

<b>Category:</b>	Finance & Administration	<b>Number:</b>	4.16
<b>Responsibility:</b>	Vice-President, Finance & Administration	<b>Approval:</b>	Board of Trustees
<b>Approval date:</b>	February 14, 2013	<b>Issue date:</b>	December 2005
<b>Next review:</b>	February 2014		

### Background

On December 14, 2005, Brock University issued \$93,000,000, 4.967% Senior Unsecured Debentures due on December 14, 2045 (the “Debentures”).

The Debentures have been issued to refinance existing debt and finance various academic and research buildings.

The Debentures are direct obligations of the University and have been issued pursuant to a Trust Indenture between the University and Bank of New York Trust Company of Canada. The Debentures have been assigned a rating of “A high” by Dominion Bond Rating Service (DBRS).

The Debentures bear interest at the rate of 4.967% per annum, payable in equal semi-annual interest installments on the 14th day of June and the 14th day of December each year beginning on June 14, 2006 with repayment of the principal of the Debentures on December 14, 2045.

The Board of Trustees has requested that the University establish a voluntary, internally administered sinking fund from which to repay 100% of the principal of the Debentures at maturity. The Trust Indenture does not require the establishment of a sinking fund.

### Purpose

The purpose of this policy is

- To establish the guidelines for a sinking fund for the \$93,000,000 Debenture
- To set out the investment objectives and risk strategy
- To establish the asset mix and investment guidelines
- To establish the annual contributions
- To set out timing for revaluation of performance and review of the investment strategy

### Scope

This policy applies to the \$93,000,000, 4.967% Senior Unsecured Debentures due on December 14, 2045.

### Policy

#### Investment Objectives and Risk Strategy

The University’s financial objective is to provide sufficient funds to repay 100% of the principal amount of \$93,000,000 on December 14, 2045. The University will invest the annual contributions in a prudent manner as authorized by the Board of Trustees. Specifically, the following objectives will govern the investment strategy of the sinking fund:

1. **Liquidity** - There is no liquidity requirement expected from the sinking fund investments, therefore, holding cash positions are not necessary.

2. **Income** - There is no income requirement expected from the portfolio, therefore generating regular cash flows is not necessary.

3. **Growth** - To accumulate \$93,000,000 by December 14, 2045 or earlier. As a result, the sinking fund aims to maximize investment earnings over the time horizon and to achieve a minimum annualized rate of return of 6.5% over the life of the fund. Investment earnings include interest, dividends and realized and unrealized capital gains and losses.

4. **Time Horizon** - The investment strategy is based on a very long-term perspective, as no outflows are required until 2045. As a result, short-term market fluctuations should not receive undue emphasis or require a change in the investment strategy for the sinking fund plan. As the time horizon becomes less than 15 years, a review of this policy should occur.

5. **Risk** - Due to the long-term perspective of the sinking fund, the risk tolerance of the sinking fund is above average. However, as the main objective of the sinking fund is to ensure sufficient funds for the repayment of the \$93,000,000 debenture, preservation of capital should be taken into consideration, especially in the last few years of the sinking fund.

#### **Asset Mix and Investment Guidelines**

A long-term asset mix strategy with both fixed income and equity content can be adopted with sinking fund. The University's existing **Investment Policy** will provide guidance on the current asset mix guidelines and eligible investments.

#### **Required Annual Contributions**

The annual contributions and investment rate of return will be reviewed each year to ensure the adequacy of the sinking fund target. Any changes in the annual contributions or expected rate of return will be recommended by the Financial Planning, Investment, and Human Resources Committee.

#### **Evaluation of Performance & Review of Strategy**

The primary objective of the investing strategy outlined in this policy is to set aside a pool of assets that is sufficient to repay the principal amount of the debentures at the maturity date. As a result, the primary goal is to invest in assets that will both achieve sufficient long-term returns while minimizing the University's exposure to a loss of capital. For this reason, the results of investing activities will be measured in terms of the growth of assets over time in comparison to the principal amount needed for repayment of the debentures. At least once every year the Financial Planning, Investment, and Human Resources Committee will review the investment objectives of the sinking fund with respect to time horizon and risk tolerance and determine the appropriateness of the investment strategy.

#### **Related policies**

Endowment Investment Policy

#### **Amendments (revision history)**

<b>Date revised</b>	<b>Responsible</b>
December 6, 2007	Vice-President, Finance & Administration
February 14, 2013	Vice-President, Finance & Administration