

Category:	Finance & Administration	Number:	4.20
Responsibility:	Vice-President, Finance & Administration	Approval:	Board of Trustees
Approval date:	June 23, 2011	Issue date:	September, 2004
Next review:	January, 2014		

Background

Brock University carries significant operating cash balances throughout the year. Most of this cash is committed for specific purposes (e.g. capital projects, operational needs) and may not be used immediately, allowing large cash balances to accumulate in the operating accounts of the University. To protect and optimize the value of these funds, the following Operating and Capital Fund Investment Policy has been adopted.

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 establish the framework to manage invested assets on a “total return” basis, not forfeiting one objective for another

Scope

This Operating and Capital Fund Investment Policy applies to the investment of short-term operating funds of Brock University, which includes, but is not limited to excess working capital, operating grant funds surplus, operating fund reserves, capital grant funds surplus, capital fund reserves, and any cash received for university-related activities not immediately required.

Policy

Objectives

It shall be the policy of the University to invest its temporary surplus cash in short-term and intermediate-term, fixed-income instruments to earn a market rate of interest without assuming undue risk to principal. The primary objectives of making such investments shall be, in their order of importance, preservation of capital, maintenance of liquidity, and yield.

Guiding Principles

The guidelines set forth herein have been created as a tool of management and should be interpreted as such. This tool is to be used to properly manage all investable cash balances to assure safekeeping of these assets.

Preservation of Capital: Minimize risk of loss of market value by holding a diversified portfolio of high quality assets (in terms of credit rating and type of issuer), managing liquid assets and liabilities on a matched basis (in terms of currency and duration), and using appropriate practices to mitigate risks.

Maintenance of Liquidity: Hold assets that mature or can be sold on short notice with minimal market impact and therefore loss of value. The portfolio shall be structured through sufficient investments in overnight and highly marketable securities to allow a very high level of liquidity.

Yield: Achieve the highest possible level of return, while respecting the liquidity and capital preservation objectives.

Investments shall be made with the care, skill, prudence, and diligence, under circumstances then prevailing, that prudent persons acting in like capacities and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

All investment decisions guided under this policy shall be made within the overall spirit of this policy and its guiding principles and should not in any way contradict the overall spirit of capital preservation, liquidity maintenance, and yield pursuit.

Responsibilities

1. Responsibility for investment of the short-term funds of the University rests with the Investment Committee, as delegated by the Board of Trustees. The Investment Committee delegates all day-to-day responsibilities to appropriate staff of the University in order to ensure timely actions are taken.
2. The responsibilities of the Investment Committee with respect to investment management include:
 - Developing the investment policies, including any desired guidelines for adjusting the asset mix over a market cycle
 - Selecting the investment manager(s)
 - Selecting a custodian
 - Selecting performance monitoring consultants and reviewing, at least semi-annually, the performance of the investment portfolio
 - Reviewing, at least annually, the custodian's and investment managers' performance
 - Developing a rebalancing policy to ensure that the asset mix remains within acceptable proximity to the policy asset mix and managing the investment portfolio within that policy
 - Reviewing, at least annually, the Policy Statement including a reassessment of the return expectations, risk tolerance and time horizon for investment, and recommending changes, if any, to the Board
 - Reporting annually to the Board of Trustees through the Financial Planning and Human Resources Committee
3. The Investment Manager(s) will
 - Invest the portfolio in accordance with this policy
 - Confirm compliance with their investment mandate and with the applicable portions of this policy
 - Notify the Investment Committee or its designate on a quarterly basis of any areas of non-compliance with their investment mandate or this policy and provide their recommended actions and timeframe to remedy the issue
 - Exercise all rights, including voting rights, acquired through portfolio investments with the intent of fulfilling the investment objectives for the portfolio
 - Provide a quarterly report to the Investment Committee or its designate that includes a brief review and outlook for the economy and the capital markets and a discussion of the

investment performance to date in relation to the objectives (including information on the reasons underlying outperformance or underperformance relative to their benchmark index)
 Make a periodic presentation to the Investment Committee, where requested to do so, to help the Investment Committee to better understand their performance
 Participate in review of this policy, at the Investment Committee's request

- Wherever possible, excess cash balances should be minimized. Cash receipts do not occur at the same time or frequency as cash disbursements in normal University operations. The objective of excess operational cash management is to earn enough interest income in periods of cash surplus to offset the cost of borrowing in periods where the line of credit is utilized, over each fiscal year. For purposes of evaluating the portfolio of excess operating cash, the average rate of return will be calculated quarterly, and reported annually to the Board.

Benchmarks

- To assess progress against the investment objectives of the fund, the investment performance of the portfolio and of each of the investment managers will be assessed on at least a semi-annual basis. The performance objective for the individual managers will be based on the benchmark index for their portion of the portfolio and the added value objective specified for that asset class. Results will be reviewed on a short-term basis to ensure that the pattern of performance is consistent with expectations.

Benchmark Indices:

Cash	DEX 91-Day T-Bill Index
Fixed Income	DEX Short Bond Index

Asset Mix

- The policy asset mix adopted by the University is 100% fixed income and cash. The following asset mix guidelines have been established, consistent with the objectives.

	Minimum	Maximum	Policy	Value Added
Cash	0%	100%	0%	0.00%
Short-term & Fixed Income securities	0%	100%	100%	0.40%

The added value objectives shown above are expressed prior to recognition of investment management fees.

Short-term securities are defined to be investments that mature in, or are held for, 24 months or less. Examples include, but are not limited to, Money Market instruments, Treasury Bills, Certificates of Deposit, Commercial Paper, or other Money Market variants such as Euro Dollars or Bankers Acceptance Notes.

Fixed Income securities are defined as investments that provide returns in the form of periodic interest payments and eventual return of principal at maturity. Fixed income securities tend to have maturities greater than 12 months. Examples include Government, Corporate, and Municipal Bonds, and Guaranteed Investment Certificates.

There may be circumstances under which a temporary exemption to the asset mix policy is adopted. The Vice President, Finance & Administration and the Chair of the Investment Committee will decide if the exemption will be allowed and how the funds will be invested. A

meeting of the Investment Committee will be convened promptly to formally approve the exemption.

Eligible Investment Guidelines

7. Guidelines for the type, quality and quantity of the investment assets are summarized below. The Investment Guidelines apply to each individual fund manager (with the exception of Pooled Funds) and to the total investment portfolio.

Permitted Short-term Investments:

Government of Canada treasury bills, commercial paper, notes and bonds with maturity < 2 years *

Government of Canada guaranteed notes with maturity < 2 years *

Crown Corporations & Agencies notes with maturity < 2 years *

Provincial treasury bills, commercial paper, notes and bonds with maturity < 2 years

Canadian Schedule 1 Chartered Banks BAs, TDs, and GICs with maturity < 1 year

The minimum quality standard for short term investments will be:

- o R-1 (Low)
- o A (mid) for short-term bonds

Investment is limited to 5% of the market value of the portfolio per single issuer or 30% per category listed above except for *.

Permitted Fixed Income Securities:

Bonds (OECD government, provincial, municipal, corporate)

Debentures

The minimum quality standard for bonds and debentures in the portfolio will be a BBB (Mid) rating.

A minimum of 20% of the portfolio must be invested in Government of Canada securities. No more than 20% of the portfolio may be held in securities rated below A or equivalent. No more than 15% of the portfolio may be held in securities denominated in currencies other than the Canadian dollar.

The market value invested in any one issuer and its related companies/agencies of fixed income securities (other than the Government of Canada or a province of Canada) shall not exceed 5% of the market value of the portfolio. The market value of any one fixed income security (other than those issued by the Government of Canada or a province of Canada) shall not exceed 5% of the market value of the portfolio.

The aggregate duration of the portfolio shall be maintained within 1 year of that of the DEX Universe Bond Index.

All debt ratings refer to the ratings of the Dominion Bond Rating Services (DBRS) unless otherwise indicated; however, equivalent ratings by another major rating agency may be used.

If a government's or a corporation's securities are down-graded below the minimum acceptable ratings indicated above, no new investments may be made; the Investment Manager will dispose of existing investments in an appropriate manner as soon as practical.

Pooled Funds

The portfolio may be invested in Pooled Funds or similar money market structured funds. A Pooled Fund may be invested in Corporate Commercial Paper, Asset-backed Securities and Mortgage-backed Securities.

It is the responsibility of the Investment Committee to ensure, prior to investing in the Pooled Fund, that the Pooled Fund's guidelines are consistent with this policy.

The agreements governing any Pooled Fund in which the fund invests that is established as a trust must provide that unit holders have no personal liability for the obligations of the trust or its trustee.

Derivatives

Derivatives may be used for hedging and risk management purposes including the hedging of foreign currency exposure. Derivative instruments will only be used in ways that reduce risk or transfer risk and not to increase risk and their use must be consistent with the fund's, this policy's, and the University's investment objectives.

Derivative products will not be used to leverage the fund or for speculative reasons, and will be fully collateralized by cash or cash equivalents. Counterparty risk arising from derivative transactions will be limited to credits rated "A" or better.

Forward exchange contracts may be purchased to fix the rate of exchange for a future payment to a supplier. Other hedges may be created to fix the rate of interest for a loan to be taken out in the future.

Where the investment portfolio is exposed to clearly defined risks and derivative contracts exist which can be used to reduce those risks, the investment managers are permitted to use such derivatives to:

- Create an asset mix position within the ranges and among the asset classes set out in this Policy;
- Adjust the duration and/or credit exposure of the fixed income portfolio within the ranges set out in this Policy;
- Replicate the investment performance of interest rates or a recognized capital market index;
- Create an exposure to securities that are otherwise permitted under this Policy;
- Manage the currency exposure of foreign property; or
- Reduce risk as part of a hedging strategy.

Derivatives may not be used to create positions that are not otherwise permitted under this policy or to create leverage for speculative purposes.

Non-permitted Investments

8. No part of the portfolio shall be directly invested in:

- Equities
- Corporate Commercial Paper
- Preferred Stock
- Commodities
- Real estate holdings
- Mortgages
- Asset/Mortgage-backed securities excluding those with government guarantees

Non-marketable (e.g. restricted stock, private placements) securities other than GICs or similar instruments,
Non-arm's length transactions that may be considered a conflict of interest.

This list of non-permitted investments is not intended to be all-inclusive.

Conflict of Interest

9. A conflict of interest is defined as any event or circumstance that impairs the ability of any member of the Investment Committee or its designate, or any employee or consultant to render unbiased and objective advice regarding any investment decision of the portfolio. In such cases, the conflict must be fully disclosed on a timely basis and the member shall withdraw from the meeting during the discussion and voting on the investment decision.

Related policies

Donations
Trust & Endowment Management
Endowment Fund Investment Policy
Long-term Sinking Fund Policy

Amendments (revision history)

Date revised	Responsible
December, 2010	Vice-President, Finance & Administration
June, 2011	Vice-President, Finance & Administration