

**TITLE: INVESTMENTS POLICY**

**POLICY STATEMENT:**

Red Deer College retains the services of an Investment Manager to manage and select investments to ensure the long-term preservation and solvency of College assets. The asset mix must also provide the resources to compliment the ongoing commitments of the College by providing the stability and predictability of the return on investment.

**PURPOSE:**

The purpose of this policy is:

- To clarify the assets to which this policy applies.
- To identify investment objectives.
- To outline responsibilities associated with investment management.
- To establish guidelines for investment activities.
- To provide guidance to the fiduciaries and investment managers regarding the investing, monitoring and reporting on various pools of capital that require investment management.
- To promote responsible investing.

**SCOPE:**

This Policy applies to:

- Endowed trust funds of a permanent or long-term nature.
- Fundraised and donated expendable funds.
- Excess operating expendable funds.
- Specific capital expansion grants as designated by the Chief Financial Officer.

**PRINCIPLES:**

1. Security and preservation of capital
2. Minimized risk
3. Maximized rate of return on investments
4. Liquidity Diversification

**DEFINITIONS:**

**Asset Mix:** The process of dividing investments into different asset classes, such as stocks, bonds, alternative assets and cash in order to optimize the risk/return trade-off of a portfolio. This process is based on factors including investment time horizon, liquidity needs, risk tolerance, specific goals and situations, and legal and tax considerations.

**Consumer Price Index (CPI):** A Statistics Canada index of retail prices for goods and services. Increases in the CPI are also referred to as increases in the cost of living and are directly correlated to increases in inflation.

**Custodian:** A financial institution, usually a bank or trust company, which holds an investment portfolio's securities and cash in safekeeping.

**Derivatives:** A financial instrument whose value is dependent on the performance of an underlying instrument or asset typically a commodity, bond or equity. They are also available on currencies, interest rates, and equity indices. Futures and options are examples of derivatives.

**Endowment:** A restricted donation made to the College where the capital value is invested and the annual income supports a specified educational purpose.

**Investment Grade Bond:** A bond of a credit rating of BBB or higher.

**Proxy:** A written authorization given by a shareholder to another individual, usually the company's management, in order to cast his/her vote at a shareholder meeting or at some other point in time.

**Rate of Return:** The percentage change in the value of an asset, including interest and dividends, over an evaluation period.

## **GUIDELINES:**

### **1. Roles and Responsibilities**

#### **1.1. President**

The President of the College has ultimate responsibility and authority for the Portfolio.

The President:

- Retains a Discretionary Manager in accordance with Executive Limitation #5 – Asset Protection.
- Ensures that Board Policy regarding Investments is adhered to.
- Receives the Investment Committee's recommendations with respect to the Portfolio and Investment Policy and re-approve or amend the Policy, as appropriate.
- Reviews all other recommendations and reports of the Investment Committee with respect to the Portfolio and take appropriate action.
- Provides the Discretionary Manager with a copy of the Investment Policy and any amendments thereto.
- Ensures the Investment Committee is fully informed on all aspects relating to the investments.

#### **1.2. Investment Committee**

The Investment Committee:

- Is appointed by the President.
- Maintains an understanding of legal and regulatory requirements and constraints applicable to the Portfolio.
- On an annual basis or more frequently if appropriate, reviews the Portfolio and Investment Policy with the discretionary manager and make appropriate recommendations.

- Recommends the levels of liquidity and/or cash flow that will be required from the Portfolio.
- Provides recommendations and regular reports on the Portfolio to the President on all other aspects of the Portfolio that the Investment Committee deems appropriate or as requested by the President.
- Advises the President regarding the Investment Policy.
- Reviews the time horizon for use of funds in the Portfolio.

### **1.3. Discretionary Manager**

The Discretionary Manager:

- Conducts a thorough examination of the needs and objectives of the College.
- Produces a written investment strategy that confirms the needs and objectives of the College and outlines a long-term strategic asset mix practice.
- Has full discretion for the day-to-day investment management of the Portfolio subject to this Investment Policy and any amendments thereto.
- Ensures the asset mix practice of the College is implemented within the agreed upon guidelines as set out in the Investment Policy. This would include transfer of assets, security selection and country diversification.
- Is responsible for day to day monitoring of the portfolio including short-term tactical asset mix changes and security selection changes in the portfolio.
- Provides written reports to the Investment Committee.
- Provides ongoing counseling regarding the Colleges Investment Policy.
- Has written authority to vote all proxies.

## **2. Description of College Funds**

The College funds consist of three pools.

### **2.1. Endowment Fund**

Consists of endowed trust funds of a permanent or long-term nature that have been provided by or donated to the College for the purpose of providing scholarships and awards or other ascribed purposes.

### **2.2. Operating Fund**

Consists of the College's funds that are available for both short-term and long-term operating and capital expenditures.

### **2.3. Short-term Fund**

Consists of funds that have been fundraised and/or from other sources to fund the College's capital expansion projects and other one-time projects.

## **3. Investment Objectives**

Common to all three funds is an investment objective of minimizing risk and optimizing return while achieving the other investment objectives. As well, the investments reflect the fiduciary nature of the funds and the College's perceived social responsibility.

### **3.1. Endowment Fund**

The principal balance of all endowments is maintained in perpetuity (unless otherwise designated by the donor) to generate income for annual use for such purposes as agreed to between the donor and Red Deer College/Red Deer College Foundation.

Seventy-five percent (75%) of the annual interest earned is transferred to an expendable operating account to fund the purpose for which it was established (i.e. scholarships or awards). Twenty-five percent (25%) of the annual interest earned is re-invested into the principal portion of the endowment to offset the effects of inflation and fluctuations in annual earnings.

The investment objectives of the fund are the preservation of capital while achieving a growth rate beyond the rate of inflation. The Investment Advisory Committee reviews the re-investment strategy on an annual basis over a moving five-year period, to ensure it is not below the annual CPI rate published by Statistics Canada, averaged over the same period.

### **3.2. Operating Fund**

Income earned from the Operating Fund is budgeted to supplement the operating revenues of the College. Capital is used to cover any short-term liquidity shortfalls of the College, which are generally seasonal in nature.

Other than calls on capital during periods of seasonal liquidity shortfalls, it is expected the Fund will maintain a relatively stable capital base. Any large capital requirements are anticipated at least one year in advance.

The investment objectives of the Fund are balanced between current income, liquidity and the opportunity for long-term capital growth.

### **3.3. Short-term Fund**

The Short-term Fund is used to pay the capital projects as they progress over a defined number of years.

The investment objective of the Fund is to ensure a high level of capital safety and liquidity, while earning a competitive return commensurate with minimal risk.

### **3.4. Taxation**

The college is exempt from the payment of income tax under Section 149 of the Income Tax Act.

### **3.5. Legal Considerations**

The College operates under the authority of the Post-Secondary Learning Act, Chapter P-19.5, Statutes of Alberta 2003.

## **4. Asset Mix Policy**

The permissible asset classes, normal allocation and permissible ranges for each asset class follow.

The Normal Mix represents the neutral position for each asset class and is used as a performance benchmark for the total fund.

The Permissible Ranges indicate the minimum and maximum positions, as a percent of the fund's total market value, which can be held at any time in the asset class. If an asset class violates its respective range, it should be re-balanced in a timely and prudent manner.

For the purpose of the Asset Mix Permissible Ranges, the Investment Manager's mutual/pooled funds are deemed to be 100% invested in the asset class, even though these funds may contain a portion held in cash and cash equivalent investments.

#### 4.1. Endowment Fund

	<b>Normal Mix</b>	<b>Permissible Ranges</b>	
		<b>Minimum</b>	<b>Maximum</b>
<b>Equity</b>	<b>60%</b>	<b>45%</b>	<b>70%</b>
Canadian Large Cap Equity	15%	10%	35%
Canadian Small Cap Equity	7.5%	0%	10%
US Equity	15%	10%	30%
International Equity	15%	10%	30%
Global Small Cap	7.5%	0%	10%
<b>Bonds and Debentures</b>	<b>35%</b>	<b>30%</b>	<b>50%</b>
Canadian Bonds	30%	25%	50%
Global Bonds	5%	0%	10%
<b>Cash Equivalents</b>	<b>5%</b>	<b>0%</b>	<b>10%</b>
	<b>100%</b>		

#### 4.2. Operating Fund

	<b>Normal Mix</b>	<b>Permissible Ranges</b>	
		<b>Minimum</b>	<b>Maximum</b>
<b>Equity</b>	<b>30%</b>	<b>20%</b>	<b>40%</b>
Canadian Large Cap Equity	8%	2%	15%
Canadian Small Cap Equity	3%	0%	6%
US Equity	8%	2%	15%
International Equity	8%	2%	15%
Global Small Cap	3%	0%	6%
<b>Bonds and Debentures</b>	<b>40%</b>	<b>30%</b>	<b>70%</b>
Canadian Bonds	35%	25%	70%
Global Bonds	5%	0%	10%
<b>Cash Equivalents</b>	<b>30%</b>	<b>5%</b>	<b>45%</b>
	<b>100%</b>		

### **4.3. Short-Term Fund**

100% of the fund should be invested in money market instruments with the following constraints:

- All money market instruments must have a R1 or equivalent credit rating.
- All instruments should be denominated in Canadian dollars.

## **5. Investment Guidelines & Restrictions**

### **5.1 General**

Investments in pooled funds or mutual funds are permitted so long as their investment guidelines are consistent with this document.

Investments in the following securities are prohibited:

- Private placements or other non-marketable debt and equity which have not been disclosed to the Investment Committee
- Commodities

The Discretionary Manager without the prior approval of the President and/ or the Vice President of Enterprise and Community Relations shall not liquidate donated investments placed in the care of the Discretionary Manager.

Responsibility for the exercise of proxies shall rest with the Discretionary Manager, who shall exercise this right solely for the economic benefit of the Fund.

In the event the Discretionary Manager seeks to change the permissible asset classes, target mix, permissible ranges, performance benchmarks or any other guideline or restriction noted in this Policy, the President must approve such changes in advance of their implementation.

In order to practice responsible investing, the College requires full disclosure of the investments from the Investment Manager.

### **5.2 Equity Investments**

Equity investments may include common stocks, convertible securities, royalty and income trusts, installment receipts, American Depository Receipts (ADR's), warrants and rights.

Not more than 10% of the market value of the equity portfolio shall be invested in any one corporation's equity securities.

Not more than 30% of the market value of the equity portfolio shall be invested in any one major industry group as defined at the time by the Global Industry Classification Standard (GICS).

### **5.3 Domestic Fixed Income Investments**

Domestic fixed income investments may include Canadian and Provincial Government and Agency obligations, municipal bonds, Corporate Bonds, zero coupon bonds, debentures, mortgage-backed securities and other such instruments as deemed prudent by the investment manager.

No more than 10% of the market value of a fund shall be invested in the securities of any single entity, except issues of Canadian Federal or Provincial Government or their agencies.

The fixed income portion of the portfolio must carry a minimum dollar weighted average credit rating of "AA" (low) or better, as determined by a major credit rating agency. No single issues may have a credit rating of less than BBB (low).

The Discretionary Manager has the flexibility to adjust the maturity structure of the fixed income portfolio to take advantage of current and anticipated market conditions. However, the average modified duration of the portfolio shall not differ from the duration of the fixed income benchmark by more than 20%.

#### **5.4 Global Fixed Income Investments**

Global Bonds are invested using mutual and/or pooled funds and should be compliant with the investment policy of that Fund, which is attached in the appendix. Should there be a change to the wording in the Investment Policy of the Fund (see Appendix A), the Investment Committee should be notified within 90 days of that change.

#### **5.5 Money Market Investments**

Money Market investments may include Federal and Provincial Government and Agency obligations, corporate bonds, commercial paper, bankers acceptances, cash and other such instruments as deemed prudent by the Discretionary Manager. These investments must have a R1 or equivalent credit rating.

#### **5.6 Currency Exposure**

Forward exchange contracts on a currency are permitted provided that they are used to hedge a pending transaction in that currency rather than to leverage portfolio currency exposure.

#### **5.7 Derivatives**

Derivatives may only be used for hedging and risk management purposes and only when it is consistent with the fund's risk profile.

### **6. Investment Performance Objectives and Benchmarks**

It is expected that the annualized total rate of return achieved by a fund will exceed its respective benchmark return net of professional fees or expenses over any four-year period. The fund's benchmark return is the weighted average return (in Canadian dollars) of the fund's Normal Asset Mix, using the following asset class benchmarks:

Asset	Class	Benchmark
Canadian equities U.S.	equities	S&P/TSX Capped Composite S&P 500 Index
International equities Canadian bonds Global bonds Cash	equivalents	MSCI EAFE Index FTSE TMX Canada Universe Bond Index Citi World Government Bond Index FTSE TMX Canada 91-Day T-Bill Index
Small cap Canadian Small cap International		BMO Small Cap Russell Global Small Cap

## PROCEDURES:

### 1. Standards of Performance

Performance will be evaluated on a regular basis. The following standards are used in evaluating performance of the Discretionary Manager:

- Compliance with this Investment Policy.
- Investment performance as noted in Section 6.
- Reporting and service as noted in Section 10.

### 2. Compliance and Standards of Professional Conduct

The Discretionary Manager ensures that the funds are invested in full compliance with the Investment Policy.

The Discretionary Manager issues a Compliance Letter each quarter confirming that the funds were invested in compliance with the Investment Policy during the previous quarter or identifying areas of noncompliance and detailing the remedial action taken.

The Discretionary Manager adheres to the Chartered Financial Analyst (CFA) Institute Code of Ethics and Standards of Professional Conduct.

### 3. Conflict of Interest

The Discretionary Manager has the responsibility to disclose and correct any actual or perceived conflicts of interest relating to the investment of the assets of the College. Any actual or perceived conflict of interest is reported to the College immediately.

Any employee of the College directly involved with the investment activities of the college funds shall immediately disclose any actual or perceived conflict of interest that may impair their ability to fulfill their responsibilities to the President and the Vice President of College Services.

### 4. Reporting & Servicing

Quarterly to review or comment on:

- The Portfolio's performance.
- The investment strategy employed over the last period.



- Existing or anticipated economic and investment market conditions.
- The investment strategy that will be employed over the next period.

#### **5. Custody of Assets**

The services of a custodian, independent of the Discretionary Manager, are retained to ensure proper segregation of duties, independent reporting and adequate controls.

Any program involving the lending of the College's securities must have the prior approval of the President and the Vice President of College Services of the College.

**OFFICER RESPONSIBLE:** Vice President of College Services

**RECOMMENDING AUTHORITY:** Service Council

**CONSULTATION FOR REVIEW:** Investment Committee, Service Council

**POLICY REVIEW DATE:** January 2019

**EFFECTIVE DATE:** March 30, 2016

**REVISION HISTORY:** August 31, 2001 (Investments Standard Practice)  
December 15, 2006  
September 1, 2010 (revised and renamed Investments Policy)  
March 30, 2016

#### **RELATED POLICIES:**

- Endowment and Use of Endowment Funds

Appendix A  
Mawer Global Bond Fund

Investment Policy Statement  
**MAWER GLOBAL BOND FUND**  
**INVESTMENT POLICY STATEMENT**

**INVESTMENT OBJECTIVE**

The investment objective of the Mawer Global Bond Fund (the “Fund”) is to invest for interest income and the preservation of global purchasing power primarily in fixed income securities from around the world.

**INVESTMENT STRATEGY**

The Fund is primarily invested in a broadly diversified portfolio of government and government-related fixed income securities denominated in unhedged local and foreign currencies around the world.

The Manager focuses on currency, country, issuer and security risk analysis when making decisions by following a disciplined investment process. Investment considerations may include, but not limited to, absolute and relative currencies, interest rates, yield curves, credit spreads and fundamental analysis of government and government-related issuers.

**PERFORMANCE OBJECTIVE AND BENCHMARK**

The performance objective is to earn returns greater than the rate of inflation and to preserve global purchasing power over the long run. An appropriate benchmark to measure the Fund against is the Citi World Government Bond Index

**PERMITTED SECURITIES**

- Cash denominated in local or foreign currencies
- Government and government-related fixed income securities denominated in local and foreign currencies

The Fund may also invest in or use derivative instruments for purposes consistent with the investment objectives of the Fund, provided it is done so in accordance with and subject to the simplified prospectus of the Mawer Mutual Funds. The Fund will not begin using derivatives prior to providing unitholders at least 60 days’ written notice.

**INVESTMENT CONSTRAINTS**

- The Fund may not make any investment other than in securities and cash
- The Fund will only hold investment grade securities
- The Fund will maintain a weighted average modified duration of less than 8 years based on market value
- The Fund will limit its total exposure to emerging market issuers and currencies to 15% based on market value
- The Fund will limit exposure to the United States Dollar to 75%, the Euro to 50%, British Pound to 50%, Japanese Yen to 50%, Canadian Dollar to 25% and in all other individual currencies to 15% based on market value

As an exception to the standard investment restrictions applicable to the Fund, we applied and were granted exemptive relief to permit the Fund to invest more than 10% of the Fund's assets in fixed income securities issued or guaranteed by certain governments (other than the government of Canada, the government of a jurisdiction in Canada or the government of the United States of America, to which the 10% investment limit does not apply) or permitted international agencies, provided that the securities are traded on a mature and liquid market and the acquisition of the securities is consistent with the Fund's investment objective. The Fund is thereby permitted to invest up to:

- (a) 20% of the Fund's net asset value at the time of the transaction in evidences of indebtedness of any one issuer if those evidences of indebtedness are issued, or guaranteed fully as to principal and interest, by supranational agencies or governments other than the government of Canada, the government of a jurisdiction in Canada or the government of the United States of America and are rated "AA" by Standard & Poor's (Canada) or its DRO affiliate, or have an equivalent rating by one or more other designated rating organizations or their DRO affiliates; and
- (b) 35% of the Fund's net asset value at the time of the transaction in evidences of indebtedness of any one issuer if those evidences of indebtedness are issued, or guaranteed fully as to principal and interest, by supranational agencies or governments other than the government of Canada, the government of a jurisdiction in Canada or the government of the United States of America and are rated "AAA" by Standard & Poor's (Canada) or its DRO affiliate, or have an equivalent rating by one or more other designated rating organizations or their DRO affiliates.

Further, in respect of any one issuer, the fund will only rely on either one of the paragraphs (a) or (b) above.

#### **LEGAL CONSTRAINTS**

The Fund is required to comply with the standard investment restrictions and investment practices outlined in *National Instrument 81-102*. Please refer to the Mawer Mutual Funds Simplified Prospectus, Annual information Form and Fund Facts for more information.

The Fund is restricted in the investments it makes to those which will permit the Fund to be eligible for a registered pension plan under the *Pension Benefits Standards Act, 1985 (Canada)* and the *Employment Pension Plans Act (Alberta)*.

#### **STATEMENT OF RESPONSIBILITIES**

The Portfolio Manager(s) shall adhere to the Code of Ethics & Standards of Professional Conduct of the CFA Institute.