

Statement of Investment Policies and Goals

University of Saskatchewan


Long Term Diversified Strategies
Investment Pool

October 2017

Approved on this 11 day of Oct,
2017 on behalf of the Board of Governors:



Chair



for Secretary

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Section 1—Overview

1.01 Definitions

For the purposes of this document the following words, phrases and abbreviations are assigned:

- (a) Board – Board of Governors of the University of Saskatchewan
- (b) Fund – Investment assets of the Long Term Diversified Strategies Investment Pool
- (c) Investment Committee – Internal Investment Committee of the University of Saskatchewan
- (d) Investment Consultant – Firm retained by the University to provide strategic advice regarding the Fund’s investment policy, investment managers and investment performance issues
- (e) Investment Manager – Professional investment manager hired to manage the Fund
- (f) Prudent Person Portfolio Approach – As defined by the Office of the Superintendent of Financial Portfolio Approach Institutions (OSFI), the Prudent Person Portfolio Approach requires the Board to establish, and the Fund to adhere to, “investment and lending policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments and loans to avoid undue risk of loss and obtain a reasonable return”
- (g) Related Party – A related party is a person who administers the Fund, including any officer, director or employee of the administrator, or any person who is a member of the Investment Committee. It also includes the Investment Managers and Investment Consultant and their employees, a spouse or child of the persons named previously, or a corporation that is directly or indirectly controlled by the persons named previously, among others. Related party does not include government or a government agency

1.02 Purpose of the Investment Policy

The purpose of this investment policy is to provide a framework for management of the trust funds within levels of risk acceptable to the Board. A major goal of this policy statement is to establish ongoing communication between the Investment Committee and the Investment Manager. Effective communication will contribute to management of the portfolio in a manner consistent with market conditions and with the objectives of the Board. Consultation between the parties will take the form of regular meetings supplemented, from time to time, by informal contact requested by the parties.

This policy is based on the 'Prudent Person Portfolio Approach' to ensure the prudent investment and administration of the assets of the Fund, subject to applicable legislation.

1.03 Nature of the Fund

In order to establish an appropriate policy for the investment and administration of the assets set aside within the Fund, it is important to understand the nature of the underlying accounts and any related ongoing obligations. Fund assets are for accounts with a long-term investment horizon. This pool of assets is managed by an external manager appointed by the Board in accordance with this investment policy.

1.04 Objective of the Fund

There are two overriding objectives for the Fund:

- (a) To provide a steady flow of funds to meet annual expenditure requirements, with the amount growing annually to maintain the purchasing power of the expenditure stream; and
- (b) To increase the market value of the remaining assets so that capital, in real terms, is maintained.

The objectives have competing demands for current cash flow and long term asset growth. This pool is differentiated from the existing Long Term Pool at the University of Saskatchewan in that donors have committed to "topping up" the funds should market conditions cause the fund balance to fall below a level required to meet the agreed to annual expenditure requirements (adjusted for inflation). Therefore the spending and risk policies (outlined below) are higher than for the existing Long Term Pool. This component is subject to review and changes should the Board deem the approach to be unsustainable or should the donor or their estate fail to provide the "top up" funds as set forth in the donation agreement.

This investment policy sets out guidelines intended to permit an investment return sufficient to meet the above objectives, and satisfy the University's expenditure target. There are different expenditure patterns in the various trust accounts, but in general, the University has adopted a guideline of spending approximately 4.0% of the market value of the trust accounts annually. This guideline is subject to change, based on actual inflation rates, investment returns, and the conditions of the various trust accounts.

1.05 Investment and Risk Philosophy

(a) Investment Philosophy

The Fund should be prudently managed to assist in avoiding excessive volatility in annual rates of return. The investment risk level is discussed and assessed by the Investment Committee, as well as with the donor or their representative, on an annual basis during the policy review. Factors considered include return requirements, cash flow needs, risk and return of the capital markets and risk preference of the Board and Investment Committee. Based on the assessment, the long-term investment goal and benchmark portfolio weights are set.

A number of factors suggest the Fund has an above-average tolerance for risk:

- (i) A long-term investment horizon, as the Fund is intended to be perpetual; and
- (ii) A high real return requirement.

The Fund employs an active investment management approach as it provides the opportunity to outperform common market indices over the long-term.

(b) Risk Philosophy

In order to achieve the long-term investment goal, the Fund must invest in assets that have uncertain returns, such as Canadian equities, foreign equities and non-government bonds. However, the Investment Committee attempts to reduce the overall level of risk by diversifying the asset classes and further diversifying within each individual asset class by strategy and security.

1.06 Administration

The Board is responsible for assets invested by the University. The Vice-President, Finance and Resources is responsible for day-to-day administration. More detail on the roles and responsibilities of the various parties is included in Section 4.01—Delegation of Responsibilities.

Section 2—Asset Mix and Diversification Policy

2.01 Portfolio Return Expectations

The long-term investment goal of the Fund is to achieve a minimum annualized rate of return of five percentage points in excess of the Canadian Consumer Price Index. This goal is consistent with the overall investment risk level that the Fund could assume in order to maintain the purchasing power of the awards/expenditures, and normally will be assessed over longer time periods; i.e., over ten years or more.

2.02 Expected Volatility

To achieve this long-term investment goal, the Fund has adopted an asset mix that has a bias to equity investments. Risk is controlled by investing in a well-diversified portfolio of asset classes and by adopting a low volatility approach to its equity exposure.

2.03 Asset Mix

The following table summarizes the target asset mix, permitted asset component ranges, and benchmarks, based on market values. The benchmarks are utilized for performance measurement, as outlined in Section 4.02.

Investment Manager Guidelines (% of Market Value)

Asset Class	Benchmark Index (CAD)	Min %	Target %	Max %
TOTAL CASH & SHORT-TERM		0%	0%	2%
Global Convertible Bonds	FTSE TMX Canada Universe Bond	0%	10%	20%
High Yield Bonds	FTSE TMX Canada Universe Bond	0%	10%	20%
Universe Bonds	FTSE TMX Canada Universe Bond	0%	10%	20%
TOTAL FIXED INCOME		20%	30%	40%
Canadian Low Volatility	S&P/TSX Composite Total Return	10%	20%	30%
Global Low Volatility	MSCI World Net Total Return	20%	30%	40%
TOTAL EQUITY		40%	50%	60%
Hedge Funds	FTSE TMX Canada 91-Day T-Bill + 4%	10%	20%	30%
TOTAL ALTERNATIVES		10%	20%	30%

2.04 Management Structure and Rebalancing

The assets of the Fund are managed by a single Investment Manager. It is the Investment Manager's responsibility to rebalance the Fund according to the parameters in 2.03.

Section 3—Investment Guidelines

3.01 Pooled Funds

The Fund will be invested exclusively in pooled funds, each with its own set of investment guidelines. The Investment Committee shall, with the assistance of the Investment Consultant, review the investment guidelines for each pooled fund in which the Fund invests to determine that these guidelines are appropriate.

Section 4—Monitoring and Control

4.01 Delegation of Responsibilities

The Board has established the Finance and Investment Committee and an Internal Investment Committee to assist in fulfilling its responsibility. The Investment Committee reports to the Board of Governors through the Chair. The Board has a fiduciary responsibility to manage the investments prudently. The Board has delegated the following responsibilities:

(a) Investment Committee will:

- (i) Establish and recommend an investment policy to the Board;
- (ii) Recommend an investment management structure (number of managers, investment mandate);
- (iii) Recommend appointment of Investment Managers and Investment Consultant;
- (iv) Monitor investment performance;
- (v) Monitor compliance with investment policy;
- (vi) Liaise with the Investment Manager;
- (vii) Authorize the Vice-President (Finance and Resources) to hire any agent, broker, Investment Manager, custodian and other advisors that the Investment Committee deems appropriate to fulfill their fiduciary responsibilities; and
- (viii) Recommend changes to the investment policy for review and acceptance by the Board.

(b) Responsibility for investment management of the Fund has been delegated to a professional Investment Manager. The Investment Manager will:

- (i) Invest the assets of the Fund in accordance with this policy;
- (ii) Meet with the Investment Committee as required and provide quarterly written reports regarding their past performance, their future strategies and other issues as requested;
- (iii) Notify the Investment Committee, in writing, of any legal or regulatory proceedings or charges of which the Investment Manager may be aware, against the manager's firm or investment personnel, or against any sub-advisor or that firm's personnel; and
- (iv) File quarterly compliance reports (see Section 4.04).

(c) The Investment Consultant will:

- (i) Assist in the development and implementation of this policy and provide related research;
- (ii) Monitor the investment performance of the Fund and the Investment Manager on a quarterly basis;
- (iii) Support the Investment Committee on matters relating to investment management and administration of the Fund; and
- (v) Meet with the Investment Committee as required.

(d) The Vice-President, Finance and Resources will:

- (i) Maintain a unitized record-keeping system to account for proportionate ownership of assets in the fund;
- (ii) Account for additions, withdrawals and balances in the various trust accounts;
- (iii) Manage cash flow to ensure adequate liquidity to meet the conditions of the trusts;
- (iv) Liaise with donors;
- (v) Liaise with the Investment Manager;
- (vi) Prepare a schedule of trust fund balances for inclusion in the annual financial report; and
- (vii) Prepare financial statements that are subject to independent audit.

4.02 Performance Measurement

The performance of the Fund shall be measured quarterly and return calculations shall be as follows:

- Time weighted rates of return; and
- Total returns, including realized and unrealized gains and losses and income from all sources.

Measurement against performance objectives for the Investment Manager will normally be assessed over rolling four-year periods.

Combined Fund Benchmark

The primary objective for the Fund is to earn a rate of return, net of fees, that exceeds the rate of return earned on the benchmark portfolio provided in Section 2.03, with an appropriate level of volatility.

The market indices referred to in Section 2.03 may be changed by the Investment Committee to match the specific investment mandates for the Investment Manager selected to manage the portfolio, recognizing that at all times the Fund must be managed in accordance with the asset mix guidelines set out in Section 2 above.

4.03 Reporting by the Investment Manager

On a calendar quarterly basis, the Investment Manager will provide a performance report and a strategy review for the portfolio under management. The Investment Manager is required to complete and sign a compliance report each quarter. The compliance report should indicate whether or not the Investment Manager's portfolio was in compliance with this policy during the quarter. Copies of the compliance reports must be sent to the Investment Consultant and to the Manager, Treasury for distribution to the Investment Committee. Suggested report formats for the compliance reports are included in Appendix A of this policy.

In the event that the Investment Manager is not in compliance with this policy, the Investment Manager is required to advise the Manager, Treasury immediately, detailing the nature of the non-compliance and recommending an appropriate course of action to remedy the situation. If it is in the best interest of the Fund, the Investment Committee may permit the Investment Manager, on a temporary basis, to be outside of the guidelines. If the Investment Manager believes the Asset Mix Guidelines are inappropriate for anticipated economic conditions, the Investment Manager is responsible for advising the Manager, Treasury that a change in guidelines is desirable and the reasons therefore.

4.04 Standard of Professional Conduct

The Investment Manager is expected, as a minimum, to comply, at all times and in all respects, with the Code of Ethics and Standards of Professional Conduct as promulgated by the CFA Institute.

The Investment Manager will manage the assets with the care, diligence and skill that a prudent person skilled as a professional investment manager would use in dealing with endowment assets. The Investment Manager will also use all relevant knowledge and skill that it possesses or ought to possess as a prudent investment manager.

Section 5—Administration

5.01 Conflicts of Interest

(a) Responsibilities

This standard applies to the members of the Investment Committee and employees of the University who have responsibilities in administration of the Fund, as well as to all agents employed by them, in the execution of their responsibilities related to the Fund (the "Affected Persons").

An "agent" is defined to mean a company, organization, association or individual, as well as its employees, who are retained by the Investment Committee to provide specific services with respect to the investment, administration and management of the Fund. In carrying out their fiduciary responsibilities, these parties must act at all times in the best interest of the Fund.

(b) Disclosure

In the execution of their duties, the Affected Persons shall disclose any material conflict of interest relating to them, or any material ownership of securities, which would appear to a reasonable person to impair their ability to render unbiased advice, or to make unbiased decisions, affecting the administration of the Fund. No Affected Person shall make any personal financial gain (direct or indirect) because of his or her fiduciary position. However, normal and reasonable fees and expenses incurred in the discharge of their responsibilities are permitted if documented and approved by the Investment Committee. No Affected Person shall accept a gift or gratuity or other personal favor, other than one of nominal value, from a person with whom the individual deals in the course of performance of his or her duties and responsibilities for the Investment Committee.

It is incumbent on any Affected Person who believes that he/she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation to the attention of the Vice-President, Finance and Resources and Investment Committee Chair immediately. The Committee Chair, in turn, will decide what action is appropriate under the circumstances but, at a minimum, will raise the matter and have it recorded in the minutes of the next regular meeting of the Investment Committee. No Affected Person who has or is required to make a disclosure which is determined to be in conflict as contemplated in this Policy shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure.

5.02 Related Party Transactions

Without prior approval of the Investment Committee chair, the Fund may not enter into a transaction with a related party unless:

- (a) The transaction is required for the operation or administration of the Fund and the terms and conditions of the transaction are not less favorable to the Fund than market terms and conditions; or
- (b) The securities of the related party are acquired at a public exchange.

Under the conflict of interest guidelines, any person who becomes aware of a conflict of interest shall notify the Vice-President, Finance and Resources and the Investment Committee Chair if a conflict arises. Such conflict includes related party transactions.

5.03 Valuation of Securities Not Regularly Traded

The following principles will apply for the valuation of investments that are not traded regularly:

- (a) Equities; average of bid-and-ask prices from two major investment dealers, at least once every calendar quarter;
- (b) Bonds; same as for equities;
- (c) Mortgages; unless in arrears, at the outstanding principal;
- (d) Real estate; a certified written appraisal from a qualified independent appraiser at least every two years; and
- (e) Securities that are not publicly traded are valued at cost unless there is an external transaction or other evidence that indicates market value is different from cost.

5.04 Voting Rights

The Board has delegated voting rights acquired through Fund investments to the Investment Manager. The Investment Manager is expected to vote all proxies in the best interests of the beneficiaries of the Fund. In certain international markets, shares may be blocked from transfer prior to a vote. If deemed potentially detrimental to the fund, the Investment Manager may refrain from voting these proxies.

5.05 Soft Dollars / Client Brokerage Commissions

A variety of brokers should be used in order to gain maximum utilization of the services available. It is the responsibility of the Investment Manager to ensure that the commission distribution is representative of the services rendered. The University does not use soft dollars or client brokerage commissions to pay for any goods or services. The Investment Manager may use soft dollars to pay for research and other investment related services with disclosure to the Investment Committee, provided they comply with the CFA Institute Soft Dollar Standards or the manager's form ADV part II as appropriate.

5.06 Investment Policy Review

This policy may be reviewed and revised at any time, but it must be formally reviewed by the Investment Committee at least once in every calendar year and to the extent changes are necessary, the Investment Committee shall make recommendations to the Board as to the changes in the policy.

Section 6—Investment Consultant

6.01 Selection & Termination Policy

(a) Selection

The Investment Committee shall consider the following criteria when selecting an Investment Consultant to monitor the investment performance for the Fund:

- (i) Consultant has established a reputation for expertise in the issues and laws governing institutional investment portfolios;
- (ii) Consultant has established a reputation for proactive advice to governance committees;
- (iii) Consultant has established a reputation for quality client servicing. The criteria for judging this quality include clear, accurate and complete reporting, both orally and in writing; and
- (iv) Consultant fees shall be competitive.

(b) Termination

Reasons for considering the termination of the services of an Investment Consultant include, but are not limited to, not meeting the selection criteria cited above.

Appendix A—Compliance Reports

University of Saskatchewan Trust Funds
Long Term Investment Pool – Diversified Strategies Manager
Compliance Report for the Period From _____ To _____
(date) (date)

	Guidelines	Complies with Policy (Yes/No)
Asset Mix (at Market Value)	Section 2.03	
Asset Constraints	Section 3	
Pooled Fund Compliance	Compliance with pooled fund guidelines	
Conflicts of Interest	Disclosure to Investment Committee Chair	
Other (Statutory / Derivative Securities)	Comply with Tax Act and Pooled Fund guidelines for use of derivatives	
CFA Institute Code of Ethics and Standards of Professional Conduct	Compliance with the CFA Institute Code of Ethics and Standards of Professional Conduct	
Voting Rights	All proxies voted in compliance with the manager’s proxy voting guidelines	
Soft Dollars / Client Brokerage Commissions	Compliance with CFA Institute guidelines or Canadian Securities Administrators' provisions as stated in National Instrument 23-102	

Explain items of non-compliance below or in separate correspondence.

