ALGONQUIN COLLEGE

Board Governance Policy

BG II-03 Investment Policy for College Endowment Funds

Policy Category:	Finance		
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PURPOSE

This Policy provides guidelines within which the Algonquin College Endowment Funds (the “Endowment Funds”) are to be effectively maintained, managed and enhanced. The Board of Governors (the Board) of Algonquin College has responsibility for approving the investment policies of the College and for monitoring the performance of the Endowment Funds’ investments relative to established benchmarks.

The Endowment Funds have the following objectives:

- to provide a steady flow of income, in perpetuity, to meet expenditure requirements as defined in **Section 3** of this policy. Ideally the income stream should grow each year in order to maintain the purchasing power of the Endowment Funds being disbursed; and

- to increase the market value of the Endowment Funds so that capital, in real terms, is maintained. This is achieved by increasing the balance held in the Endowment Funds by an annual amount that offsets the 5% expenditure rate plus inflation.

To meet the above objectives, the College invests its Endowment Funds in a diversified portfolio of Canadian and Global equities and Canadian and US Fixed Income instruments.

Endowment Funds are invested in accordance with this policy, unless otherwise bound by contract or by donor specifications.

POLICY

1. GENERAL GUIDELINES

1.1. Endowment Funds are to be held by the College in perpetuity, with the primary objective for the portfolio to achieve a rate of return sufficient to meet their annual obligations as defined in **Section 3** of this policy and grow at a rate greater than inflation to ensure maintenance of their value.

1.2. An asset mix policy of 62% in Equities and 38% in Fixed Income will provide an investment strategy that will balance the competing needs of a stable income stream and long-term growth of the Endowment Funds.

1.3. An external professional Investment Manager will manage the Endowment Funds. The Investment Manager will provide a quarterly report to the Finance and Administrative Services Department of the College which will include the investment performance relative to the stated objectives, and a listing of all investment transactions. The performance of the Endowment Funds will be reported at least annually to the Board.

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

1.5. 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 insofar 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.

1.6. It is intended that this policy comply with all relevant government legislation and regulations. As a Crown agency, the College is subject to regulatory and legal obligations ensuring prudent and transparent management of public funds.

1.7. Assets held in the Endowment Funds will be classified and accounted for at fair value (Per CPA Canada Handbook PS 3450).

2. ASSET MIX POLICY AND ITS PRACTICAL IMPLICATIONS

2.1. The table below lists the asset classes that may be used, and it presents the total fund asset mix policies, referred to as the Benchmark, together with the maximum and minimum exposures for each asset class, based on market value.

	Target	**Range**
Cash or Cash Equivalents	3%	0-20%
Fixed Income	35%	25-45%
Canadian Equities	22%	12-32%
Global Equities	40%	30-50%

2.2. If investments in an asset class fall outside the minimum or maximum exposure as per section 2.1, the Investment Manager must immediately inform the College and ensure that the asset mix is adjusted to be compliant within 30 days after the non-compliance is reported.

3. EXPENDITURE RATE

3.1. The College maintains separate general ledger accounts for all sources of Endowment Funds.

3.2. An expenditure rate set by the Board (currently 5%) of the Endowment Funds' Book Value at the end of the previous fiscal year shall be applied as follows:

- 4% to all Endowments listed at that date; and
- 1% to cover a portion of fundraising costs.

The Endowment Funds' Book Value is equal to the original value of all donations to the endowment fund, excluding any gains or losses from investments or changes in market value over time.

3.3. The difference between the total Endowment Funds' rate of return and the expenditure rate will be reinvested. This is intended to preserve the real value of the Endowment Funds over time. If there is a significant accumulated surplus in the Endowment Funds, the Board of Governors may elect to use a portion of surplus funds to either increase current listed Endowments or increase donations (e.g. through a donor matching program) to the Endowment Funds.

3.4. Notwithstanding the above, where required by donor specification, the expenditure rate will be in accordance with the specific goals of the program or donor.

3.5. The expenditure rate will be reviewed by the Board every year as part of the annual review of the Policy as per Section 9.1.4.2.

4. INVESTMENT PERFORMANCE BENCHMARKS

4.1. Given the asset mix policy of the Endowment Funds, the return of the Endowment Funds will be measured against the sum of the benchmarks for each asset class multiplied by the performance of the indices as follows:

		Benchmark Weight %
Canadian Equities	S&P/TSX Composite Index	22
Global Equities	MSCI World (ex-Canada) Index	40
Fixed Income	FTSE TMX Canada Universe Bond Index	35
Cash & Cash Equivalents	FTSE TMX Canada 30-day T-Bill Index	3

4.2. The professional Investment Manager will be employed in the expectation that their combined judgments will, over time, enable the Endowment Funds to earn a return in excess of the benchmark return specified above, after payment of transaction costs and investment management fees.

4.3. Accordingly, the Endowment Funds' performance will be measured against this benchmark.

4.4. Over a 5-year rolling average of the Fund's market value, a target rate of return of 7% is required to fund the expenditures including a 2% factor for inflation.

4.5. While the total performance of the Endowment Funds is the main consideration, the Finance and Administrative Services Department will also monitor the performance of the Investment Manager and their ability to manage the Fund and create value for the Endowment.

5. REVIEW PROCEDURES

5.1. The Finance and Administrative Services Department of the College shall evaluate the Investment Manager's performance against the relevant benchmarks on a quarterly basis.

5.2. The Finance and Administrative Services Department of the College shall meet with the Investment Manager at least annually to discuss their performance and investment strategy.

6. VOTING RIGHTS

6.1. The Board has delegated voting rights acquired through the Endowment Funds investments to the Investment Manager to be exercised in accordance with the Investment Manager's proxy voting guidelines but always in in the best interest of the Endowment Funds.

6.2. The Investment Manager shall maintain a record of how the Endowment Funds voting rights have been exercised and provide the Audit and Risk Management Committee with periodic proxy voting results.

7. PERMITTED INVESTMENTS and CREDIT QUALITY

7.1. In general, and subject to the restrictions noted below, the Endowment Funds may be invested in any of the investment instruments listed below:

7.1.1. Equities

This asset class is defined as being made up of common shares, pooled funds, convertible bonds, convertible and/or preferred shares and index funds. Derivative holdings (option contracts) may not be purchased under any circumstance. Equity instruments representing individual corporations or equity related indices must be listed on a registered stock exchange.

7.1.2. Fixed Income

This asset class may include bonds (Canada and the United States), debentures, GICs, strip bonds and investment grade corporate debt instruments as listed below:

7.1.2.1. Provincial bonds and provincial guaranteed bonds,

7.1.2.2. Residual or strip coupon instruments representing direct debt obligations to the Government of Canada or a Province of Canada

7.1.2.3. Corporate bonds and debentures.

7.1.2.4. All bonds or debentures, when purchased, shall have a minimum credit rating of "BBB" or equivalent with the limitation that holdings of such bonds rated "BBB" may not exceed 25% of the market value of the fixed income portion of the portfolio.

7.1.3. Cash or Cash Equivalent

7.1.3.1. This asset class is defined as being made up of cash deposits, money market securities, Canada Savings Bonds, GICs, bonds with maturity of one year or less, Government of Canada Treasury Bills, bankers' acceptances and term deposits. Money market securities must be rated R-1 or A-1 and may include pooled funds.

7.2. If an investment is downgraded below the credit rating standards required in sections 7.1.2 or 7.1.3 above, 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.

7.3. The portfolio should hold a prudently diversified exposure to the intended market.

7.4. Investments may be made in the above asset classes either directly, or by holding units of a pooled fund.

8. PROHIBITED INVESTMENTS

8.1. No part of the fund shall be invested directly in real estate.

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

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

8.4. No derivatives unless they are used to hedge or manage risk.

MONITORING

9. RISK MANAGEMENT POLICY FOR ENDOWMENT FUNDS

The following risk statement is part of an overall risk policy framework to be adopted by Algonquin College's Endowment Funds to manage and control all known risks that could have an effect on these assets. The Endowment Funds are exposed to risks that are knowingly assumed and are necessary to implement its long-term investment objectives. While certain risks are unavoidable (for example market risk), other risks (or even subsets of the broader market risk) can be managed through proper planning, monitoring and implementation of various controls outlined in this Investment Policy (the "Policy").

The Endowment Funds are exposed to the following risk factors:

- The assets of the Endowment Funds are not sufficient to support its related liabilities and commitments;
- The expected needs of Algonquin College (i.e. what the Endowment Funds are expected to finance) outpace the growth of the assets.
- The assets of the Endowment Funds do not behave as expected and fail to deliver their expected long-term return objective.

9.1. Risk Policy

9.1.1. Asset Return Risk

This is the primary risk and encompasses the possible risk that the return needed to grow the Endowment Funds and support the College's mission is not produced due to a prolonged decline in the value of the investment vehicles chosen.

The specific risks that may cause assets to not behave as expected can be placed into three categories:

9.1.1.1 Asset Class Return Risk

This is the risk that the long-term expectations of any asset class turn out to be significantly different than expected due to unforeseen market, economic or political factors. These deviations from expectations may result from changes in expected returns, changes in volatilities or changes in asset class correlations or behaviors in relation to other asset classes.

9.1.1.2 Risk Mitigation Strategy

College management meets at least annually with the appointed Investment Manager to review long-term return objectives for approved asset classes. Additionally, the College management seeks input from an independent consultant on existing asset class allocations. The purpose of this review is to examine the appropriateness of approved asset classes and related benchmarks, while considering new asset classes for inclusion or exclusion in managing the Endowment Funds.

Market risk is controlled through proper diversification across various asset classes. Expected allocations and control ranges are outlined in the Policy and are reviewed with the Investment Manager on annual basis.

9.1.2 Inherent Investment Risks

All investments are subject to one or more types of inherent risk. It is necessary and expected for the Endowment Funds to assume some level of risk to achieve needed returns and to meet its statutory obligations under the Ontario Trustee Act. For example, some inherent risk present in common investments include:

9.1.2.1 Capital Risk: The risk of losing part of the original investment.

9.1.2.2 Credit Risk: The risk that bond issuer will default on their obligation.

9.1.2.3 Inflation Risk: The risk that investment returns will be lower than the rate of inflation.

9.1.2.4 Interest Rate Risk: The risk that a change in interest rates will decrease the value of bonds, equities and all other asset classes.

9.1.2.5 Liquidity Risk: The risk that investments cannot be readily converted into cash at prevailing prices.

9.1.2.6 Market Risk: The risk that adverse volatilities will cause market values to decline.

9.1.2.7 Risk Mitigation Strategy

The above risks are knowingly assumed by the Funds in order to generate the required rate of return that will fund annual expenditures while preserving the real value of invested capital in the long run.

The Policy therefore identifies investment return objectives, approved asset classes and any limitations to control risks within each asset class. For example, the Policy should include references to:

9.1.2.7.1 Investments in Equities and clearly distinguish as being comprised only of the investments permitted as detailed in the Policy and be listed on the exchanges as detailed in the Policy.

9.1.2.7.2 Investment in Fixed Income should clearly identify investable markets (Canadian bonds, U.S., International Developed Markets or Emerging Market debt) within the allocation. Likewise, limits are established and reviewed on the type of credit quality that will be ideal for the policy or investment cycle.

9.1.2.7.3 In the event that investments in Alternative Asset Classes (AAC) such as REITS, Private Equities, and other investments are held, they should be reviewed quarterly and limits should be placed within the Policy to control the commonly inherent risks they are exposed to (and any specific risks that are unique to this asset class).

9.1.2.7.4 This Policy is subject to an annual review and possible amendments will detail what are approved asset classes and will establish limits to control the exposure to the specific risk factors outlined above. Any changes shall not be effective until they have been presented to and approved by the Board.

9.1.2.7.5 The Investment Manager is required to complete and deliver a compliance report to the Audit and Risk Committee each quarter. The compliance report will indicate whether the Investment Manager is in compliance with this Policy and the pooled fund’s Investment Policy.

9.1.3 Performance Shortfall

The assets of the Endowment Funds are expected to be invested to generate a target rate of return that will preserve the fund's capital in real terms and provide the necessary income to fund the College's annual obligations.

To manage the risk of encroaching on the capital of the Endowment Funds and to avoid excessive benchmark risk, the Endowment Funds has established a long-term target return objective as outlined in Section 4.4. This rate may be adjusted higher or lower based on changes to the expenditure rate or changes in expected inflation.

Performance shortfall is the measurement of the actual long-term performance falling short of the target rate of return. A prolonged shortfall may require corrective action such as:

- Changing the approved expenditure rate;
- Changing the approved asset classes and/or allocation limits within the Policy;
- Changing the existing Investment Manager.

9.1.4 Administration

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

9.1.4.2 This Policy is reviewed on an annual basis by the Audit and Risk Management Committee and the review should include the appropriateness of approved asset classes, desired long-term rate of return, the expenditure rate and other relevant policy issues.

PROCEDURE

The management of the assets of the Funds is delegated to the Finance and Administrative Services Department of the College, who will engage an independent investment consultant through a competitive process to act on the College's behalf with quarterly due diligence monitoring.

RELATED MATERIALS

- Ontario Ministry of Colleges and Universities (MCU), Minister's Binding Policy Directive 2.0 Banking, Investments and Borrowing.
- Ontario Colleges of Applied Arts and Technology Act, 2002.