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University Funds Investment Policy

Office of Accountability:	Vice President (Finance & Administration)
Office of Administrative Responsibility:	Financial Services
Approver:	Board of Governors
Scope:	Compliance with this university policy/procedure extends to all Academic Staff and Colleagues and Support Staff as outlined and defined in Recruitment Policy (Appendix A and Appendix B).

Contact for questions about this policy:	**policy.treasury@ualberta.ca**

Purpose

The Post-Secondary Learning Act, Statutes of Alberta, 2003, Sections 75 and 76, provides The Governors of the University of Alberta with broad investment powers, the authority to pool funds and the authority to distribute income, subject to the terms of a trust on which it may be held. The purpose of this investment policy is to establish distinct **Asset Allocation** and **Risk Tolerances** for each of the University funds according to the individual fund's spending obligations, objectives, and liquidity requirements.

POLICY

Summary:

1.0 DESCRIPTION OF UNIVERSITY FUNDS AND GOVERNANCE

The Board of Governors has delegated investment oversight to the Board Investment Committee as documented in the Board Investment Committee's Terms of Reference. The Board of Governors has retained responsibility for the following matters (as outlined in this document):

- The Investment Policy for the University, which shall include the establishment of broad risk tolerances, strategic asset allocation, and responsible investment.
- The Endowment Objectives and Spending Policy of the University.

The Investment Policy is subject to annual review by the Board Investment Committee and any recommended changes require approval by the Board of Governors. Management's investment decisions are subject to the overall policy direction of the Board Investment Committee as reflected in this policy.

The Board Investment Committee approves **Investment Proposals**. Management has responsibility to select, retain, monitor and dismiss investment managers in accordance with the approved Investment Proposals. Funds are allocated to external managers, or, when determined to be advantageous, may be managed internally.

Each investment manager shall adhere to this policy and must exercise the care, skill, diligence and judgment that a prudent investor would exercise in making investments. Investment managers are expected to be in compliance with all applicable laws and regulations as well as the Code of Ethics and Standards of Professional Conduct established by the CFA Institute.

1.1 University Endowment Pool (UEP)

The UEP consists of the University's endowed trust funds or other funds of a permanent or long-term nature. In addition, external funds may be invested in the UEP including funds of affiliated organizations and funds where the University is a beneficiary.

1.2 Other Endowments

Other endowments consist of endowed trust funds, which cannot be pooled for investment purposes because of constraints or conditions attached to the funds.

1.3 Non-Endowed Investment Pool (NEIP)

The NEIP consists of expendable funds, which are pooled for investment purposes.

1.4 Other Non-Endowed Funds

Other non-endowed funds consist of restricted non-endowed donations and the funds earmarked for the Supplementary Retirement Plans, which cannot be pooled for investment purposes because of constraints or conditions attached to the funds. Other non-endowed funds also include shares in publicly held companies received as a form of compensation for licensing a University created technology and related investments in venture capital limited partnerships.

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2.0 UNIVERSITY ENDOWMENT POOL (UEP)

2.1 Purpose

The UEP represents the pooling of invested assets accumulated by or donated to the University for endowed purposes. The UEP's purpose is to foster an environment of academic excellence where superior teaching, learning, and research can be continuously pursued to benefit all generations equally over time.

2.2 Nature of UEP Liabilities (Spending Policy)

The UEP provides funding to the faculties and departments of the University to be used for endowed purposes in accordance with the terms of each endowment. The objective is an appropriate and stable spending allocation that maintains its purchasing power over time, as outlined in the University Endowment Pool Spending Policy. This policy may be amended from time to time by the Board of Governors to ensure that the **Real** value of the endowments (i.e., net of inflation) is maintained.

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3.0 INVESTMENT OBJECTIVES OF THE UEP

3.1 Return and Risk

The principal investment objective of the UEP is to earn a long-term real **Rate of Return** that meets or exceeds total endowment spending as outlined in the UEP Spending Policy.

Intergenerational equity requires that the UEP be managed to provide a comparable level of support to future generations as current beneficiaries receive. This means that the value of the UEP should be preserved over time in real dollar terms in order to maintain the future purchasing power of assets. In setting the spending and investment policies for the UEP, the focus should be not just to preserve but to grow the real value of assets over time, as a margin of safety is required to maintain a stable level of support for endowed purposes across varying capital market and economic conditions.

Assets are allocated across four strategic classifications based on their primary role in the portfolio, which includes **Growth**, **Deflation Hedging**, **Inflation Sensitive**, and **Diversifiers**. In order to achieve its investment objectives, the UEP will have to maintain a majority weighting in Growth assets and less liquid investment strategies. This is based on projected capital market assumptions which indicate that over long periods of time, these assets can be expected to provide returns that exceed total endowment spending. Deflation Hedging strategies are expected to help provide protection in times of equity market stress and support spending in a prolonged deflationary period. Conversely, Inflation Sensitive assets are expected to protect the UEP from high or unanticipated inflation, while Diversifiers consist of investment strategies that are expected to provide uncorrelated returns to the other three classifications.

There are many types of **Risk** that impact investment performance, including but not limited to capital markets, economic, environmental, governance, interest rates, liquidity, political, and social. Risks will be monitored through the use of quantitative and qualitative indicators and managed where appropriate via asset allocation, active management, derivatives and other strategies.

3.2 Asset Allocation

The strategic asset allocation is determined by the following four factors:

- Objective of a real rate of return that equals or exceeds the total rate of spending
- Long-term return, volatility, and correlation expectations for individual asset classes
- Diversification across asset classes and investment strategies
- Projected liquidity requirements of the UEP

The theoretically infinite time horizon of the UEP allows for the adoption of a strategic asset allocation policy with a high allocation to Growth assets along the following parameters:

Strategic Asset Allocation

	Minimum	Target	Maximum
Growth	50%	60%	70%
Inflation Sensitive	15%	20%	25%
Deflation Hedging	5%	10%	15%
Diversifiers	5%	10%	15%
Total		100%	

To achieve diversification the UEP will invest in the following asset classes:

	Minimum	Target	Maximum
Growth			
Long-Only Equity			
Canadian Equity	5%	10%	15%
Global Equity	20%	25%	45%*
Emerging Markets Equity	5%	10%	15%
Private Equity	0%	10%	15%
Marketable Alternatives	0%	5%	10%
		60%	
Inflation-Sensitive			
Real Assets			
Real Estate & Infrastructure	0%	7%	10%
Natural Resource Equity	0%	5%	10%
Energy and Renewable Resources	0%	5%	10%
Commodities	0%	3%	5%
Real Return Bonds	0%	0%	5%
		20%	
Deflation Hedging			
Fixed Income			
Sovereign Bonds	5%	10%	15%
		10%	
Diversifiers			
Uncorrelated Strategies			
Absolute Return	5%	10%	15%
Cash	-5%	0%	5%
		10%	

* The higher maximum allocation to global equity is required to allow for a transition from the current asset allocation to the strategic asset allocation, after which the maximum allocation will be reduced to 30%.

3.3 Categories of Investments

Investment Proposals shall be classified within the following general categories within the context of overall fund objectives and the strategic asset allocation described above.

3.3.1 Growth

Growth assets include marketable equity securities, directional long/short equity hedge funds, and credit based fixed income strategies. Private investments include private debt, private equity, and venture capital.

3.3.2 Inflation Sensitive

Inflation sensitive assets include inflation linked bonds, real estate, infrastructure, timberland, farmland, natural resource public equities, commodities, and energy and renewable resources.

3.3.3 Deflation Hedging

Deflation hedging assets include high quality sovereign fixed income securities.

3.3.4 Diversifiers

Diversifiers include cash and cash equivalents, active currency management, managed futures, precious metals, and absolute return strategies including but not limited to low beta long/short equity, market neutral, event driven, merger arbitrage, and global macro.

3.4 Rate of Return Goals

In order of priority, it is expected that the UEP will achieve over any 4-year rolling period:

- An annualized real return that meets or exceeds total endowment spending.
- An annualized return, in excess of the following benchmark. The current benchmark will be modified towards the target benchmark as the strategic asset allocation is implemented.

UEP Policy Benchmark (Effective April 1, 2017)	Current	Target
MSCI Canada IMI	15%	10%
MSCI World IMI	45%	30%
MSCI Emerging Markets IMI	10%	10%
Cambridge Associates Private Equity Index	0%	10%
IPD/Realpac Canada Property Index	5%	7%
S&P Global Natural Resources Index	5%	5%
Dow Jones North America Select Junior Oil/Gas Index	5%	5%
Dow Jones - UBS Commodity Index	0%	3%
FTSE/TMX All Federal Bond Index	10%	10%
HFRI Fund of Funds Composite Index	5%	10%
	100%	100%

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4.0 OTHER ENDOWMENTS

Other Endowments are invested with the same goals, restrictions and quality levels as described above, subject to any stipulation required by contractual agreement, or by condition of the estate, or administrative arrangement.

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5.0 NON-ENDOWED INVESTMENT POOL (NEIP)

The NEIP consists of expendable funding that is pooled for investment purposes. The purpose of the NEIP is to provide both liquidity for the University's daily operations and the potential for return enhancement to support strategic initiatives. Long-term forecasts project that a portion of the NEIP will not be required for cash flow management purposes on an on-going basis. Therefore, an investment profile that is less liquid than what would be expected for funds with a short-term investment horizon is appropriate for a portion of the NEIP.

5.1 Asset Allocation

The strategic asset allocation in the NEIP shall be as follows:

	Minimum	Target	Maximum
Liquidity	20%	35%	70%*
Yield	15%*	35%	45%
Return Seeking	20%	30%	40%

* The higher maximum allocation to liquidity and the lower minimum allocation to yield are required to allow for a transition from the current asset allocation to the strategic asset allocation, after which the maximum and minimum will be 50% and 25% respectively.

For risk management purposes, the objective is that any appropriations from the yield strategy can only occur if the market value exceeds the underlying obligation (investment cost) by a factor of 1.1x.

In addition to the maximum policy allocation in the table above, the proportionate economic interest in the UEP of return seeking funds is limited to the quotient of 5.0% and the target allocation to illiquid investment strategies. For risk management purposes, the objective is that any appropriations from the return seeking strategy can only occur if the market value exceeds the underlying obligation (investment cost) by a factor of 1.25x.

5.2 Categories of Investments

Investment Proposals shall be classified within the following categories:

5.2.1 Liquidity

The primary investment objectives for assets in the **Liquidity** category are to meet the University's daily cash flow requirements and to earn a return that meets or exceeds inflation with an acceptable level of risk. Assets in the liquidity category include cash, obligations or deposits issues by Canadian chartered banks, ATB Financial or credit unions that are 100% guaranteed, and investment grade money market securities.

5.2.2 Yield

The investment objective for assets in the **Yield** category is to generate additional return above liquidity assets with an appropriate level of risk. Yield assets include fixed income securities, mortgages, private debt, preferred and low-volatility equities, and absolute return strategies.

Yield also includes loans to University of Alberta Properties Trust Inc., and internal loans to University faculties, departments, and staff. Loans to University of Alberta Properties Trust Inc. will be at prevailing commercial terms and conditions. The Internal Loan Policy approved by the Board of Governors governs internal loans.

5.2.3 Return Seeking

All **Return Seeking** funds are invested in the UEP with the objective of earning a higher long-term rate of return, and are managed in accordance with Sections 2 through 4 of this policy.

5.3 Performance Benchmarks

For each component of the NEIP the benchmark is:

	NEIP Policy Benchmark (Effective April 1, 2015)	Current
Liquidity	FTSE TMX Canada 91 Day T-Bill Index	50%
Yield	FTSE TMX Canada Short Term Overall Bond Index	25%
Return Seeking	Current UEP benchmark (section 3.4)	25%
		100%

	NEIP Policy Benchmark	Target
Liquidity	Canadian Consumer Price Index (CPI)	35%
Yield	Canadian Consumer Price Index (CPI) + 3%	35%
Return Seeking	Current UEP benchmark (section 3.4)	30%
		100%

The current benchmark will be modified towards the target benchmark as the strategic asset allocation is implemented.

5.4 Other Non-Endowed Funds

The assets of Restricted Non-Endowed Donations shall be invested with the same goals, restrictions and quality levels as described above and the University's Interest Procedure for Restricted Special Purpose and Restricted Research Accounts will apply, subject to any stipulation required by contractual agreement, or by condition of the estate, or administrative arrangement. The assets of the Supplementary Retirement Plans shall be invested in accordance with the agreement.

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6.0 GENERAL

6.1 **Responsible Investment**

As a responsible owner, the University will regularly engage and collaborate with its active investment managers on matters related to environmental, social and governance (ESG) risks and opportunities.

Specifically the University will:

• Integrate the consideration of ESG factors into the investment process as an additional criterion in the selection and ongoing monitoring of active investment managers.

• Regularly review and track the engagement of active investment managers with their investee companies and their proxy voting records on ESG related issues.

• Obtain and evaluate annual disclosure from all active investment managers on how ESG factors are incorporated into their investment decision making processes.

• Collaborate with other institutional investors and industry associations on ESG matters where appropriate.

• Disclose and publish a detailed listing of its investments annually, and report on ESG matters in the Investment Committee's annual report.

6.2 Use of Derivatives

Derivatives offer ways to enhance risk adjusted returns or to protect against unwanted market movements. Where prudent and appropriate, derivatives may be used to gain market exposure, assist with hedging, and/or risk management.

6.3 Leverage

Leverage is an integral component of certain investment strategies. Where leverage is used, investments will be structured to limit potential maximum losses to the amount invested. The use of leverage will not be undertaken at the portfolio or fund level.

6.4 Securities Lending and Commission Recapture

The securities may be loaned to investment dealers and banks as part of the **Custodian**'s lending program when it is deemed that such lending may add incremental return to the funds at minimal risk.

External equity investment managers may be directed to participate in a commission recapture program in order to help mitigate internal investment research related expenses.

6.5 Exercise of Proxies and Voting Rights

Proxy or other voting rights will be exercised in the best interest of the University. The responsibility for voting may be delegated to the investment manager, but the University reserves the right to direct the investment manager on the voting of proxies.

6.6 Valuation of Infrequently Traded Investments

The valuation of infrequently traded investments shall be determined by the trustee or custodian of the fund. In the case of direct investments in real estate, the valuation shall be based on independent opinions of qualified appraisers as required.

6.7 Conflict of Interest Guidelines and Related Parties Transactions

The University's Conflict of Commitment and Conflict of Interest Policy will govern investment activities (General Faculties Council Policy # 35). Related Party transactions will be at fair market value.

6.8 Custody

To maintain a proper segregation of duties and adequate controls, all marketable securities held shall remain with or be monitored by a third-party custodian.

6.9 Donated Securities

Subject to market conditions, donated securities will generally be sold immediately upon receipt by the University. However, where it is advantageous to do so, and subject to the constraints of this policy, the University may hold these securities internally.

6.10 Policy Review

This policy shall be reviewed at least annually by the Board Investment Committee, who will either confirm or recommend changes to the Board of Governors. Upon recommendation from the Board Investment Committee, the Board of Governors can approve exceptions to this policy.

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DEFINITIONS

Any definitions listed in the following table apply to this document only with no implied or intended institution-wide use. [▲Top]

Asset Allocation	The process of dividing investments into different categories (Growth, Inflation Sensitive, Deflation Hedging, and Diversifiers) based on the role that the underlying category or investment strategy performs towards achieving the return and risk tolerance objectives of the portfolio. Each category comprises a specific group of investments that have similar expected return patterns, similar expected risk profiles, high correlations with other investments in the same category or have a high sensitivity to inflation.
Risk Tolerance	An individual's ability to handle temporary and sustained declines in the value of their portfolio.
Investment Proposal	A statement of objectives that defines the investment rationale, asset class and/or strategy, risk characteristics and performance expectation.
Real	Used in conjunction with asset values and rates of return and restates these nominal amounts for movements in the consumer price index.
Rate of Return	The percentage change in the value of an asset, including interest and dividends, over an evaluation period.
Growth	Any asset class or investment strategy which can be expected to provide returns that exceed the inflation adjusted rate of spending over the long-term. This may include marketable equity securities, directional long/short equity hedge funds, and credit based fixed income strategies. Private investments include private debt, private equity, and venture capital.
Deflation Hedging	Any asset class that serves the primary objective of providing protection in times of market stress, and supports spending in a prolonged deflationary period. This consists primarily of high quality government and investment grade fixed income securities.
Inflation Sensitive	Any asset class or investment strategy that is expected to protect the fund from high or unanticipated inflation. This may include inflation linked bonds, real estate, infrastructure, timberland, farmland, natural resource public equities, commodities, and energy and renewable resources.
Diversifiers	Any asset class or investment strategy that is expected to be uncorrelated with Growth, Inflation Sensitive, and Deflation Hedging assets. This may include cash, active currency management, managed futures, and hedge fund strategies including but not limited to low beta long/short equity, market neutral, event driven, merger arbitrage, and global macro.
Risk	The possibility of loss and/or the uncertainty of future returns.
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.
Liquidity	Any asset class or investment strategy which can be expected to preserve capital, mature in one year or less from the date of purchase and be liquidated to cash within three months.
Yield	Any asset class or investment strategy which can be expected to preserve capital, and mature between one and ten years.
Return Seeking	Any asset or investment strategy which can be expected to be invested without the need for liquidity for at least ten years.
Responsible Investment	The integration of environmental, social, and governance (ESG) factors into investment and ownership decisions.
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.
Custodian	A financial institution, usually a bank or trust company, which holds an investment portfolio's securities and cash in safekeeping.
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.

RELATED LINKS

Should a link fail, please contact uappol@ualberta.ca. [▲Top]

Interest Procedure – Restricted Accounts (UAPPOL)

Internal Loan Policy (UAPPOL)

Investment Committee Terms Of Reference (University of Alberta)

Statement of Investment Principles & Beliefs (University of Alberta)

University Endowment Pool (UEP) Implementation Guidelines (University of Alberta)

University Endowment Pool (UEP) Spending Policy (UAPPOL)

PUBLISHED PROCEDURES OF THIS POLICY

There are no published procedures of this policy.