

SIMON FRASER UNIVERSITY
University Secretariat
MEMORANDUM

To: Senate
From: Alison Watt, Director, University Secretariat
Subject: Revised Investment Governance Policy
Date: 25 March, 2003

FOR INFORMATION

SCAR has determined that this policy should be forwarded to Senate for information at its meeting on April 7, 2003. This policy has been reviewed and approved by the Finance and Administration Committee of the Board of Governors and will go to the Board of Governors for final approval in May, 2003.

P. Hibbitts

Attachment



SIMON FRASER UNIVERSITY
OFFICE OF THE VICE-PRESIDENT
FINANCE & ADMINISTRATION
MEMORANDUM

To: Michael Stevenson President and Vice Chancellor	From: Pat Hibbitts Vice-President, Finance & Administration
Subject: Investment Governance Policy	Date: March 05, 2003

The attached draft of the new Investment Governance Policy document has been widely circulated for consultation and review, in accordance with our current process for new or revised University policies. It has also been reviewed externally by the Investment Advisory Committee on two occasions and discussed most recently at its meeting on December 6, 2002. In addition, eight external investment managers of the University and several other interested parties reviewed it for issues of compliance conflicts and certain technical matters.

The various reviews resulted in the preparation of two distinct investment-related documents. This Policy document was derived from the previous Statement of Investment Guidelines and Procedures in place since 1996. A second document, which will be the Investment Management Operating Procedures, is currently under development. Upon recommendation by the Finance and Administration Committee, and final approval by the Board, this Policy will be incorporated into the *University's Board Policies*. The second document, when complete, will be forwarded to the Finance and Administration Committee and subsequently, to the Board, for information.

This is the first revision of these policies and procedures since SFU diversified its Endowment Fund investments from a fixed income only mandate to a balanced mandate, by adding Canadian and foreign equities. It has been driven primarily by Legislative changes that relaxed previously restrictive requirements under the *University Act*. These changes bring SFU investments in line with pension plan management practices and current trends in investment governance documentation generally.

BC Universities are now permitted to invest both endowment and non-endowment funds according to the judicial standard of a "Prudent Person" codified in the late 1800's which requires care in the selection of investments but does not impose narrow limits on investment alternatives and simply stated is that:

Persons who act as fiduciaries have responsibilities and this rule is a legal doctrine that constrains the type of investments that can be made in those accounts. Those constraints limit potential investments to those that might be made by a prudent and reasonable person.

The other main driver for this revision is the rapid growth and complexity of the SFU investment portfolios, with total values doubling to slightly over \$200 million, with four external manager-mandates requiring oversight, being added since 1996. This Policy revision will allow the University, as funds under management continue to grow, to broaden its investment opportunities and further diversify its mandates and activities to reduce risk.

Summarizing the more significant changes from the original 1996 document:

- The Investment Governance Policy delineates the various roles and responsibilities of both the internal and external parties connected with and responsible for the University's investments and describes the broad investment principles established.
- The Investment Management Operating Procedures, when developed, will describe the practical steps required to apply the Investment Governance Policy as approved by the Board.
- The definition of the University's risk and return objectives has been broadened.
- The Investment Managers' responsibilities, the monitoring and review of them and the communication sections will all have been greatly expanded.
- Permitted categories of asset classes and investments have been expanded to permit greater diversification strategies and to broaden investment opportunities.
- The Benchmark Portfolio for the investment of non-endowment funds has been revised to permit diversification and expansion by a modest percentage into equity asset classes.



To the Board for Approval



Michael Stevenson
President and Vice Chancellor



Simon Fraser University

INVESTMENT GOVERNANCE POLICY

Effective March 2003

1. Preamble

- 1.1 The Board of Governors ("Board") of Simon Fraser University ("University") has the responsibility, pursuant to paragraph 27(2)(o) of the *University Act*, "to administer funds, grants, fees, and endowments and other assets."

2. Purpose

- 2.1 This document constitutes the Investment Governance Policy ("IG Policy") adopted by the Board, and shall apply to the investments in the University's Endowment, Operating and Special Purpose Funds ("Funds"). It documents the governance structure established for the investments of the Funds and describes the requirements for their ongoing, successful investment management.

3. Investment Governance Structure

- 3.1 The governance structure established for the investments of the Funds is designed to ensure that the investments are managed prudently, appropriately and in compliance with the applicable legislation and this IG Policy. The principal levels of responsibility are described in this section.
- 3.2 The Board, on the recommendation of the President, shall appoint an Investment Advisory Committee ("IAC") pursuant to paragraph 27(2)(c) of the *University Act* to monitor the investment performance of the Funds and to advise the Board with respect to the investments of the Funds. The IAC has the responsibility to review this IG Policy annually and to recommend to the Board any changes that may be required.
- 3.3 The Board may delegate the investment management and operational responsibilities for the Funds to Office of the Vice-President, Finance & Administration ("VPF"). The VPF shall report on its activities to the IAC at least semi-annually and to the Board at least annually and will provide copies of the minutes of its meetings with the IAC to the Board.
- 3.4 The VPF, with input from the IAC, and the advice of the Finance and Administration Committee of the Board ("FAC"), shall establish and maintain an Investment Management Operating Procedures document ("IM Procedures") to set out the requirements for the proper investment of the Funds under this IG Policy. See <http://www.sfu.ca/policies/board/index.htm>. The IM Procedures shall include a description of permitted categories of investments, constraints for each category of investments and asset mix guidelines. It shall include the process for hiring, monitoring, terminating or replacing investment managers, consultants, the custodian and other independent experts. -

4. Investment Objectives

- 4.1 The investments of the different Funds may be made in a manner that reflects the objectives of those Funds separately, and accounted for accordingly.
- 4.2 Each Fund will be managed to balance the different investment return and risk objectives of the Funds.
- 4.3 The primary investment return objective of the Endowment Fund is to earn, over the mid and long term, an absolute annual rate of return that exceeds the annual rate of increase in the Consumer Price Index by at least 5.0%, net of investment expenses.
- 4.4 The primary investment return objective of Funds other than the Endowment Fund is to earn, over the short to mid 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.
- 4.5 The primary risk objective of the Funds is to preserve the value of the invested capital.

5. Investment Principles

- 5.1 The Funds are to be invested in accordance with Section 57 of the *University Act* that states that the University: "must, when investing. . . . make investments that a prudent person would make."
- 5.2 The following principles shall be followed in the investment of the Funds:
- (a) 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 appreciation.
 - (b) The Funds should be invested in the capital markets to achieve the stated investment objectives.
 - (c) The investment objectives can best be achieved by investing in a mix of diverse asset classes with varied investment characteristics.
 - (d) The risk of price fluctuations within the asset classes and the uncertainty of future economic and investment conditions dictate prudent diversification of investments by economic sector, industry, quality and size of market capitalization.
 - (e) Competent, external professional investment management can add value, relative to a static benchmark portfolio, through opportunistic security selection.
 - (f) Risk should be controlled, and guidelines and constraints must be established by the VPF that ensure that any investment manager retained does not take excessive risk.
 - (g) 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 administrative costs.

6. Management of Investment Funds

- 6.1 A list of approved categories of investments, attached as *Schedule 1*, shall be maintained at all times. The VPF, with input from the IAC, shall review other categories of investments from time to time, and shall recommend to the Board any other categories that, in their opinion, will help achieve the investment objectives. Until such time as the Board approves a new category of investments, any investment not in an approved category shall be prohibited.
- 6.2 All securities shall be purchased through normal public market sources, unless the purchase price approximates the prevailing market price from some other recognized source and is negotiated on an arm's length basis.
- 6.3 All investments are subject to the constraints of this IG Policy, any legal requirements, and the guidelines established by the VPF. Notwithstanding any other limitations, any investment donated to the University is permitted.
- 6.4 The Board shall establish Benchmark Portfolios for each Fund, attached as *Schedule 2*, based on the recommendations of the VPF, 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 four-year period, it will work with the VPF to develop an alternative Benchmark Portfolio.
- 6.5 The VPF, with the input of the IAC shall establish and document investment asset mix ranges for each of the Funds, and shall maintain the asset mix of the Funds within the specified ranges.
- 6.6 The VPF, with the input of the IAC, will appoint one or more suitably qualified external professional investment managers to manage the Funds. For the purposes of this IG Policy, staff of the VPF who may also invest a portion of the Funds, are considered to be investment managers.

6. Management of Investment Funds (continued)

- 6.7 The VPF shall appoint a Custodian to hold the investments of the Funds.
- 6.8 The selection of an investment manager will be made in a prudent manner, based on criteria established and documented by the VPF.
- 6.9 Each investment manager shall operate under the terms of an Investment Management Agreement with the University, this IG Policy and an investment mandate, as agreed to with the VPF. The VPF is authorized to waive or modify any of the restrictions in appropriate circumstances.
- 6.10 The VPF, in consultation with the IAC, shall make any changes in the investment managers as it deems to be in the best interest of the Funds.

7. Loans of Funds Assets

- 7.1 No entity, including the investment managers, the Custodian or a representative of the University, may lend, pledge or otherwise encumber any of the Funds' investment assets, except through a Securities Loan or University-related Business Entity Loan Agreement approved by the VPF.

8. Communication by Investment Managers

- 8.1 Each investment manager shall prepare and deliver a report to the VPF at the end of each calendar quarter on the management of their portion of the Funds during the quarter.
- 8.2 Each investment manager shall meet with the VPF on at least a semi-annual basis to review their management of the fund, their economic forecast and their investment strategy.
- 8.3 An investment manager will inform the VPF promptly of any changes in the investment manager's firm that could have a material impact on their management of the University's investments.

9. Monitoring of the Funds

- 9.1 The VPF, in consultation with the IAC, shall monitor and evaluate on a quarterly basis, the performance of each of the investment managers as well as the overall performance of the Funds.
- 9.2 The VPF will meet with the IAC on at least a semi-annual basis and will report to them on the results of meetings with the investment managers since the previous IAC meeting. Concerns about an investment manager's performance shall be noted in the IAC's minutes.
- 9.3 At its meetings, the VPF and the IAC shall review the economic conditions that may affect the future investment performance of the Funds and any recommendations made by the VPF for changes relating to that performance.

10. Review of the Investment Management Procedures

- 10.1 At least annually, the IAC and the VPF shall review the IM Procedures, the Funds' objectives, the Benchmark Portfolios and the impact of changes in the Funds' cash flow on the investment of the Funds.

11. Conflict of Interest

- 11.1 The conflict of interest guidelines for the Funds shall be consistent with the overall guidelines for the University. To the extent that certain situations may create a conflict of interest not covered by the University's guidelines, the VPF shall establish additional guidelines as required.

12. Voting Rights

- 12.1 The VPF will develop procedures for the exercise of voting rights acquired through the investments of the Funds.

Investment Governance Policy

Schedule 1

Approved Categories of Investment

The following is the list of the approved categories of investments as of March 1, 2003, as required under paragraph 6.1 of the IG Policy. Until such time as the Board approves a new category of investments, any investment not in an approved category shall be prohibited. The VPF shall document the guidelines and constraints in the related IM Procedures document for investing in these assets in accordance with paragraph 3.4 of the IG Policy.

- (a) equities, which may be issued by companies inside or outside of Canada;
- (b) debt securities of Canadian and non-Canadian issuers, issued in Canadian or non-Canadian currencies;
- (c) private placements;
- (d) income-producing commercial, industrial and residential property, held in a professionally-managed, diversified, pooled real estate fund;
- (e) interest-bearing cash and cash equivalents;
- (f) options on securities held and derivatives for allowed purposes;
- (g) unitized pooled funds or mutual funds consisting of eligible investments in the above categories

Investment Governance Policy

Schedule 2

Benchmark Portfolios

The following are the Benchmark Portfolios, as established in accordance with paragraph 6.4 of the IG Policy. All of the Benchmark Portfolios consist of assets in the approved categories, as set out in Schedule 1.

In accordance with paragraph 6.5 of the IG Policy, the VPF shall maintain the Investment asset mix of the Funds within specified ranges, as determined by the VPF on consultation with the IAC.

Asset Class	Benchmark Index	Endowment Fund Benchmark Asset Mix	Proceeds from the University Debenture Issue Benchmark Asset Mix	Other Funds Benchmark Asset Mix
Canadian Equities	S&P / TSX Total Return	40%	0%	20%
Global Equities	Morgan Stanley (MSCI) World ex-Canada (\$Can)	25%	0%	10%
Fixed Income	Scotia Capital Universe Bond	33%	0%	60%
Cash and Cash Equivalents	Scotia Capital 91 Day T-Bills	2%	100%	10%