net of fees) over rolling five year periods with volatility measures at or below benchmark levels.

The following table presents the Fund benchmark and asset mix guidelines that TRU Foundation believes necessary to meet this return objective. If the investment manager believes the portfolio guidelines are inappropriate for anticipated market conditions, the investment manager will advise the TRU Foundation that a change in guidelines is desirable and the reasons therefore.

|  |  |  |  |
| --- | --- | --- | --- |
| **Recommended Asset Mix for TRU Foundation (#5005):** | | | |
| **Asset Class** | **Minimum** | **Target** | **Maximum** |
| Fixed Income | 30 | **40** | 50 |
| Equities | 50 | **60** | 70 |
| Canadian Equity | 15 | **25** | 35 |
| Global Equity | 25 | **35** | 45 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Recommended Benchmark:** | |  |  |  |  |
| **Asset Class** | **Benchmark** | | **Portfolio Benchmark** | | |
| Fixed Income | FTSE TMX Universe Bond Index | | 40% | | |
| Canadian Equity | S&P/TSX Capped Index | | 25% | | |
| Global Equity | MSCI World Index | | 35% | | |

* 1. Portfolio Rebalancing Guidelines  
       
     On a minimum quarterly basis the Investment Manager will review the current asset mix to ensure it is within the allowable minimum and maximum ranges and will rebalance any asset allocation that deviates from this range.

The rebalancing guidelines are intended to assist in managing the asset mix. Neither rebalancing for market fluctuations nor allocation of new cash flow will be used as a method to reward or express dissatisfaction with portfolio manager performance. Manager performance is a long-term measure and will be dealt with during manager performance reviews.

1. **Permitted and Prohibited Investments**

In general and subject to the restrictions noted in this section the Fund may invest in any of the following asset classes and investment instruments:

* 1. Canadian and Global Equities

• preferred common and convertible preferred stock, listed on a recognized exchange

• debentures convertible into common or convertible preferred stock

• rights, warrants and special warrants for common or convertible preferred stock

• installment receipts, American Depository Receipts and Global Depository Receipts

• exchange traded index participation units (e.g., i60s and SPDRs)

• income trusts (in jurisdictions that provide limited liability protection)

• interest in limited partnerships

• initial public offerings (IPOs), and

• 144A securities and private placements for new issues and secondary offerings.

* 1. Bonds

• bonds, debentures, notes, non-convertible preferred stock and other evidence of indebtedness and payable in Canadian dollars or a foreign currency and issued by a Canadian issuer or a foreign government or supranational organization with investment grade ratings

* • bonds, debenture or notes of a foreign issuer denominated in Canadian dollars

• mortgage-backed securities

• term deposits and guaranteed investment certificates

• private placements of bonds and asset-backed securities subject to Section 3.7.

* 1. Alternative Investment Assets

TRU Foundation’s objective for including Alternate Investment Assets is to provide an absolute annual rate of return (on this asset class) with low correlation to traditional asset classes.

Alternate Investments are to be accessed on a managed or pooled basis using single or multiple managers.  Single manager pools are to be limited to a maximum of 4.0% of the Fund.  Multiple manager pools are to be limited to a maximum of 8.0% of the Fund.  All pools are to provide for liquidity on a minimum quarterly basis following any pre-established lock-up period of 1 year or less.

Due to the unconventional nature of alternate assets, valuations and liquidity may be more difficult and are subject to less regulatory control.

* 1. Mortgages

• first mortgages in a mortgage pool on income producing properties in Canada with geographical diversification and an emphasis on major population centres

* 1. Cash and Short Term Investments

• cash on hand and demand deposits with term to maturity of less than one year

• treasury bills issued by the federal and provincial governments and their agencies with term to maturity of less than one year

• obligations of trust companies and Canadian and foreign banks chartered to operate in Canada, including bankers' acceptances

• commercial paper and term deposits with term to maturity of less than one year.

* 1. Other Investments

• investments in open- or closed-end pooled funds provided that the assets of such funds are permissible investments under this policy

* 1. Minimum Quality Requirements

Within the investment restrictions for individual manager portfolios, including pooled funds, all portfolios should hold a prudently diversified exposure to the intended market.

• other than for High Yield Bonds, the minimum quality standard for individual bonds and debentures is 'BBB' or equivalent as rated by a recognized bond rating agency, at the time of purchase

• the minimum quality standard for individual short term investments is 'R-1' or equivalent as rated by a recognized bond rating agency, at the time of purchase

• all investments other than those classified as Long-term should be capable of liquidation within 3 months.

* 1. Maximum Quantity Constraints

The following restrictions are to be respected:

**Bonds and Short Term**

• except for federal and provincial bonds (including government guaranteed bonds), no more than 10% of the fixed income portfolio may be invested in the bonds of a single issuer and its related companies.

* • except for federal and provincial bonds, no one bond holding shall represent more than 5% of the market value of the total outstanding for that bond issue

1. **Responsibilities**
   1. TRU Foundation
      1. Responsibility for oversight of the Fund rests with the TRU Foundation
      2. TRU Foundation shall:
2. establish a Investment Committee which includes the Vice-President Advancement,
3. establish and approve the Terms of Reference for the Investment Committee;
4. establish, amend and implement the Investment Policy;
5. review at least annually the Investment Policy and make revisions where appropriate;
6. annually review and assess the performance of the Investment Manager;
7. establish a portfolio management structure and strategy which specifies the number of portfolio managers, types of portfolio managers and allocation of assets between managers;
8. establish procedures for rebalancing of the asset mix as described in section 2.3;
9. select, appoint, monitor and replace the external service providers (custodians, auditors, investment manager and portfolio managers etc.) as appropriate;
10. ensure that the financial statements are prepared and audited on an annual basis;
11. approve the investment financial statements annually;
12. monitor the performance and financial position of the Fund and portfolio managers as noted in section 5.2;
13. liaise, through the TRU Advancement Office, with the investment manager, portfolio managers and custodian for matters relating to day-to-day operations and investment purposes;
14. report to the TRU Foundation Board semi-annually; and
15. hold quarterly meetings of the TRU Foundation Investment Committee
    * 1. The TRU Foundation may delegate any activities relating to the responsibilities listed in section 4.1.2 to staff members or external experts. Notwithstanding this delegation, the TRU Foundation shall retain responsibility and shall be required to monitor as necessary the work done by others.
    1. The Investment Manager

The investment manager shall:

1. invest the assets in accordance with this policy;
2. comply with the terms of an investment manager agreement;
3. meet with the TRU Foundation as requested and provide written reports on a quarterly basis regarding past performance, future strategies and other issues as requested;
4. prepare and present to the Finance Committee comprehensive quarterly performance reports; and
5. provide prudent advice to the TRU Foundation on an on-going basis of any changes in the organization, personnel, or investment policy changes/recommendations that should be considered.  
   1. The Custodian

The custodian will:

1. maintain safe custody over the assets of the Fund;
2. execute the instructions of the TRU Foundation, as delegated to the investment manager appointed to manage the assets of the Fund; and
3. record income and provide monthly account statements as required.
4. **Monitoring and Control**
   1. Performance Measurement

The performance of the Fund shall be measured quarterly as follows:

• time weighted rates of return;

• total returns, including realized and unrealized gains and losses and income from all sources; and

• measurement against performance objectives for any portfolio managers will normally be assessed over rolling five-year periods.

**Total Fund Benchmark**

For investment manager performance evaluation purposes, the Fund is to meet or exceed the risk adjusted  rate of return of the benchmark portfolio. Appropriate market indices, as agreed to by TRU Foundation and the Investment Manager, shall facilitate this measurement.

* 1. Monitoring Portfolio Managers

To enable the TRU Foundation to fulfill its responsibility of monitoring and reviewing any portfolio managers, the Investment Manager will assist the TRU Foundation on an ongoing basis, in considering, but are not limited to:

• portfolio managers’ staff turnover, consistency of style, and record of service;

• portfolio managers’ current economic outlook and investment strategies;

• performance of the portfolio managers’ funds in relation to the rate of return expectations stated in this policy;

• performance of the total Fund in relation to the benchmark.

**6. Other Issues**

* 1. Conflicts of Interest

**Responsibilities**

This standard applies to the members of the TRU Foundation Board and the staff of Thompson Rivers University, as well as to all agents employed by them, in the execution of their responsibilities as outlined herein (the “Affected Persons”).

An "agent" is defined to mean a company, organization, association or individual, as well as its employees, who are retained by TRU Foundation or by the University to provide specific services with respect to the investment, administration and management of the Fund.

**Disclosure**

In the execution of their duties, the Affected Persons shall disclose any material conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased advice, or to make unbiased decisions, affecting the administration of the Fund.

Further, it is expected that no Affected Person shall make any personal financial gain (direct or indirect) because of his or her fiduciary position. However, normal and reasonable fees and expenses incurred in the discharge of their responsibilities are permitted if documented and approved by the TRU Foundation.

No Affected Person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from a person with whom the individual deals in the course of performance of his or her duties and responsibilities for the TRU Foundation.

It is incumbent on any Affected Person who believes that he/she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation to the attention of the Foundation Chair immediately. The Foundation Chair in turn, will decide what action is appropriate under the circumstances but, at a minimum, will table the matter at the next regular meeting of the Foundation Board.

No Affected Person who has or is required to make a disclosure as contemplated in this policy shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure.

* 1. Related Party Transactions

The Fund may not enter into a transaction with a related party unless:

* the transaction is required for the operation or administration of the Fund and the terms and conditions of the transaction are not less favourable to the Fund than market terms and conditions;
* the securities of the related party are acquired at a public exchange; or
* the combined value of all transactions with the same related party is nominal or the transaction(s) is immaterial to the Fund.

For this section of the policy, market value of the combined assets of the Fund will be used as criterion to establish whether a transaction is nominal or immaterial to the Fund. Transactions less than 0.5% of the combined market value of the assets of the Fund are considered immaterial.

A related party is a person who administers the Fund, including any officer, director or employee of the administrator, or any person who is a member of the Board. It also includes the investment and portfolio managers and their employees, a union representing employees of the University, a spouse or child of the persons named previously, or a corporation that is directly or indirectly controlled by the persons named previously, among others. Related party does not include government or a government agency.

Under the conflict of interest guidelines, it is incumbent on any person to notify the Foundation Chair if a conflict arises. Such conflict includes related party transactions.

* 1. Voting Rights

The TRU Foundation has delegated voting rights acquired through fund investments to the custodian of the securities, to be exercised in accordance with the portfolio managers’ instructions. Portfolio managers are expected to vote all proxies in the best interests of the TRU Foundation.

On request, managers will disclose their proxy voting policies and report whether all eligible proxies were voted on the Fund's behalf and on any deviations from policy.

* 1. Reasons for Terminating a Portfolio Manager

Reasons for considering the termination of the services of a portfolio manager include, but are not limited to, the following factors:

* performance results, which over a reasonable period of time, are below the stated performance benchmarks;
* changes in the overall structure of the Fund such that the manager's services are no longer required;
* change in personnel, firm structure and investment philosophy, style or approach which might adversely affect the potential return and/or risk level of the portfolio; and/or
* failure to adhere to this policy.

**Appendix 1**

Definitions

**Alternate (non-traditional) Assets**

- Alternate Assets are defined as an investment that is not one of the three traditional asset classes (stocks, bonds and cash or cash equivalents).The manager has full discretionary authority to use traditional and non-traditional assets and strategies to achieve their stated objective.  Within the boundaries established by Canadian securities regulators, managers may use any financial means or instruments available to aggressively grow and or protect asset values.

Alternative assets may include hedge funds, managed futures, real estate, commodities, venture capital and derivatives contracts.

Over and above traditional fundamental analysis, alternate asset managers may use the following investment strategies: merger arbitrage, convertible arbitrage, high yield debt, capital structure arbitrage, fundamental longs, shorts, options and other special situations.

**Asset Mix**

- the process of dividing investments into different asset classes, such as stocks, bonds, alternate assets, and cash in order to optimize the risk/return trade-off of a portfolio. This process is based on factors including investment time horizon, liquidity needs, risk tolerance, specific goals and situations, and legal and tax considerations.

**Bank Deposits**

- for the purpose of this policy’s asset mix, "Bank Deposits" include all GIC’s, term deposits and savings accounts at RBC, TD Bank, Bank of Montreal, Bank of Nova Scotia, and CIBC regardless of Canadian Deposit Insurance Corporation (CDIC) coverage. That portion of deposits covered by CDIC at all other institutions is also included.

**Custodian**

- a financial institution, usually a bank or trust company, which holds an investment portfolio’s securities and cash in safekeeping.

**Default Risk**

- the risk that an issuer of securities will not be able to make interest payments or repay the principal amount on schedule.

**Discretionary Management**

- an investment management structure where portfolio managers have full authority to trade in securities within an agreed upon mandate without having to confirm each transaction with the client prior to the trade.

**Equity (stock)**

- ownership interest in a corporation in the form of common stock or shares. Common shares usually give owners a vote at the annual meeting and a claim on profits and dividends.

**Fixed Income (debt)**

- interest bearing loans from an investor to a debt issuer. Debt instruments include but are not limited to bonds, debentures, mortgages, treasury bills, notes, guaranteed investment certificates and commercial paper. Bonds and debentures are the most common form of debt. A bond is secured by specific assets of the issuer while a debenture is secured only by the general credit of the issuer. **Preferred shares** may be classified as fixed income as they generally have no voting or profit sharing claims on the issuer and are entitled to a fixed dividend only.

**High (Investment) Grade Bonds**

- fixed income securities considered by a bond rating agency to have an equivalent rating of BBB or better and to have relatively low risk of default.

**High Yield Bonds**

- fixed income securities rated below BBB. High yield debt carries a higher risk of default then those considered investment grade.

**Government Bonds**

- for the purpose of this policy’s asset mix, Government Bonds include all debt instruments backed by the Federal and Provincial Government of Canada as well as those backed by the Federal US Government.

**Investment Manager**

- the investment firm responsible for recommending, implementing, and monitoring the investment portfolio within the guidelines of the Investment Policy Statement.

**Mortgages**

- a debt instrument that is secured by the collateral of specified real estate property and that the borrower is obliged to pay back with a predetermined set of payments.

**Pooled Investments**

- the combined assets of many individual investors that are pooled together for the purpose of investment, as in the case of a mutual fund. Investors in pooled fund investments benefit from economies of scale, diversification and professional money management.

**Portfolio Manager**

- the firm(s) responsible for the discretionary investment management decisions of a defined portion of the portfolio assets as it pertains to the buying, holding and selling of securities.

**Proxy**

- a written authorization given by a shareholder to another individual, usually the company’s management, in order to cast his /her vote at a shareholder meeting or at some other point in time.

**Rate of Return**

- the percentage change in the value of an asset, including interest and dividends, over a set evaluation period.

**Real Return Bonds**

- unlike standard fixed-coupon bonds, interest payments on real return bonds (RRBs) are adjusted for changes in the consumer price index (CPI). Thus rates are adjusted higher for increase in the CPI and lower for decreases.

**Unsystematic Risk**

- that part of an equity security’s total risk that can be minimized in a diversified portfolio. This risk arises within a firm, but because events that affect one firm will not typically affect others, the risk can be minimized by diversifying.