

THE HUMBER COLLEGE INSTITUTE OF TECHNOLOGY AND ADVANCED LEARNING



INVESTMENT GUIDELINE

CONTENTS

SECTION 1 – GENERAL..... 3

SECTION 2 – OPERATING FUND – SHORT TERM 6

SECTION 3 – OPERATING FUND – LONG TERM..... 7

SECTION 4 – RESTRICTED FUND – ENDOWMENT 9

SECTION 5 – RESTRICTED FUND – SURPLUS 12

APPENDIX A – MAESD DIRECTIVE EXCERPTS 14

SECTION 1 – GENERAL

1.01 Purpose and Objectives

The Investment Guideline (the “Guideline”) governs the Operating and Restricted Funds (the “Funds”) of The Humber College Institute of Technology and Advanced Learning (the “College”) unless otherwise specified. The Guideline identifies the different investment objectives and considers the various forms of investment risk – primarily credit, market, liquidity, currency, inflation and interest rate risk – that need to be reviewed by the College in pursuit of its stated objectives.

This Guideline is not intended to identify the specific asset mix of the College. Asset mix is determined by the prevailing characteristics of the securities marketplace and the relative attractiveness of the different investment instruments available in the marketplace, and is the responsibility of the College and Investment Manager within the scope of this Guideline.

Humber’s financial assets are to be managed in one of the Funds outlined below.

- Operating Fund – Short Term (Internally Managed)
- Operating Fund – Long Term (Externally Managed)
- Restricted Fund – Endowment (Externally Managed)
- Restricted Fund – Surplus (Externally Managed)

Whether managed internally by staff or externally by an Investment Manager, this Guideline provides a framework for each of the Funds to ensure that a proper level of management and risk is maintained, given the Fund’s objectives and constraints.

An overriding consideration throughout this Guideline is the objective to preserve and grow capital in a prudent manner, while maximizing risk adjusted returns in accordance with the government directives outlined below.

1.02 Regulations

As a Crown agency, the College is subject to regulatory and legal obligations ensuring prudent and transparent management of public funds. With reference to this Guideline, the following directives are of direct relevance:

- 1- Ministry of Advanced Education and Skills Development (MAESD)’s Banking, Investments and Borrowing policy directive

The MAESD’s policy directive provides guidance and sets more specific rules and restrictions for colleges with respect to investment of funds. The policy directive distinguishes between “college funds” (what is referred to as “operating” funds) and “endowment funds” (what is referred to as “restricted” funds), with more restrictions applying to the former.

2- Trustee Act

The Trustee Act establishes the basic broad principles of prudent investment for an investment organization, including colleges, managing and investing funds on behalf of the donor (for example, endowments).

It is within the confines of these regulations that the College must develop its own investment Guideline given its own preferences and risk tolerance.

1.03 Investment Guidelines

Operating Funds

As it pertains to operating Funds, the College may invest in any of the investment instruments permitted in the MAESD's Directive (see Appendix A – section 1).

Restricted Funds

Management of restricted Funds is bound by the Trustee Act (see Appendix A – section 2), thus offering a broader spectrum of permitted investments beyond certain debt instruments should the College decide to take advantage of them.

1.04 Governance

The Audit and Finance Committee (the "AFC") is a subcommittee of the College's Board of Governors (the "Board").

The Board has delegated investment responsibility to the AFC. The AFC is responsible for reviewing this Guideline with the objective of ensuring prudent, efficient and effective management of the College's Funds. The College's Financial Services and Planning Department is responsible for managing and enforcing this Guideline.

The AFC has oversight responsibility for the investment of the College's Funds and has delegated investment authority to Financial Services and Planning staff and/or Investment Manager(s) who may be retained by the College on behalf of the AFC.

This Guideline can be amended at any time but must be formally reviewed every three years by the AFC.

The College shall provide a copy of this Guideline to each firm retained to provide investment services to the College, and each firm shall acknowledge in writing receipt of the document and acceptance of its content.

1.05 Environmental, Social and Governance Factors (ESG)

The AFC expects the Investment Manager to take steps to ensure that ESG factors are adequately addressed in the selection, retention and realization of investments as far as such factors may affect investment performance. Consideration of ESG factors is ultimately the responsibility of the Investment Manager and must be consistent with this Guideline.

1.06 Reporting

It is expected that holdings, compliance to investment Guideline and returns for each Fund are reported to the College on a monthly basis, including performance against the established benchmark, and in person on an annual basis to the AFC.

1.07 Exceptions

An Investment Manager must obtain a written authorization from the College before acquiring any investment that does not comply with this Guideline.

Throughout this Guideline, if a security is downgraded below the minimum rating necessary to qualify for inclusion in the Fund, no new investments may be made, and the College must be notified immediately. The downgraded security may be retained and disposition of such investments will be at the discretion of the Investment Manager with a quarterly update on its status provided to the College.

To the extent that the Investment Manager proposes a pooled fund as an appropriate investment, and upon acceptance by the College, the investment constraints in this Guideline shall not apply, but rather the pooled fund's own investment policies shall govern the funds. The Investment Manager shall provide such policies to the College and shall inform the College when and how the policies of the funds differ from the College's Investment Guideline. Such differences shall not be substantial deviations from the overall intent of the College's investment policy. The intention of this provision is to allow, in the case of pooled or mutual funds, the necessary latitude for the implementation of the investment strategy of the College's investments

SECTION 2 – OPERATING FUND – SHORT TERM

2.01 Description

The Operating Fund – Short Term consists of funds kept aside for planned operating needs and strategic spending requirements in the near future, generally within one year.

These funds are not suitable for long-term investments.

2.02 Objectives

The Operating Fund – Short Term objectives are:

- i. Capital preservation
- ii. Liquidity
- iii. Short-term yield enhancement

The Fund's goal is to attain a higher return than would otherwise be achieved by keeping funds in the College treasury account.

2.03 Permitted Investments and Constraints

The range of investments suitable for this Fund is guided by the MAESD's Banking, Investments and Borrowing policy directive.

Permitted investments for this Fund include the following:

- Cash
- Treasury bills
- Daily interest savings accounts
- Guaranteed investment certificates

The investments are to be held in varying proportion and with proper diversification, as deemed appropriate by Financial Services and Planning Staff.

2.04 Benchmark

The College's weighted average treasury rate will be the benchmark used to assess the Fund's performance.

2.05 Management

The management of the Operating Fund – Short Term is the responsibility of the appropriate Financial Services and Planning staff.

SECTION 3 – OPERATING FUND – LONG TERM

3.01 Description

The Operating Fund – Long Term consists of funds not expected to be required within the next year. Sources of these funds are operating cash surpluses. Investments held in this Fund are required to meet the long-term cash need of the institution.

3.02 Objectives

The Operating Fund - Long Term objectives are:

- i. Capital preservation
- ii. Yield enhancement
- iii. Availability of funds as per planned requirements

The Fund’s goal is to maximize the return on funds given the constraints outlined below.

3.03 Permitted Investments and Constraints

The range of investments suitable for this Fund is guided by the MAESD’s Banking, Investments and Borrowing policy directive.

Permitted investments for this Fund include the following:

- Guaranteed investment certificates
- Government bonds
- Schedule I and II bank bonds
- Corporate bonds

In addition to the above-mentioned constraints, the following issuer limits apply:

<u>Individual Issuer Limit</u>	<u>Minimum</u>	<u>Maximum</u>
Federal issuer	0%	100%
Provincial issuer	0%	25%
Municipal issuer	0%	5%
Schedule I or II bank issuer	0%	20%
Corporate issuer (other than Schedule I or II bank issuer)	0%	10%

Corporate bond exposure (other than Schedule I or II bank issuers) should not exceed 70% of this Fund.

3.04 Credit Quality

In addition to minimum credit ratings established by the MAESD directive, securities issued by the Government of Canada, the Provinces, Municipalities and Banks must carry a minimum credit rating of “BBB low” or equivalent, as defined by a Nationally Recognized Statistical Rating Organization (NRSRO).

3.05 Benchmark

<u>Benchmark</u>	<u>Composite Weight</u>
FTSE TMX Canada Mid Term Overall Bond Index	50%
FTSE TMX Canada Mid Term Government Bond Index	50%

Performance should be reported gross and net of fees.

3.06 Duration

The duration of the portfolio will be managed by the Investment Manager by taking into consideration the Fund’s investment objectives and prevailing market conditions, in consultation with the College, from time to time.

3.07 Management

The Operating Fund - Long Term will be managed by an external investment manager.

SECTION 4 – RESTRICTED FUND – ENDOWMENT

4.01 Description

This Fund consists of endowment funds donated to the College for specific purposes. These funds are not expendable but are rather held in perpetuity to generate investment returns and disburse them as scholarships and awards.

These investment returns (expendable revenues) are accumulated and managed in a separate Fund (See Section 5 - Restricted Fund - Surplus).

4.02 Objectives

The Restricted Fund - Endowment objectives are:

- Capital preservation
- Income generation
- Inflation protection
- Long-term yield enhancement

The primary purpose of this Fund is to maximize risk adjusted returns over the long term, in a consistent and reliable fashion from one year to the next, for distribution to students.

4.03 Permitted Investments and Constraints

The range of investments suitable for this Fund is guided by the Trustee Act.

Permitted investments for this Fund include the following:

- Government bonds
- Corporate bonds
- Preferred Shares
- Common Shares

The Fund may invest in common shares of Canadian, U.S. and International Companies, and preferred shares of Canadian and U.S. Companies listed on a recognized stock exchange. Including American Depository Receipts (ADR), Exchange Traded Funds (ETF), warrants and securities convertible into common shares.

In addition to the above-mentioned guidelines, the following constraints apply:

<u>Asset Allocation</u>	<u>Minimum</u>	<u>Benchmark Weight</u>	<u>Maximum</u>
Fixed Income	30%	40%	60%
Equities	40%	60%	70%

<u>Fixed Income – Asset Allocation</u>	<u>Minimum</u>	<u>Maximum</u>
Canadian bonds	80%	100%
Foreign bonds	0%	20%

<u>Equities – Asset Allocation</u>	<u>Minimum</u>	<u>Maximum</u>
Canadian Equities	15%	45%
Global Equities (including U.S.)	25%	55%

<u>Fixed Income - Individual Issuer Limits</u>	<u>Minimum</u>	<u>Maximum</u>
Federal issuer	0%	100%
Provincial issuer	0%	25%
Municipal issuer	0%	5%
Corporate issuer	0%	5%
Foreign Sovereigns & Supranationals	0%	5%

<u>Equities – Individual Issuer Limits</u>	<u>Minimum</u>	<u>Maximum</u>
Canadian Equities	0%	5%
U.S. Equities	0%	5%
Foreign Equities	0%	5%

<u>Preferred Shares - Individual Issuer Limit</u>	<u>Minimum</u>	<u>Maximum</u>
Preferred Shares	0%	5%

4.04 Credit Quality

<u>Fixed Income</u>	<u>Maximum</u>
A- and Above	100%
BBB- to BBB+	25%
B- to BB+	10%

<u>Preferred Shares</u>	<u>Maximum</u>
<u>P2 and Above</u>	100%

4.05 Benchmark

<u>Asset Class</u>	<u>Benchmark</u>	<u>Composite Weight</u>
Fixed Income	FTSE TMX Canada Bond Universe	40%
Canadian Equity	S&P/TSX Composite	25%
Global Equity	MSCI ACWI	35%

Performance should be reported gross and net of fees.

4.06 Duration

FTSE TMX Canada Universe Bond Index +/- 1 year duration.

4.07 Management

The Restricted Fund - Endowment will be managed by an external investment manager.

SECTION 5 – RESTRICTED FUND – SURPLUS

5.01 Description

This Fund consists of expendable revenues generated from endowments (see section 4) donated to the College and other contributions held for specific purposes.

5.02 Objectives

The Restricted Fund – Surplus objectives are:

- Capital preservation
- Minimize volatility
- Liquidity
- Short-term yield enhancement

This Fund should aim to maximize short-term return and minimize risk of capital loss.

5.03 Permitted Investments and Constraints

The range of investments suitable for this Fund is guided by the Trustee Act.

Permitted investments for this Fund include the following:

- Daily interest saving accounts
- Guaranteed investment certificates
- Government bonds
- Corporate bonds
- Preferred Shares

The Fund may invest in Preferred Shares of Canadian Companies listed on a recognized stock exchange.

In addition to the above-mentioned guidelines, the following limits also apply:

<u>Asset Allocation</u>	<u>Minimum</u>	<u>Benchmark Weight</u>	<u>Maximum</u>
Fixed Income	80%	100%	100%
Preferred Shares	0%	0%	20%

<u>Fixed Income - Asset Allocation</u>	<u>Minimum</u>	<u>Maximum</u>
Canadian bonds	80%	100%

<u>Fixed Income - Individual Issuer Limits</u>	<u>Minimum</u>	<u>Maximum</u>
Federal issuer	0%	100%
Provincial issuer	0%	40%
Municipal issuer	0%	5%
Corporate issuer	0%	5%

<u>Preferred Shares - Individual Issuer Limits</u>	<u>Minimum</u>	<u>Maximum</u>
Preferred Shares	0%	5%

5.04 Credit Quality

<u>Fixed Income</u>	<u>Maximum</u>
A- and Above	100%
BBB- to BBB+	25%

<u>Preferred Shares</u>	<u>Maximum</u>
<u>P2 and Above</u>	100%

5.05 Benchmark

The FTSE TMX Canada Short Term Bond Index is the benchmark used to assess the Fund's performance.

Performance should be reported gross and net of fees.

5.06 Duration

FTSE TMX Canada Short Term Bond Index +/- 1 year duration.

5.07 Management

The Restricted Fund – Surplus will be managed by an external investment manager.

APPENDIX A – MAESD DIRECTIVE EXCERPTS

1 MAESD Banking, Investment and Borrowing Policy Directive

The following are excerpts from the MAESD Directive:

For the **operating funds**, the Ministry allows colleges to invest in the following assets:

- (a) Bonds, debentures, promissory notes or other evidence of indebtedness, issued or guaranteed by:
 - i. Canada or a province or territory of Canada, or
 - ii. An agency of Canada or a province or territory of Canada.

- (b) Bonds, debentures, promissory notes or other evidence of indebtedness, issued or guaranteed by:
 - i. A municipality in Canada;
 - ii. A university in Ontario that receives ongoing operating and capital funding from Ontario;
 - iii. The board of governors of a college established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*;
 - iv. A board of a public hospital within the meaning of the *Public Hospitals Act*;
 - v. A school board in Canada;
 - vi. Ontario Infrastructure Projects Corporation; or
 - vii. The Municipal Finance Authority of British Columbia

- (c) Bonds, debentures, promissory note, deposit receipts, deposit notes, certificates of deposit or investments, acceptances, commercial paper or similar instruments, issued, guaranteed or endorsed by:
 - i. A bank listed in Schedule I or II or a branch in Canada of an authorized foreign bank under the *Bank Act (Canada)*;
 - ii. A loan corporation or trust corporation registered under the *Loan and Trust Corporation Act*; or
 - iii. A credit union to which the *Credit Unions and Caisses Populaires Act, 1994* applies.

- (d) Bonds, debentures, promissory notes or other evidence of indebtedness, issued by a corporation that is incorporated under the laws of Canada or a province of Canada; or

- (e) Promissory notes or commercial paper, other than asset-backed securities, issued by a corporation that is incorporated under the laws of Canada or a province of Canada.

- (f) The College is not to invest in a security under (d) or (e) above unless the security has a minimum rating, at the time the investment is made by the college by at least one rating agency of:
 - i. “R-1 (high)” or “AAA” by Dominion Bond Rating Service Limited

- II. “Prime-1” or “Aaa” by Moody’s Investors Services Inc.;
- III. “A-1+” or “AAA” by Standard and Poor’s; or
- IV. “F1+” pr “AAA” by Fitch Ratings.

Whereas the **Endowment funds**, are not subject to the above rules and can be invested in what constitutes a much larger pool of investments that are “consistent with the requirements for all organizations handling funds or property in trust under the Trustee Act...”

2 Trustee Act

The following are excerpts from the Trustee Act:

Standard of care

27. (1) In investing trust property, a trustee must exercise the care, skill, diligence and judgment that a prudent investor would exercise in making investments.

Authorized investments

(2) A trustee may invest trust property in any form of property in which a prudent investor might invest.

Criteria

(5) A trustee must consider the following criteria in planning the investment of trust property, in addition to any others that are relevant to the circumstances:

- 1. General economic conditions
- 2. The possible effect of inflation or deflation
- 3. The expected tax consequences of investment decisions or strategies
- 4. The role that each investment or course of action lays within the overall trust portfolio
- 5. The expected total return from income and the appreciation of capital
- 6. Needs for liquidity, regularity of income and preservation or appreciation of capital
- 7. An asset’s special relationship or special value, if any, to the purposes of the trust or to one or more of the beneficiaries

Diversification

(6) A trustee must diversify the investment of trust property to an extent that is appropriate to,

- a) The requirements of the trust; and
- b) General economic conditions and investment market conditions

Investment advice

(7) A trustee may obtain advice in relation to the investment of trust property