Board Investment Committee

Statement of Investment Principles and Beliefs

The Board Investment Committee (BIC) has been delegated oversight of the University’s investment assets by the Board of Governors (BOG). The BIC sets investment objectives and strategic direction, recommends the UEP Spending Policy and University Funds Investment Policy to the BOG for approval, and monitors Management’s activities for both the Unitized Endowment Pool (UEP), and the Non-Endowed Investment Pool (NEIP).

The UEP’s purpose is to foster an environment of academic excellence where superior teaching, learning, and research can be continuously pursued to benefit all generations equally over time. The principal investment objectives are to earn a real return that meets or exceeds total endowment spending as outlined in the UEP Spending Policy, preserve the UEP’s real value in perpetuity, and ensure investment risk is within an acceptable level.

The NEIP provides both liquidity for the University’s daily operations and offers the potential for return enhancement to support strategic initiatives. For the portion of the NEIP dedicated to meeting liquidity requirements, the objective is to earn a return that meets or exceeds inflation, with an acceptable level of risk. For the remainder, the principal investment objective is to maximize returns over the long-term, with an acceptable level of risk.

The purpose of this Statement of Investment Principles and Beliefs (SIP&B) is to document the consensus views of the BIC with respect to asset allocation, implementation, performance evaluation and risk management, and responsible investment. The SIP&B is reviewed annually by the BIC to ensure the documented beliefs remain valid and is provided to the BOG for reference as required.

**Asset Allocation**

**UEP**

The BIC believes that to achieve the UEP’s investment objectives, it is appropriate for the fund to be diversified across multiple investment assets and strategies. Investment opportunities are categorized according to the strategic roles they are expected to perform within the portfolio:

- **Growth** assets generate a return over time that meets or exceeds endowment spending.
- **Inflation Sensitive** assets help protect the fund and endowment spending from inflation.
- **Deflation Hedging** assets provide liquidity to endowment spending during times of significant capital market stress or deflation.
- **Diversifiers** are strategies that have a low correlation to capital markets and inflation.
NEIP

The BIC believes that the NEIP should be diversified across multiple investment assets and strategies and aligned with the University’s expected cash flow requirements. Investment opportunities are categorized according to the strategic roles they are expected to perform within the portfolio:

**Liquidity** assets ensure that the University’s short-term financial obligations are met.

**Yield** assets generate additional return above liquidity assets with an appropriate level of risk.

**Return Seeking** assets are invested for the long-term, in the UEP and/or other strategies, to further enhance returns.

**Implementation**

The BIC believes that how capital is deployed in both the UEP and the NEIP can affect returns and risk, and the following principles will be used when constructing portfolios and strategies:

**Internal versus External Management** – The decision to manage an investment strategy internally or externally is evaluated on the basis of each strategy’s risk adjusted return potential, and the resources required for successful implementation.

**Active versus Passive Management** – The decision to use an active or passive investment strategy is evaluated on the potential for active management to deliver superior risk adjusted returns after costs.

**Manager Structure** – The manager structure is diversified by style and number for risk management purposes, while ensuring costs remain reasonable.

**Derivatives** – Derivatives may enhance risk adjusted returns and may be used where prudent and appropriate.

**Leverage** – Leverage is an integral component of certain investment strategies. Where used, leverage is restricted to limit potential losses to the amount invested. The use of leverage will not be undertaken at the portfolio level.

**Performance Evaluation and Risk Management**

The BIC believes that performance evaluation (measuring a portfolio’s behaviour), and risk management (preparing for unwanted outcomes and potential opportunities) are important for the long-term success of the UEP and the NEIP:

**Performance Evaluation and Monitoring** – Performance is evaluated over the long term against each fund’s passive benchmark portfolio. Long term performance may also be compared to a reference portfolio to further assess strategic asset allocation. Individual underlying strategies are monitored and evaluated in the context of their passive benchmarks, peers and contribution to the respective fund’s overall risk and return profile. To highlight potential investment opportunities, performance will be compared to our peer institutions.
Risk Management – Risk taking is necessary in order to generate required returns. There are many risks that impact investment performance, including but not limited to capital markets, currency, economic, environmental, governance, interest rates, liquidity, political, and social. Risks will be monitored through the use of quantitative and qualitative indicators and managed where appropriate via asset allocation, active management, derivatives and other strategies. Investment opportunities are evaluated by balancing expected return against expected risk.

Responsible Investment

As a long-term investor, the BIC believes that investments in companies with positive attributes such as high ethical behaviour, strong environmental standards, respect toward their employees, human rights, and a commitment to the communities in which they do business, can improve long-term financial performance. Conversely, investments in companies that manage their environmental, social, and governance (ESG) risks poorly can negatively impact returns.

The BIC believes that a proactive approach of engagement on ESG risks and opportunities is more constructive than excluding particular investments. As an active owner, the University collaborates with its active investment managers to ensure that ESG risks are incorporated into the investment analysis and portfolio construction process and are reported upon.

Approved: March 1, 2017