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| University of Prince Edward Island | Policy No. govbrdgnl0012 | Revision No. 0 |
| Policy Title: Endowment and Special Purpose Funds – Investment Policy Statement | | Page 1 of 8 |
| Creation Date: March 20, 2000 | Version Date: June 2, 2010 | Review date: June 2, 2015 |
| Authority: Board of Governors Finance and Audit Committee | Responsibility: Endowment Oversight Committee | WWW Access: Yes |

1. OVERVIEW

- 1.1. This investment policy statement ("the Statement") applies to the assets held in trust with respect to the Endowed and Special Purpose Fund Accounts ("**Restricted Funds**"). It contains management guidelines, investment objectives, investment guidelines, and monitoring procedures.
- 1.2. Restricted Fund Account assets ("**the Fund**") will be managed in accordance with all applicable legal requirements notwithstanding any indication to the contrary, which might be construed from this policy.
- 1.3. For the purposes of this policy statement,
- 1.3.1. **Investment income** means total return from investments and
- 1.3.2. **Principal** means the amount of donation, bequest, external transfer or capitalization of investment income.

2. SCOPE & RESPONSIBILITIES

- 2.1. The responsibility for the investment of the Fund and development of policies relating to the investment of Restricted Funds lies with the *Endowment Oversight Committee* ("the Committee"), under authority of the University's Board of Governors and the Finance & Audit Committee. The membership and mandate of the Committee is described in the separate and related policy *Endowment and Special Purpose Funds – Governance and Administration*.
- 2.2. The Committee may delegate some of its responsibilities with respect to the investment of the Fund to agents and advisors. In particular, the services of a custodian ("the Custodian") and of one or more money managers ("the Manager") are retained. The Committee maintains an active role with respect to the following:
- 2.2.1. Development of policies governing investment of Restricted Funds for approval by the University's Finance & Audit Committee of the Board of Governors;
- 2.2.2. Formulation of an Investment Policy Statement and manager mandates;

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2.2.3. Appointment and monitoring of agents and advisors; and

2.2.4. The evaluation of investment performance.

2.3. Any person or firm to whom the Committee delegates responsibilities with respect to the investment of the Endowment Investment Pool must adhere to the provisions of the Investment Policy Statement.

3. CONFLICT OF INTEREST

3.1. Standard of Care

3.1.1. The members of the Board of Governors, and its Finance and Audit Committee and the Committee, as well as all agents (fund managers, custodian, consultant, administrator) employed by the Board, must maintain a standard of prudence and reasonableness in the management of the Board's funds.

3.1.2. An agent is defined to mean a company, organization, association or individual, as well as its employees, retained by the Board to provide specific services with respect to the administration and management of the Fund.

3.1.3. In carrying out their duties, the Board of Governors and its Finance and Audit Committee and the Committee must act in the best interest, and for the benefit, of present and future participants in the Fund. Agents, whose duties to the Board are mainly contractual, must act with the skill that can reasonably be expected of a person in their professional position.

3.2. Disclosure

3.2.1. In the execution of their duties, members of the Board of Governors and the Committee and their agents shall disclose any material ownership of securities, which could impair their ability to render unbiased decisions, as it relates to the administration of the Fund. Members of the Board and of the Committee have a duty of loyalty to the University of Prince Edward Island and the Fund, and must disclose any other fiduciary responsibilities that could impair their ability to make unbiased decisions.

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- 3.2.2. Further, it is expected that no Board member or Committee member or agent shall make any personal financial gain (direct or indirect) because of their fiduciary position.
- 3.2.3. It is incumbent on any party affected by this Statement who believes that he/she may have a conflict of interest, or who is aware of any conflict of interest, to notify the Chair of the Board or the Committee. Disclosure should be made promptly after the affected person becomes aware of the conflict.
- 3.2.4. No affected person who has or is required to make a disclosure as contemplated in this Statement 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.
- 3.2.5. No affected person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from an individual with whom the person deals in the course of performance of his or her duties and responsibilities for the Fund.

4. INVESTMENT OBJECTIVES

- 4.1. The primary objective of the Fund is to provide total return to meet the annual expenditures for scholarships and other purposes, as determined by the terms of reference of each Restricted Fund Account.
- 4.2. A further objective of the Fund is to maximize investment returns while assuming a level of risk deemed appropriate by the Committee.
- 4.3. A further objective is to produce income in excess of expenditures to offset the effects of inflation on the Restricted Funds.

5. PERMITTED INVESTMENTS

- 5.1. The following investments are permitted investments of the Fund:
 - 5.1.1. Cash;
 - 5.1.2. Demand or term deposits;

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- 5.1.3. Short-term notes;
- 5.1.4. Treasury bills;
- 5.1.5. Bankers acceptances;
- 5.1.6. Commercial paper;
- 5.1.7. Investment certificates issued by banks, insurance companies or trust companies;
- 5.1.8. Bonds and non convertible debentures;
- 5.1.9. Mortgages and other asset-backed securities;
- 5.1.10. Infrastructure;
- 5.1.11. Convertible debentures;
- 5.1.12. Real estate;
- 5.1.13. Common and preferred stocks on listed stock exchanges;
- 5.1.14. Private equity;
- 5.1.15. Timber;
- 5.1.16. Commodities; and
- 5.1.17. Pooled funds, closed-end investment companies and other structured vehicles invested in any or all of the above asset categories.

5.2. The Fund may hold derivative financial, commodity or currency related instruments such as forward contracts, options, futures or swaps in accordance with a program accepted in writing by the Committee.

5.3. The Fund will not engage in the following, unless permitted in writing by the Committee:

- 5.3.1. Purchase of securities on margin; and
- 5.3.2. Short sales.

5.4. The investment of the Endowment Investment Pool (the Pool) shall be administered by professional investment manager(s) selected by the Committee.

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5.4.1. A formal review of manager performance shall be conducted every four years.

5.5. An independent custodian shall hold the assets of the Pool on behalf of the University.

6. ASSET ALLOCATION

6.1. The Pool's target asset allocation, plus or minus 10% is the following:

| <u>ASSET CLASS (GROUP)</u> | <u>MARKET VALUE OF FUND</u> |
|----------------------------|-----------------------------|
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Fixed Income:

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| Cash & Short-Term investments - | 0% |
| Bonds (Cdn.) - | <u>35%</u> |
| Total Fixed Income - | 35% |

Equity:

| | |
|-------------------------|------------|
| Canadian Equities - | 35% |
| Global Equities - | <u>30%</u> |
| Total Equities - | 65% |

6.2. The target asset allocation has been determined in order to meet Fund objectives. It reflects a risk/return trade-off, which was assessed by the Committee on the basis of long-term prospects in the capital markets taking into account the Restricted Fund Accounts annual expenditure requirements with consideration given to all factors that may affect the funding, solvency and the ability of the Restricted Fund Accounts to meet their financial obligations.

6.3. Short-term investments include fixed income investments having a maturity of less than one year when issued.

6.4. Bonds include all mortgages and all fixed income securities having a maturity of one year and more when issued.

6.5. Canadian equities include common stocks and convertible securities of Canadian issuers.

6.6. Global equities include common stocks and convertible securities of non-Canadian issuers.

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- 6.7. Securities held in a pooled fund are classified on the basis of the assets comprising the major portion of such pooled funds.
- 6.8. Derivative instruments along with any collateral held thereon are included in the asset class comprising the securities whose return or price serves as the basis for the pricing of such derivative instruments.
- 6.9. The long-term expected return of the targeted asset allocation is an average annual return of 3% - 5% above inflation.

7. **INVESTMENT RISK**

- 7.1. Diversification between asset classes is provided through the asset allocation guidelines set forth in the Statement.
- 7.2. Diversification within each asset class is provided by limiting to 10% or less, the percentage of the market value of Fund assets invested in a single security not guaranteed by the government of Canada or of a Canadian province, and by restricting investments in a group of equities whose returns are expected to be highly correlated.
- 7.3. Liquidity is provided by limiting investments in real estate and venture capital through the asset allocation guidelines set forth in the Statement, by restricting the use of private placements, by limiting to 10% or less the percentage of a single public issue to be held by the Fund, by limiting to 25% or less the percentage of the Fund to be invested in mortgages or other asset-backed securities, and by requiring that all stocks trade on a recognized exchange, unless permission is obtained from the Committee.
- 7.4. Quality is provided by requiring that 90% or more of the market value of short-term securities has a minimum credit rating of A-1 (low) or its equivalent, and that 90% or more of other fixed income securities have a minimum credit rating of B++ or its equivalent credit ratings issued by the Canadian Bond Rating Service.

8. **VOTING RIGHTS**

- 8.1. Voting rights on Fund securities are delegated to the Manager. However, the Committee reserves the right to exercise voting rights on Fund securities when it deems appropriate.

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8.2. The Manager shall maintain a record of how Fund voting rights have been exercised.

8.3. In case of doubt as to the best interests of the Fund, the Manager shall request instructions from the Committee and act in accordance with such instructions.

9. MONITORING

9.1. Each year, the Manager shall provide a letter indicating compliance with the provisions of the Statement indicating instances where such provisions were violated.

9.2. As of the end of each quarter, the market value of each Fund investment is calculated. Investments that are not regularly traded are valued by the Custodian according to a methodology acceptable to the Committee. Any such investment that may represent more than 1% of the market value of the Fund shall be valued by a qualified independent appraiser approved by the Committee.

9.3. Each quarter, Fund performance is evaluated. Such evaluation is focused on objectives set for Restricted Fund Accounts and for the Manager.

9.3.1 The Manager shall report to the committee;

9.3.2 The Manager shall provide information concerning new developments affecting the firm and its services;

9.3.3 The Manager shall review the transactions in the latest period and the assets held at the end of the period, and explain how they relate to the strategy advocated; and

9.3.4 The Manager shall provide an economic outlook along with a strategy under such circumstances.

10 REVIEW

10.3 This policy shall be reviewed at least once every five years.

10.4 Material changes in the following may cause a revision:

10.4.1 Long-term risk/return trade-off in the capital markets;

10.4.2 Changes in University policy governing Restricted Fund Accounts;

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10.4.3 Risk tolerance; and

10.4.4 Legislative environment.