

Board Governance Policy

BG II-04

Investment Policy for College Operating Funds

Policy Category:	Finance		
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PURPOSE

This policy outlines the responsibilities of the Algonquin College Board of Governors (the Board) in fulfilling its mandate as set out in the Ontario Ministry of Colleges and Universities (MCU), Binding Policy Directive 2.0 - Banking, Investments and Borrowing as it relates to the investment of excess College operating funds. Any person to whom College management delegates responsibilities with respect to the College's investments must adhere to the provisions of the Policy.

GENERAL GUIDELINES

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

The College expects the Investment Manager to take steps to ensure that Environmental, Social and Governance ("ESG") factors are adequately addressed in the selection, retention and realization of investments as far as such factors may affect investment performance. Consideration of ESG factors is ultimately the responsibility of the Investment Manager and must be consistent with this Policy.

POLICY

The Board is responsible and accountable to the MCU, and to the public for providing prudent and responsible management of College funds. The funds are to be utilized consistent with the purpose for which they were provided.

When operating funds are not required to meet anticipated cash flow needs, the funds are considered "available for investment" (the "Fund"). The overall objective in managing these funds is to provide for the current operating requirements of the College and minimize investment risk exposure while earning a higher net interest income than provided by the College's bank account. The Investment Policy (the "Policy") provides broad objectives, performance expectations and guidelines for the investment of the Fund. Investments will be selected in accordance with the criteria and limitations set forth herein and in accordance with all relevant legislation.

1. INVESTMENT OBJECTIVES

The College has established the following investment parameters and benchmarks:

- 1.1 Preservation of capital to minimize the risk to the principal of investments.
- 1.2 Maintenance of liquidity to ensure funds are available to meet all cash flow requirements. This should be done by structuring the portfolio so that maturities of investments are staggered to ensure that cash will become available as required to meet the College's cash flow needs.

Minimum and maximum target weightings for investment maturities are as follows (based on % of total portfolio market value):

	<u>Minimum</u>	<u>Maximum</u>
Short term (0 – 1 year)	20%	100%
Medium term (1 – 5 years)	0%	80%

- 1.3 Short-Term Yield Enhancement. The Fund's goal is to attain a higher return than would otherwise be achieved by keeping funds in the College treasury account.

2. BENCHMARKS

- 2.1 Benchmarks should be established to evaluate the Investment's performance on an ongoing basis. These benchmarks may change occasionally to reflect evolving market conditions or changes in the Portfolio's composition. Currently, the benchmark for measurement of the portfolio performance is a blend of the 1 year Government of Canada T-Bill index (50%) and the FTSE Short-term All Government Bond index (50%). A second benchmark will be the rate of return from the College's bank account, currently defined as prime rate minus 1.9%.

3. LEGISLATIVE REQUIREMENTS – PERMITTED INVESTMENTS

- 3.1 Investments are limited by the Minister's Binding Policy Directive (2.0 Banking, Investments and Borrowing) for investments of college operating funds. A college may only invest college funds not immediately required to operate the college in the following securities, expressed or made payable in Canadian dollars, subject to the ratings identified in section 3.1.6, in accordance with the Provincial directive:

- 3.1.1 Bonds, debentures and promissory notes or other evidence of indebtedness, issued or guaranteed by:
 - 3.1.1.1 Canada or a province or territory of Canada, or
 - 3.1.1.2 an agency of Canada or a province or territory of Canada.
- 3.1.2 Bonds, debentures, promissory notes or other evidence of indebtedness, issued or guaranteed by:

- 3.1.2.1 a municipality in Canada;
 - 3.1.2.2 a university in Ontario that receives ongoing operating and capital funding from Ontario;
 - 3.1.2.3 the board of governors of a college established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*;
 - 3.1.2.4 a board of a public hospital within the meaning of the *Public Hospitals Act*;
 - 3.1.2.5 a school board in Canada;
 - 3.1.2.6 Ontario Infrastructure Projects Corporation; or
 - 3.1.2.7 the Municipal Finance Authority of British Columbia.
- 3.1.3 Bonds, debentures, promissory notes, deposit receipts, deposit notes, certificates of deposit or investment, acceptances, commercial paper or similar instruments, issued, guaranteed or endorsed by:
- 3.1.3.1 a bank listed in Schedule I or II or a branch in Canada of an authorized foreign bank under the *Bank Act (Canada)*;
 - 3.1.3.2 a loan corporation or trust corporation registered under the *Loan and Trust Corporation Act*; or
 - 3.1.3.3 a credit union to which the *Credit Unions and Caisses Populaires Act, 1994* applies.
- 3.1.4 Bonds, debentures, promissory notes or other evidence of indebtedness, issued by a corporation that is incorporated under the laws of Canada or a province of Canada; or
- 3.1.5 Promissory notes or commercial paper, other than asset-backed securities, issued by a corporation that is incorporated under the laws of Canada or a province of Canada.
- 3.1.6 A college is not to invest in a security under section 3.1.4 or 3.1.5 above unless the security has a minimum rating, at the time the investment is made by the college, of at least one rating agency of:
- “R-1 (high)” or “AAA” by Dominion Bond Rating Service Limited;
 - “Prime-1” or “Aaa” by Moody’s Investors Services Inc;
 - “A-1+” or “AAA” by Standard and Poor’s; or
 - “F1+” or “AAA” by Fitch Ratings.
- 3.1.7 In addition to minimum credit ratings established by the MCU directive, securities issued under section 3.1.3 must carry a minimum credit rating of “BBB”, as defined by a Nationally Recognized Statistical Rating Organization (NRSRO).

Prohibited Investments

No part of the Fund shall be invested in non-marketable securities, other than Guaranteed Investment Certificates or similar instruments.

No investment shall be made in a non-arm's length transaction with any member of the Committee or the Board, or any employee of, or consultant to, the Committee or the Board.

MONITORING

4. MONITORING

The Investment Manager will:

- Invest the Fund in accordance with this Policy
- Provide a quarterly review of investment performance and a listing of all holdings, and investment transactions
- Provide a quarterly compliance report. The compliance report will indicate whether or not the Investment Manager was in compliance with this Policy
- Meet with the Investment Committee at least semi-annually

If pooled funds are used and a conflict arise between the provisions of this Policy and the provisions of the pooled fund's investment policy, the Investment Manager is required to advise the Investment Committee, and the provisions of the pooled fund shall govern the investments.

4.1 The Board shall review the Policy annually, and will make any appropriate changes to the Policy considering factors such as the following:

- Governance changes;
- Changes in the College's mandate;
- Needs for liquidity, regularity of income and preservation of capital;
- Changes in expectations of returns and risks associated with the investments;
- Changes to other legislation which affects the College; and
- Any practical issues that arise from the application of the Policy.

Any changes shall not be effective until they have been presented to, and approved by, the Board.

4.2 The College Management shall:

- 4.2.1 Approve the appointment of an Investment Manager following a competitive procurement process undertaken at least every five years; approve any changes to an Investment Manager mandate; monitor the performance of the Investment Manager and consider terminating when performance and service expectations are below required standards;
- 4.2.2 Report on the investment portfolio and earnings to the Board on an annual basis;

- 4.2.3 Develop and maintain suitable procedures, which provide for effective control and management of investments and a reasonable assurance that the investments are properly managed and adequately protected; and
- 4.2.4 Carry out periodic internal reviews to determine whether or not the investment guidelines provided herein are being followed and to evaluate the adequacy of internal controls.

5. EXCEPTIONS

5.1 Throughout this Guideline, with the exception of Section 5.2, if a security is downgraded below the minimum rating required to qualify for inclusion in the Fund, no new investments may be made and the College must be notified immediately. The downgraded security may be retained and disposition of such investments will be at the discretion of the Investment Manager and in consultation with the College, with a quarterly update on its status provided to the College.

5.2 If an investment falls below the standard required under Section 3.1.6, the College must sell the investment within 90 days after the day the investment falls below the standard.

PROCEDURE

The President shall inform the Governance Committee of any changes in the Minister's Binding Policy Directives which impact the Board responsibilities. If there is a new Minister's Binding Policy Directive, the Governance Committee shall determine its impact on the College and implement strategies to achieve compliance.

The investment guidelines in this investment policy should be reviewed annually with the investment consultant for accuracy, completeness and appropriateness.

RELATED MATERIALS

- Ontario Ministry of Colleges and Universities (MCU), Binding Policy Directive 2.0 - Banking, Investments and Borrowing
- Ontario Colleges of Applied Arts and Technology Act, 2002
- Public Hospitals Act
- Loan and Trust Corporation Act
- Credit Unions and Caisses Populaires Act, 1994
- Trustee Act, R.S.O. 1990, c.7.23, Dated June 29, 2001
- Financial Administration Act