Section 1 - Introduction

1.1 Simon Fraser University ("the University") has established a number of investment funds ("Funds"). Certain assets of the Funds are invested in securities to generate investment earnings that are an important source of income for a variety of University purposes. The successful investment management of the Funds will have a direct effect on the ability of the University to achieve its academic and research goals.

1.2 The Board of Governors ("Board") of the University has established an Investment Governance Policy ("IG Policy") pursuant to paragraph 27(2)(o) of the University Act to describe the governance structure established for the investments in the Funds and the requirements for their ongoing, successful investment management.

1.3 This document constitutes the set of Investment Management Operating Procedures ("IM Procedures") required for the management of the Funds under the IG Policy.

1.4 The IM Procedures defines the risk and return investment objectives of each of the Funds, expands on the underlying principles of the Board in the management of the Funds, describes the approved categories of investments and asset mix guidelines, provides guidance for the prudent and effective management of the Funds including constraints, and establishes the process for hiring and monitoring investment managers.

1.5 The IM Procedures shall apply to the investments in the Endowment and Non-Endowment funds.

1.6 The University pension funds are excluded from the IM Procedures.

Section 2 – Governance of the Funds

Governing Principles

2.1 The management of the Funds will at all times comply with the IG Policy, the IM Procedures, the University Act, and with any other applicable legislation.

2.2 The IM Procedures shall put into operation the high standards of governance established by the Board under the IG Policy in the management and operation of the Funds.

2.3 The Office of the Vice-President, Finance & Administration ("VPFA"), with input from the Investment Advisory Committee ("IAC"), shall be responsible for the day-to-day operation of the Funds.

2.4 External resources for the operation and management of the Funds may be used when the use of such resources is warranted and cost effective.

Responsibilities for the Funds

2.5 The Board of Governors ("Board") of the University has the responsibility, pursuant to paragraph 27(2)(o) of the University Act, "to administer funds, grants, fees, and endowments and other assets." The Board has established an IG Policy to document the guiding principles in the governance for the investment management of the Funds.
2.6 Under paragraph 6.1.3 of the IG Policy, the Board has appointed the IAC to monitor the investment performance of the Funds and to advise the Board and the VPFA on investment issues with respect to the management of the Funds, in particular, where changes may be required, including changes to the approved categories of investments and/or asset mix ranges.

2.7 Under paragraph 6.1.4 of the IG Policy, the Board has delegated investment management and operational responsibilities to the VPFA.

2.8. The IM Procedures have been established and will be reviewed annually or as otherwise required by the VPFA who shall make amendments that are considered in the best interests of achieving the objectives of the Funds.

2.9 The responsibilities of the VPFA include:

   a. With input from the Treasurer and the IAC, the selection, termination or replacement of the Investment Managers, the Custodian, consultants and any other independent experts, as appropriate;

   b. With input from the Treasurer and the IAC, the quarterly review of quantitative and qualitative performance of the Investment Managers;

   c. Via the Treasurer, providing information on significant cash flow changes to the Investment Managers.

Section 3 - The Funds

3.1 The specific uses of the Funds are as follows:

   a. The **Endowment Fund** consists of permanent donated capital held in perpetuity and used for the purposes of supporting scholarships, bursaries, academic chairs and research programs.

   b. The **Non-Endowment Fund** consists of reserves for specific funds such as employee benefits and pension, deferred revenue from research projects and externally restricted funds, funds held from capital projects and operating, cash associated with the bond fund and underlying internal loans, as well as accounts payable and carry forward from the operating fund.

3.2 Within the Endowment Fund, the University maintains an Income Stabilization Account as described in the University's General Policies under **GP 20 - Endowment Management Policy**. When there are insufficient investment earnings in the Endowment Fund to support the annual Spending Income Allocation, transfers are made from the Income Stabilization Account. The Income Stabilization Account is limited to 15% of the aggregate Market Value of the Endowment Fund Principal Accounts. Any amount in excess of the 15% limit is re-capitalized into the endowment accounts.

Section 4 – Investment Objectives

**Different Funds**

4.1 The various Funds may have different investment objectives and time horizons, therefore the investment management of the Funds may be made in a manner that reflects the different objectives of those Funds, and accounted for accordingly.
Endowment Fund

4.2 As stated in paragraph 5.1.2 a) of the IG Policy, the primary investment objective of the Endowment Fund is to earn, over both the mid and long term, an absolute annual rate of return that exceeds the annual rate of increase in the Consumer Price Index plus the Spending Income Allocation rate, net of investment expenses. If the Endowment Fund earns such a rate of return, the Fund can generate sufficient income for spending policy purposes, on an inflation-adjusted basis, at an acceptable level of risk. See the University’s General Policies under GP 20 - Endowment Management Policy. As stated in section 5.1.2 c) of the IG Policy, the primary risk objective of the Funds is to preserve the value of the capital invested.

4.3 To some extent the elimination or reduction of risk competes with the primary objective of achieving the required rate of return, and steps that may be taken to reduce or eliminate risk could reduce the likelihood of achieving the primary investment objective. As the Funds have a long-term time horizon that extends well beyond a normal business cycle, the Funds can assume some risk of declining asset values over the short term. It is understood, therefore, that the primary risk objective and the primary investment objective might not be achieved over the short term in order to achieve the primary investment objective, on average, over the long term.

4.4 Other investment objectives include:

   a. Increasing the value of the initial capital after spending income distributions, with adjustments for inflation over the long term;
   b. Achieving a long term spending income objective of the inflation-adjusted capital equal to or greater than the norm for universities in Canada;
   c. Retaining sufficient liquid assets to meet the spending income distribution requirements, without the distress sale of assets.

4.5 The Benchmark Portfolio established for the Endowment Fund, as described in the Appendix, is designed to achieve these investment objectives.

Other Funds

4.6 The primary investment return objective of Funds other than the Endowment Fund is to earn, over the mid to long term, an absolute annual rate of return that exceeds the annual rate of increase in the Consumer Price Index by at least 3.0%, net of investment expenses.

4.7 A relatively high degree of liquidity of the Non-Endowment Funds is required.

4.8 “Risk” is defined as the chance that the capital value of the Non-Endowment Funds individually declines, and the risk objective is to preserve the value of the capital invested.

4.9 The Benchmark Portfolio established for the Non-Endowment Funds, as described in the Appendix, is designed to achieve these investment objectives.
Section 5 – Investment Principles

5.1 This Section describes the investment principles to be applied to the management of the Funds as set out in Section 5.2 of the IG Policy.

5.2 The Funds are to be invested in accordance with Section 57 of the University Act of BC, that states that “subject to a contrary intent expressed in a gift, devise, bequest or trust, Section 15 of the Trustee Act of BC does not apply to investments made by a board of a university and each board (a) may invest money belonging to the university and available for investment, and (b) must, when investing under paragraph (a), make investments that a prudent person would make.”

5.3 The selection of investments in the Funds should be made in the context of the total portfolio, with a reasonable expectation of a fair return or capital appreciation.

5.4 The assets of the Funds should be invested in the capital markets to achieve the stated investment objectives. Although exposure to the capital markets could lead to short-term declines in the market value of the Funds, this risk is acceptable over the short term, as long as the increased risk results in rates of return that support or improve the expected level of income from the Funds.

5.5 The investment objectives can best be achieved by investing in a diverse mix of asset classes, economic sectors and geographic markets with varied investment characteristics.

5.6 The risk of price fluctuations within the asset classes and the uncertainty of future economic and investment conditions dictate prudent diversification by economic sector, industry, quality and size of market capitalization, so that no single security or class of securities will have a disproportionate impact on the performance of the total rate of return of the Funds.

5.7 Competent external professional investment management can add value, relative to a static benchmark portfolio, through opportunistic security selection, and that selecting external professional investment managers can add value relative to the Benchmark Portfolio, as described in the Appendix.

5.8 Risk should be controlled, and guidelines and constraints should be established to ensure that any investment manager retained by the VPFA does not take excessive risk.

5.9 Diversification of investment managers is desirable to reduce the probability of a substantial shortfall inherent in a single investment style or investment manager. The advantage of retaining multiple investment managers shall be balanced with the disadvantage of over-diversification and excessive investment management and administration costs.

Section 6 – Approved Categories of Investments

6.1 Paragraph 6.2.1 of the IG Policy requires a list of approved categories of investments. This list is contained in the Appendix. Paragraph 6.5 in this Section describes the categories of investments in more detail.

6.2 As there may be other categories of investments that, when added to the Funds, may further increase the probability of achieving the investment objectives, the VPFA with input from the IAC, as set out in paragraph 6.1.3b) of the IG Policy shall
review other categories of investments from time to time, as they deem fit and shall include any other categories of investments that, in their opinion, will help achieve the investment objectives.

6.3 VPFA shall then amend the IM Procedures to allow for the inclusion of such category of investments, provided that the VPFA, with input from the IAC, has developed constraints and guidelines in respect of investing in that category of investments.

6.4 Subject to paragraph 6.6, until such time as the Board approves a new category of investment and the VPFA amends the IM Procedures, any investment not in an approved category shall be prohibited.

6.5 Funds may be invested in any of the following approved categories of investments:

a. publicly traded equities, including common and preferred shares, warrants, rights, instalment receipts and convertible debentures, all of which may be issued by Canadian or non-Canadian issuers, and American Depository Receipts (“ADRs”) of companies based outside Canada and the United States, all of which must be in good standing with their auditors and their regulators;

b. debt securities of Canadian and non-Canadian issuers, issued in Canadian or non-Canadian currencies, including sovereign, provincial, municipal and corporate bonds, debentures, mortgages, mortgage-backed securities, asset-backed securities, notes and other debt instruments;

c. income trusts and real estate investment trusts;

d. private placements, with the prior written approval of the VPFA;

e. alternative investments, including income-producing commercial, industrial and residential property held in a professionally-managed, diversified, pooled real estate fund, private equities, interests in limited partnerships, all with the prior written approval of the VPFA;

f. interest-bearing cash and cash equivalents, including guaranteed investment contracts or term deposits with banks, credit unions, trust companies or insurance companies;

g. options on securities held and derivatives for the purposes described in paragraph 9.28 and 9.29;

h. unitized pooled funds or mutual funds consisting of eligible investments in the above categories, managed in accordance with the guidelines and constraints as set out in Section 9.

6.6 Notwithstanding paragraphs 6.4 and 6.5, any investment donated to the Endowment Fund is permitted as noted by the legislative reference in paragraph 5.2.

6.7 Notwithstanding paragraph 6.5, investments in securities issued by the University are not permitted unless they are part of a pooled fund invested by an external investment manager.

6.8 All investments are subject to the constraints of the IM Procedures, as specifically set out in Section 9, and any legal requirements.

Section 7 – Benchmark Portfolios

7.1 A Benchmark Portfolio is a hypothetical reference portfolio, defined and specified in advance, consisting of approved asset classes, each invested in the percentage for that asset class set out in the benchmark asset mix, and, within each asset class, invested in the market index specified for that asset class.
7.2 The Benchmark Portfolio is the set of asset classes, in combination, that is expected to have the greatest likelihood of achieving the investment objectives, while taking into account overall risk, as set out in Section 4.

7.3 Paragraph 6.2.3 of the IG Policy states that the Board shall establish Benchmark Portfolios for each Fund, as contained in the Appendix, based on the recommendations of the VPFA with input from the IAC. If the IAC believes that the Benchmark Portfolio established for a Fund cannot meet the investment objectives over the following five-year period, it will work with the VPFA to develop an alternative Benchmark Portfolio.

7.4 The current Benchmark Portfolios for the Endowment Fund and for the Other Funds are contained in the Appendix.

Section 8 – Funds Management

Custodian

8.1 The Board serves as the trustee for the Funds. Under paragraph 6.2.4 of the IG Policy, the VPFA shall appoint a Custodian to hold the investments of the Funds in safekeeping. The Custodian’s responsibilities are as follows:

a. perform its duties in accordance with the terms of its Custodial Agreement with the University;
b. fulfill the regular duties of a Custodian as required by law;
c. maintain in good order each security owned by the Funds;
d. provide the Treasurer with accurate and complete accounting of the Funds, including monthly reports of all assets of the Funds and transactions during the month;
e. process the security transactions that result from the buy and sell orders placed by the Investment Managers, provided that the transactions comply with all applicable legislation; and
f. submit all applicable investment data, for each fund and each Investment Manager, to the duly appointed investment performance measurement firm.

Investment Managers

8.2 Except for short-term assets that may be required for short-term cash requirements, under paragraph 5.2.2c) of the IG Policy, the VPFA will appoint one or more suitably qualified external professional investment managers to manage the assets of the Funds.

8.3 The VPFA, shall develop an investment management structure that reflects the investment principles as set out in Section 5.2 of the IG Policy.

8.4 The selection of an Investment Manager will be made in a prudent manner, applying fair and reasonable identification, evaluation and selection standards, taking into account for a potential Investment Manager:

a. the relevant experience and expertise;
b. suitability of investment style;
c. the structure of the organization;
d. turnover of personnel;
e. capacity and servicing capabilities;
f. investment performance record, including consistency of performance and risk;
g. investment management fees.

8.5 An Investment Manager, in performing its duties, shall:

a. exercise the care, diligence and skill of a prudent investment counselor and shall at all times act on a basis that is fair and reasonable;
b. adhere at all times to the Code of Ethics and Standards of Professional Conduct adopted by the CFA Institute and the Investment Manager’s own internal guidelines;
c. manage its portfolio account in accordance with the terms of its investment management agreement with the University, the IG Policy and an investment mandate, as agreed to with the VPFA.

8.6 An Investment Manager’s responsibilities are as follows, as they pertain to the assets under their management and to the assets under the management of any sub-advisors retained by them:

a. select securities within their asset class, subject to the constraints set out in the IM Procedures, in accordance with their mandate;
b. provide the Treasurer with quarterly reports of portfolio holdings, including any changes in the portfolio since the last review and any expected future changes in the portfolio;
c. provide to the Treasurer their quarterly review of investment performance, including an explanation of any shortfalls of their investment results compared to the investment objectives;
d. meet with the Treasurer at least annually, and with the IAC as necessary to review the results they have achieved, including an explanation of any shortfalls in performance, and to review their forecast of future economic conditions, their expected investment strategy and their expected effect on the portfolio, estimates of future returns on their asset class and proposed investment strategies that may be used to meet the objectives;
e. inform the Treasurer promptly of any element of the IG Policy that could prevent attainment of the Board’s objectives;
f. inform the Treasurer promptly of any changes in the Investment Manager’s firm, including changes in ownership, senior investment personnel or investment management style;
g. give prompt notice to the Custodian of all purchases and sales of securities; and
h. provide the Treasurer with a quarterly certificate of compliance with the IG Policy, the IM Procedures and the investment manager’s mandate for the quarter just ended, in which the Investment Manager either claims compliance with these documents or describes any breach of any of them, as the case may be. Such quarterly compliance certificate shall also describe the compliance or non-compliance of all of the pooled funds used by the Investment Manager for the Funds.

8.7 The Investment Managers are directed to manage the Funds, subject to the constraints cited in the IM Procedures, in accordance with their stated style. Investment Managers given the mandate to actively manage their portion of the Funds are directed to employ full discretion in determining security selection within the constraints, to take reasonable advantage of opportunities afforded by the markets.

8.8 Unless directed by the Treasurer, each Investment Manager shall be responsible for paying the investment brokerage commissions of its part of the Funds, and shall be responsible for choosing brokers to execute transactions in the most cost and settlement effective manner and in the best interests of the Funds.
8.9 Investment Managers given the mandate to actively manage their portion of the Funds are expected to earn on average, over rolling five-year periods the following relative rates of return, before the deduction of investment management expenses:

<table>
<thead>
<tr>
<th>Investment Manager Asset Class</th>
<th>Value Added in Excess of Benchmark Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Income (actively managed)</td>
<td>40 basis points</td>
</tr>
<tr>
<td>Canadian Equities</td>
<td>150 basis points</td>
</tr>
<tr>
<td>Global Equities</td>
<td>150 basis points</td>
</tr>
</tbody>
</table>

8.10 An Investment Manager with the mandate to invest in fixed income investments of an index fund is expected to earn the rate of return of the index before the deduction of investment management expenses, with a tracking error of no more than 10 basis points per year.

8.11 The Treasurer shall monitor the performance of the Investment Managers, in accordance with Section 11, and shall make any changes in Investment Managers as is deemed necessary in the best interest of the Funds.

Performance Measurer

8.12 The Performance Measurer shall prepare and deliver a report to the Treasurer at least four times per year on the Funds and the Investment Managers’ performance, using investment returns calculated independently of the Investment Managers.

8.13 The Performance Measurer shall report to the Treasurer any difficulties or failures to perform by those entities on which they depend for data and information.

Investment Consultant

8.14 The Investment Consultant shall, at the request of the Treasurer, consult on issues relating to governance, asset allocation, investment manager selection and other investment-related issues.

Section 9 – Guidelines and Constraints

9.1 Risk should be controlled and guidelines and constraints should be established by the VPFA to ensure that any Investment Manager retained does not take excessive risk. This Section describes the approved guidelines and constraints established by the VPFA to ensure that the Investment Managers in making investment decisions do not take excessive risk.

9.2 Only the VPFA is authorized to waive or modify any of the restrictions in appropriate circumstances. Any such waiver or modification will be made only after a thorough review, and all requests for waivers and modifications will be maintained in the permanent records of the University.

Asset Mix Ranges

9.3 The Treasurer shall manage the asset mix of the Funds by market value within the ranges described in the Appendix.
9.4 The Treasurer shall review the asset mix at the end of each calendar quarter, and if the markets should change the value of the securities within a Fund such that the percentage of the Fund in one or more asset classes is outside the range established by it, the Treasurer shall re-balance the asset mix of that Fund as soon as practicable. In such event, the asset mix shall be restored to the Benchmark Asset Mix for that Fund by transferring assets between Investment Managers.

9.5 In the event that the percentage allocated to an asset class within a Fund as of the end of a calendar quarter is more than 5% higher or lower than the Benchmark Asset Mix for that Fund, but within the relevant asset mix range set out in the Appendix, the Treasurer will adjust future cash flows to or from the Investment Managers until the Benchmark Asset Mix has been reached.

General

9.6 All securities shall be purchased through normal public market facilities, unless the purchase price approximates the prevailing market price and is negotiated on an arm's length basis.

9.7 An Investment Manager shall not, without the prior approval of the VPFA, invest in any assets, which are not permitted or readily marketable.

9.8 As part of the Funds may be invested in one or more pooled funds of an Investment Manager to allow participation in particular areas of investment that would not otherwise be available to the Funds on a well-diversified or cost-effective basis, it is recognized that the investments in a pooled fund may not necessarily comply in all respects with the IG Policy, the IM Procedures or the Investment Manager's mandate. Such breaches by an Investment Manager are allowed, provided that the Investment Manager informs the Treasurer of such breach. An Investment Manager that intends to put some or all of the part of the Fund managed by the Investment Manager into a pooled fund not currently used for the Funds shall first seek written permission from the VPFA.

9.9 At least 2% of the Funds should be held in liquid securities so that the University will always be able to make its payments without the distress sale of assets. An Investment Manager may invest up to 10% of their part of the Funds in cash.

9.10 Non-Canadian equity and debt instruments must be of a quality and credit worthiness comparable to the parameters established for Canadian equity and debt instruments. For the purposes of this section, bonds denominated for payment in non-Canadian currency shall only be considered non-Canadian if they are issued outside Canada.

Fixed Income and Cash

9.11 All investments in Canadian fixed income securities shall be in securities that are the subject of regular price quotations by recognized investment dealers in Canada and for which ratings are available for the borrower or the debt issuer.

9.12 Not more than 5% of the portfolio shall be invested in debt issues of any one issuer other than that of Canada, a province of Canada, a country other than Canada or a corporation in or out of Canada, all having at least an AA credit rating. Not more than 2% shall be invested in any one corporate issuer having an A credit rating. Not more than 1% shall be invested in any one issuer having a credit rating below A.

9.13 The corporate and government bond and debenture portfolio in aggregate shall be maintained within the following ranges according to the credit ratings of the Dominion Bond Rating Service (“DBRS”) or equivalent service:
Credit Rating  | Percent (Market Value)  
--- | ---  
below BBB  | 0%  
BBB  | 0% - 20%  
A or below  | 0% - 50%  
above A  | 50% - 100%  

9.14 A bond portfolio may hold not more than 10% denominated for payment in non-Canadian currency.

9.15 The duration of a particular fixed income portfolio managed by an Investment Manager shall be managed within the range that is 2.0 years below and 2.0 years above the duration of the FTSE TMX Canada Universe Bond Index.

9.16 In circumstances where the FTSE TMX Canada Universe Bond Index includes securities or has characteristics that fall outside the guidelines herein, an Investment Manager managing an indexed fixed income portfolio may invest outside these guidelines provided that the indexed fixed income portfolio reflects the characteristics of the Index.

9.17 All Canadian cash equivalents and short term commercial paper shall be rated minimum R-1 Low by the DBRS, an equivalent rating from another agency, or, where not rated, an equivalent level as determined by the market.

**Equities**

9.18 Each equity portfolio shall be broadly diversified, and shall contain at least 30 holdings. The 20 largest positions of an equity portfolio, excluding any pooled funds, shall amount to no more than 75% of the value of the equity portfolio.

9.19

a. Each equity portfolio shall invest in at least seven out of the eleven industry groups of the Global Industry Classification System, with at least a 50% investment relative to the index weight, invested in each of the seven industry groups constituting more than 10% of the index.

b. Not more than 20% of the Canadian equity portfolio shall be invested in stocks not included in the S&P/TSX Composite Index.

c. Not more than 15% of the non-Canadian equity portfolio shall be invested in countries not included in the MSCI World index.

9.20 Not more than the greater of either, 6% of an equity portfolio or its weight in the relevant index shall be invested in the common, preferred or other equity issue(s) of any one corporate issuer.

9.21 Small capitalization stocks, with a market capitalization of less than $1 billion, are permitted, but are not to comprise more than 15% of an equity portfolio. Any single holding of a small capitalization stock issue must not exceed 2% of the equity portfolio.

**Private Equity and Venture Capital**

9.22 Private equity funds and venture capital stocks (defined as those stocks with a market capitalization of less than $250 million) are permitted in the Endowment Fund, but are not to comprise more than 10% in aggregate. Further:
a. Any single holding of a venture capital stock issue must not exceed 0.25% of the Endowment Fund;
b. The commitment to any single private equity fund must not exceed 2.5% of the Endowment Fund;
c. The commitment must not comprise more than 10% of the private equity fund;
d. Within a private equity fund, no single holding can be more than 20% of the commitment of that private equity fund.

**Real Estate**

9.23 Real estate investments are permitted but are not to comprise more than 10% in aggregate. Further:

a. Any single, direct real estate holding must not exceed 1% of the Endowment Fund;
b. The commitment to any single real estate fund must not exceed 5% of the Endowment Fund;
c. The commitment must not comprise more than 10% of the real estate fund;
d. Within a real estate fund, no single holding can be more than 20% of the commitment of that real estate fund.

**Limited Partnerships**

9.24 Any interest in a partnership must be as a limited partner and not as a general partner.

**Income Trusts**

9.25 Income trusts and real estate investment trusts held in a portfolio must be reporting issuers under the applicable securities legislation and must by statute be governed by the laws of a province that limits the liabilities of unit holders.

**Loans and Borrowing**

9.26 The Investment Managers shall not purchase securities on margin or engage in short sales, without specific, written permission of the Treasurer.

9.27 No entity, including the Investment Managers, the Custodian or representative of the University, may lend, pledge or otherwise encumber any of the Funds’ investments, except through a Securities Loan Agreement approved by the VPFA to lend its securities, in which the agreement provides that:

a. the collateral security consists of highly liquid marketable securities and is no less than 102% of the value of the loaned security;
b. the loan and security are valued at least once daily;
c. the Custodian guarantees any losses; and
d. the loan is marked to market daily.
Currency Exposure

9.28 The Investment Managers may create exposure in currencies subject to the following conditions:

a. The Investment Manager may create exposure in currencies through the approved categories of investments described in paragraphs 6.5(a) to 6.5(h) inclusive;
b. The Investment Managers may not create exposure in currencies through forward contracts, futures or options, other than to hedge the currency risk of foreign securities.

Use of Derivatives

9.29 The Investment Managers may not engage in the purchase or sale of derivatives, options or futures, except as part of a defensive strategy or to replicate the investment performance of a recognized market index and only as expressly permitted. Such a use of derivatives, options or futures in an Investment Manager’s portfolio shall not employ leverage exceeding 20% of the Investment Manager’s portfolio.

Section 10 – Communication Requirements

Communication by the Investment Managers

10.1 Investment Manager will prepare and deliver a report to the Treasurer as soon as practicable at the end of each calendar quarter on the management of their portion of the funds during the quarter. Such report shall include:

a. a summary of the assets of the portfolio and the transactions since the previous quarterly report;
b. the rate of return earned by the Investment Manager and the rate of return of the Investment Manager’s benchmark;
c. the value added or lost by active management by the Investment Manager, and the sources of the value added or lost;
d. the Investment Manager’s current economic outlook and their investment strategy.

10.2 Each Investment Manager will meet with the Treasurer at least annually:

a. to review the results they have achieved;
b. to explain any shortfalls in performance relative to their benchmark;
c. to review their forecast of future economic conditions and their estimate of future returns of each asset class managed by them;
d. to discuss their expected investment strategy, given their economic forecast, and the expected effect of their investment strategy on the portfolio;
e. to discuss alternative investment strategies that they believe may be used to best meet the investment objectives.

10.3 Investment Manager will inform the Treasurer promptly of any changes in the Investment Manager’s firm, including any changes in ownership, senior investment personnel or investment management style or of any element of the Policy that could have a material impact on their management of the University’s investments.
Communication by the VPFA

10.4 The VPFA will meet quarterly with the IAC and at least annually with the Board to report on its activities. The VPFA will arrange for the minutes of its meetings with the IAC to be prepared, and will provide copies of such minutes to the Board and the Finance and Administration Committee.

10.5 At its meetings with the IAC, the Treasurer will report on the performance of the Funds, as described in Section 11, and on the results of any meetings the Treasurer has had with the Investment Managers since the previous meeting. Concerns about an Investment Manager’s performance shall be noted in the IAC meeting minutes.

10.6 The VPFA will report on any issues that it believes may affect the ability of the Funds to achieve the investment objectives, as set out in Section 4 herein and will provide such information as may be necessary for the review of the Policy that is required under paragraph 11.9.

Section 11 – Monitoring and Review

Monitoring and Review of Investment Performance

11.1 The Treasurer, with the Performance Measurer, will conduct a quarterly evaluation of the performance of the Investment Managers. Such an analysis will include both quantitative and qualitative measures, including an evaluation of the rates of return, an analysis of the areas where the Investment Managers have added or subtracted value and an evaluation of the degree of risk taken in the pursuit of stated objectives.

11.2 The IAC shall at its meetings review the report prepared by the VPFA and the Treasurer. They shall review:

   a. the investment returns of the Funds and the Investment Managers, including each component of the Funds and of the Investment Managers’ portfolios, over both the short-term and the long-term;
   b. the risk level of the Fund and the individual portfolios;
   c. the value added or lost by the Funds and the Investment Managers relative to the target rates of return;
   d. the sources of the value gained and lost, and their amounts, relative to the target rates of return;
   e. the level of risk taken by the Investment Managers in making their decisions, and the appropriateness of those decisions;
   f. the acceptability of the performance of the Investment Managers and of the Funds overall;
   g. the economic conditions that may affect future investment performance of the Funds and the potential impact on the Funds;
   h. any recommendations made by the staff of the VPFA for changes relating to the performance of the Fund.

11.3 Quantitative performance of an Investment Manager will be considered satisfactory if the net annualized return, on market value before the deduction of management fees, over rolling five-year periods exceeds the standard as set out for them in Section 8.

11.4 In addition to the quantitative tests identified above, each Investment Manager will be evaluated on certain qualitative standards, including:
a. adherence to the IM Procedures;
b. adherence to the investment approach and decision-making process for which the Investment Manager was hired;
c. changes in the Investment Manager firm, including ownership, organizational structure and key investment personnel.

11.5 The VPFA and the IAC may also consider, the Investment Manager's performance relative to the results of other Investment Managers investing assets of comparable funds with comparable objectives. They may also consider the Investment Manager's performance in each asset class relative to the rate of return of that asset class’ market index.

11.6 Notwithstanding the performance targets described in paragraphs 8.9 and 8.10, an Investment Manager’s continued suitability for the Funds may be examined at any time, should the VPFA and the IAC lose confidence in the Investment Manager’s ability to succeed. Factors that might lead to a review include one or more of the following:

a. performance substantially below the expected rate of return;
b. changes in the Investment Manager’s investment approach and decision-making processes;
c. inappropriate levels of risk;
d. fundamental changes within the Investment Manager’s firm, including changes in ownership, personnel or a substantial growth or reduction in assets under management;
e. evidence of malfeasance by the Investment Manager;
f. failure to adhere to the SFU IG Policy, IM Procedures or Investment Manager’s mandate.

11.7 Concerns about the performance of an Investment Manager shall be noted in the minutes of the IAC’s meeting, and shall include the conclusions of the IAC as to the next steps that will be taken in connection with the retention of such Investment Manager.

11.8 The Treasurer shall consider the performance of the Investment Manager in the context of the criteria for their original selection and shall recommend changes in Investment Managers if deemed in the best interest of the Funds and the recipients of its income.

Review of the IG Policy and the IM Procedures

11.9 As required under paragraph 6.1.3b) of the IG Policy, the VPFA and the IAC shall review the IG Policy annually; with the IAC and the VPFA reviewing the IM Procedures as necessary. They shall:

a. re-assess the Funds’ objectives, the Benchmark Portfolios and the impact of any changes in the Funds' cash flow on the investment of the Funds;
b. examine the target rates of return for the Investment Managers and for the Funds and determine if such targets remain appropriate given the prevalent economic conditions;
c. examine the spending rate policy and the income fluctuation level, and determine if those policies and levels remain appropriate given the prevalent economic conditions;
d. consider opportunities available in the market, through asset classes not currently being used by the Funds, to add value or to reduce risk;
e. examine the investment management structure, including the choice of active and index management, and the extent to which investment management styles have been diversified, to determine if the investment management structure remains appropriate;
f. consider the impact of any changes in legislation.

Section 12 – Conflict of Interest

Definitions

12.1 A Conflict of Interest exists when one has the opportunity to advance or protect one’s own interest or the private interests of others with whom one has a relationship, in a way detrimental to the interests or potentially harmful to the integrity or fundamental mission of the University.

12.2 Relationship means a familial or other personal or business relationship.

Principles

12.3 The conflict of interest guidelines established by the University shall apply in all instances.

12.4 This Section applies to all instances of conflict of interest, including those not specifically covered under the guidelines established by the University but covered by the IM Procedures. The VPFA shall establish additional guidelines as required.

Individuals Governed by Guidelines

12.5 The guidelines apply to:

   a. the IAC;
   b. the University administration, including the VPFA and its staff;
   c. the Investment Managers, the Custodian, the Performance Measurer, the Investment Consultant and any other external advisors retained by the University;
   d. any employee or agent retained by those listed in (a), (b) and (c) above to provide services to the Funds.

Related Party Transactions

12.6 An Investment Manager shall not invest in its own securities from the assets of the Funds unless such securities are publicly traded and selected by the Investment Manager on behalf of all that Investment Manager’s discretionary accounts or pooled funds having mandates similar to that of the Funds. Each Investment Manager shall provide the VPFA with its internal guidelines on purchasing securities of its organization or affiliates.

12.7 Any other transactions with an entity or individual listed in paragraph 12.5 must be required for the operation or administration of the Funds and must be disclosed to the VPFA in writing.
Conflict of Interest

12.8 No person listed in paragraph 12.5 may exercise his powers, with regard to the investment of the Funds, in his own personal or business interest or in the interest of his family or of a third person, nor may he place himself in a situation of Conflict of Interest or potential Conflict of Interest.

12.9 Any person listed in paragraph 12.5 must disclose any direct or indirect association or material interest or involvement that would result in any actual, potential or perceived Conflict of Interest with regard to the investments of the Funds. Without limiting the generality of the foregoing, this would include material benefit from any asset held in the Funds, or any significant holdings, or the membership on the boards of other corporations, or any actual proposed contracts.

Procedure on Disclosure

12.10 An individual listed in paragraph 12.5 shall disclose in writing the nature and extent of his interest to the VPFA immediately upon first becoming aware of a Conflict of Interest or a potential Conflict of Interest. The VPFA shall report such disclosure to the IAC.

12.11 For the purpose above, the disclosure must be made orally if the knowledge of the Conflict of Interest arises in the course of discussion at a meeting.

12.12 Failure to report a Conflict of Interest can result in disciplinary action being taken.

12.13 If the party disclosing the Conflict of Interest has the capacity to participate in or to make decisions affecting the investments of the Funds, the party may only continue to participate with the approval of the IAC. The party may elect not to participate with respect to the issue in which the Conflict of Interest arises.

12.14 The failure of a person to comply with the procedures described in this Section shall not of itself invalidate any decision, contract or other matter.

Section 13 – Delegation of Voting Rights

13.1 The Investment Managers are delegated the responsibility of directing the Custodian in the exercise of voting rights acquired through the Funds’ investments except for proxies involving the following issues:

   a. public and social policy concerns of the University;
   b. precedent-setting proposals;
   c. contested management or shareholder proposals;
   d. concerns previously raised by the Board, the IAC or the VPFA.

13.2 The Investment Managers will exercise acquired voting rights with the intent of fulfilling the investment objectives and policies.

13.3 The Investment Managers will maintain a record of how they exercised voting rights on behalf of the Funds.
13.4 If there is a need for clarification on how to exercise voting rights, the Investment Managers should obtain a directive from the Treasurer.

13.5 The Board, through the VPFA, reserves the right to provide specific direction on the exercising of any voting rights. The Treasurer will communicate specific directions to the Investment Managers.

13.6 The Investment Managers are charged with the responsibility of bringing any significant or special voting matters to the attention of the Treasurer within a reasonable period of time.

13.7 It is recognized that the above provisions with respect to voting rights cannot always be applied to the part of the Funds invested in pooled funds. It is normally expected that the Investment Manager will exercise the voting rights of shares held in its pooled funds in the best interests of the majority of the participants in the pool. Notwithstanding this paragraph, paragraph 13.3 shall apply in any event.

Section 14 – Valuation of Investments

14.1 The value of all publicly traded investments will be their market value.

14.2 An investment in an Investment Manager's pooled fund will valued be according to the unit values published at least monthly by the Investment Manager.

14.3 Where the market value cannot be readily determined by reference to generally available price quotations, the Custodian will value the investment based on accepted valuation principles. In the absence of a valuation on such basis, the investment will be carried at book value.
Approved Categories of Investments

[IG Policy 9.1]

- Publicly traded equities, including common and preferred shares, warrants, rights, installment receipts and convertible debentures, all of which may be issued by Canadian or non-Canadian issuers, and American Depository Receipts (“ADRs”) of companies based outside Canada and the United States, all of which must be in good standing with their auditors and their regulators;

- Debt securities of Canadian and non-Canadian issuers, issued in Canadian or non-Canadian currencies, including sovereign, provincial, municipal and corporate bonds, debentures, mortgages, mortgage-backed securities, asset-backed securities, notes and other debt instruments; All investments in fixed income securities shall be in securities that are the subject of regular price quotations by recognized investment dealers and for which ratings are available for the borrower or the debt issuer. The corporate and government bond and debenture portfolio in aggregate shall be maintained within the following ranges according to the credit ratings of the Dominion Bond Rating Service (“DBRS”) or equivalent service:

<table>
<thead>
<tr>
<th>Credit Rating</th>
<th>Percent (Market Value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>below BBB</td>
<td>0%</td>
</tr>
<tr>
<td>BBB</td>
<td>0% - 20%</td>
</tr>
<tr>
<td>A or below</td>
<td>0% - 50%</td>
</tr>
<tr>
<td>above A</td>
<td>50% - 100%</td>
</tr>
</tbody>
</table>

- Income trusts and real estate investment trusts;

- Private placements, with the prior written approval of the VPFA;

- Alternative investments, including income-producing commercial, industrial and residential property held in a professionally-managed, diversified, pooled real estate fund, private equities, interests in limited partnerships, all with the prior written approval of the VPFA;
• Interest-bearing cash and cash equivalents, including guaranteed investment contracts or term deposits with banks, credit unions, trust companies or insurance companies. Investments for operating cash requirements shall be in Canadian cash equivalents and short term commercial paper rated minimum R-1 Low by the DBRS, an equivalent rating from another agency, or, where not rated, an equivalent level as determined by the market.

• Derivatives, options or futures as part of a defensive strategy or to replicate the investment performance of a recognized market index;

• Unitized pooled funds or mutual funds consisting of eligible investments in the above categories;

• any investment donated to the University.
Benchmark Portfolio

[IG Policy 6.2.3]

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Benchmark Index</th>
<th>Endowment Fund Benchmark Asset Mix</th>
<th>Non-Endowment Funds Benchmark Asset Mix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian Equities</td>
<td>S&amp;P/TSX Composite Total Return</td>
<td>33%</td>
<td>25%</td>
</tr>
<tr>
<td>Global Equities</td>
<td>MSCI World (CDN$)</td>
<td>32%</td>
<td>25%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>FTSE TMX Canada Universe Bond Index</td>
<td>23%</td>
<td>48%</td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>DEX 91 Day T-Bill</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Alternative Investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Equity</td>
<td>MSCI World Index (CDN$) + 3%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>CPI + 4%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Investment Asset Mix Ranges

[IG Policy 9.2]

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Endowment Fund Benchmark Asset Mix (%)</th>
<th>Range (%)</th>
<th>Non-Endowment Funds Benchmark Asset Mix (%)</th>
<th>Range (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian Equities</td>
<td>33</td>
<td>28 - 38</td>
<td>25</td>
<td>20 - 30</td>
</tr>
<tr>
<td>Global Equities</td>
<td>32</td>
<td>27 - 37</td>
<td>25</td>
<td>20 - 30</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>23</td>
<td>15 - 30</td>
<td>48</td>
<td>38 - 58</td>
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<tr>
<td>Cash and Cash Equivalents</td>
<td>2</td>
<td>0 - 10</td>
<td>2</td>
<td>0 - 20</td>
</tr>
<tr>
<td>Alternative Investments</td>
<td>10</td>
<td>0 - 20</td>
<td>0</td>
<td>0 - 5</td>
</tr>
</tbody>
</table>