



INVESTMENT POLICY

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A. PURPOSE

The purpose of this policy is to establish expectations for the investment of the College’s Investable Assets (the Fund) to ensure these assets are invested in a prudent and effective manner, with investment decisions being made with the same care, skill, diligence and judgment as a reasonable investor, including the integration of environmental, social and governance factors into investment decisions. This policy establishes appropriate risk and return objectives giving consideration for Douglas’ risk tolerance.

B. SCOPE

This policy applies to decisions made by all College employees and members of the College Board and its committees with respect to the management of the College’s Investable Assets.

C. DEFINITIONS

1. **Investable Assets:** the total of the College’s financial assets that are available to be invested in either the Operating Fund or the Investment Fund
2. **Investment Fund:** a diversified portfolio of bonds, equities, infrastructure and mortgages, managed by one or more external fund managers
3. **Operating Fund:** holds cash and short-term securities to meet the operating cash requirements of the College

4. **Fund:** the total of the College’s Operating Fund and Investment Fund

D. POLICY STATEMENTS

1. As the College’s investments are public funds, the primary objective is the preservation of capital. Once the primary objective has been prudently managed, the secondary objective is to maximize total return on investment—both income and capital appreciation.
2. Investments will be limited to those firms and securities that adhere to the standards outlined in this policy and that meet prudent investment standards, including the integration of environmental, social and governance factors into investment decisions.
3. The Operating Fund is to be managed by Douglas College Management, and the Investment Fund is to be managed by one or more external Fund Managers.

E. PROCEDURES

STRUCTURE OF THE FUND

Douglas College’s Investable Assets are to be allocated between an Operating Fund and an Investment Fund. The Operating Fund holds short-term securities to meet the operating cash requirements of Douglas College. The remainder of Douglas College’s investable assets is allocated to the Investment Fund that is invested in a diversified portfolio of bonds, equities, infrastructure and Canadian commercial mortgages.

<u>Fund</u>	<u>Asset Class</u>	<u>Fund Manager</u>
Operating Fund	Short-Term Securities	Douglas College Management
Investment Fund	Cash/Money Market, Short-Term Bonds, Mid-Term Bonds, Canadian Equities and Global Equities	External Balanced Manager
	Canadian Commercial Mortgages	External Mortgage Manager

INVESTMENT OBJECTIVES

Operating Fund

- 1) The primary objective of the Operating Fund is to preserve the capital value of the Operating Fund, while maintaining adequate liquidity to meet the operating needs of Douglas College.

Investment Fund

- 1) The primary objective of the Investment Fund is to grow the capital value of the Investment Fund to exceed inflation over the long-term with a moderate level of risk.
- 2) The long-term return objective of the Investment Fund is to achieve rates of return over four-year moving time periods, net of investment management fees, at least equal to the rate of inflation (Consumer Price Index) plus 2.5%.

- 3) The benchmark return objective for the Investment Fund is to achieve rates of return over four-year moving time periods, net of investment management fees, higher than the Benchmark Portfolio, as described below.

<u>Asset Class</u>	<u>Weight</u>	<u>Index</u>
Short-Term Bonds	30%	FTSE Canada Short-Term Bond Index
Mid-Term Bonds	10%	FTSE Canada Mid-Term Bond Index
Canadian Commercial Mortgages	20%	60% FTSE Canada Short-Term Bond Index and 40% FTSE Canada Mid-Term Bond Index
Canadian Equities	10%	S&P/TSX Capped Composite Index
Global Equities	30%	MSCI World Value (CAD) (Net Dividend) Index

In any given year, the performance of the Investment Fund shall be evaluated based on the Benchmark Portfolio described above adjusted for the actual holdings in mortgages and infrastructure on a quarterly basis.

- 4) The risk objective for the Investment Fund is to achieve a standard deviation of returns over four-year moving time periods lower than the Benchmark Portfolio described above.

Investment Fund Balanced Manager

- 1) The primary return objective for the Balanced Manager is to achieve a rate of return over four-year moving time periods, net of investment management fees, higher than the Benchmark Portfolio, as described below.

<u>Asset Class</u>	<u>Weight</u>	<u>Index</u>
Short-Term Bonds	37.5%	FTSE Canada Short-Term Bond Index
Mid-Term Bonds	12.5%	FTSE Canada Mid-Term Bond Index
Canadian Equities	12.5%	S&P/TSX Capped Composite Index
Global Equities	37.5%	MSCI World Value (CAD) (Net Dividend) Index

- 2) The secondary return objective for the Balanced Manager is to achieve a rate of return over four-year moving time periods, gross of investment management fees, that ranks in the top 50% of comparable funds in Canadian equities and global equities.

- 3) The risk objective for the Balanced Manager is to achieve a standard deviation of returns over four-year moving time periods lower than the Benchmark Portfolio described above.

Investment Fund Mortgage Manager

- 1) The return objective for the Mortgage Manager is to achieve a rate of return over four-year moving time periods, net of investment management fees, higher than 60% FTSE Canada Short-Term Bond Index and 40% FTSE Canada Mid-Term Bond Index.
- 2) The secondary return objective for the Mortgage Manager is to achieve a rate of return over four-year moving time periods, gross of investment management fees, that ranks in the top 50% of comparable funds in Canadian commercial mortgages.

RISK CONTROL

The Committee recognizes that investment risks in the form of interest rate uncertainty, credit quality, insufficient diversification, particularly in regards to corporate investments, currency risk and the possibility of underperformance by Fund Managers exists, among others, for the Fund. The Committee also recognizes the risks associated with poor environmental, social and governance practices.

The Committee will control the Fund's investment risk from the perspective of a prudent person viewing the portfolio as a whole and recognizing the nature of the obligations that the Fund is intended to support. The primary control of portfolio risk is through the asset allocation. The Committee seeks to minimize the risk exposure of the Fund by maintaining a well-diversified portfolio that integrates environmental, social and governance factors into investment decisions.

FUND TRANSFERS AND REBALANCING

At least annually, the College's Finance management will determine the potential amounts for transfer between the Operating Fund and the Investment Fund in order to maintain the Operating Fund balance at or below \$25 million, being the College's minimum average cash flow requirement. Recommendations for transfer will be brought to the Audit and Finance Committee in conjunction with regular reporting on the Fund. Transfers into and out of the Investment Fund will be directed to or taken from the balanced portfolio managed by the Balanced Manager.

At least annually, the College's Finance management, in consultation with the College's independent investment consultant(s), will bring forward to the Audit and Finance Committee recommendations for re-balancing between Fund Managers within the Investment Fund, to ensure the objectives of the Investment Fund are being met.

GOVERNANCE

Responsibility for oversight of the Fund rests with the Board, acting through the Audit and Finance Committee (Committee). This includes:

- establishing an overall investment policy, including broad asset allocation guidelines

and a structure of investment management;

- appointing and removing the Fund Manager(s);
- participating in the annual review of the Policy and ensuring the Fund Manager(s) are provided with updates to this Policy;
- monitoring the integration of environmental, social and governance factors into investment decisions by the external Fund Manager(s) at least annually;
- monitoring compliance of the Fund with the Trustee Act of British Columbia;
- reviewing the performance of the Investment Fund and Operating Fund on a quarterly basis;
- reviewing the performance of Fund Manager(s) at least annually; and
- approving transfers between the Operating fund and the Investment Fund, and re-balancing transactions between the Fund Managers within the Investment Fund.

The annual review of the performance of the Fund Manager(s) should, as a minimum, consider the following factors as issues for further review and explanation by the Fund Manager(s):

- Performance results, which over a reasonable period of time, are below the stated investment objectives;
- Change in personnel, firm structure, investment philosophy, style or approach which might adversely affect the potential return and/or risk level of the portfolio;
- Failure to appropriately integrate environmental, social and governance factors into investment decisions and/or
- Failure to adhere to this Policy, the Fund Manager's investment policy or the investment management agreement.

Responsibilities of College management are:

- ensuring the Fund is in compliance with the Trustee Act of British Columbia;
- managing the Operating Fund in accordance with the Policy;
- recommending the appointment and removal of the Fund Manager(s);
- reviewing the Policy annually and recommending policy changes to the Board;
- ensuring external Fund Manager(s) are reporting on the integration of environmental, social and governance factors into investment decisions;
- providing the Fund Manager(s) with Board approved updates to this Policy;
- reviewing the performance of the Investment Fund and Operating Fund on a quarterly basis;
- reviewing the performance of Fund Manager(s) at least annually;

- recommending the potential amounts for transfer between the Operating Fund and the Investment Fund, and recommending re-balancing between the Fund Managers within the Investment Fund to the Committee at least annually; and
- assisting the Committee with the administration, governance and oversight of the Fund as delegated by the Committee.

Responsibilities of the independent investment consultant are:

- providing a review of the Investment Fund and the external Fund Managers within the Investment Fund at least annually;
- reviewing the Policy at least annually;
- meeting with the Committee as requested; and
- providing advice on investment issues, such as asset allocation, manager selection and re-balancing, as requested.

Responsibilities of the external Fund Managers are:

- managing their respective portfolios within the Investment Fund in accordance with the Policy and their investment management agreements;
- integrating environmental, social and governance factors into investment decisions;
- being a signatory to the Principles for Responsible Investment (PRI);
- providing the College management, Committee and the Investment Consultant with quarterly investment reports, including how environmental, social and governance factors were integrated into investment decisions and the rationale for investments in companies involved in non-SRI business activities as defined by MSCI, and compliance statements;
- promptly notifying College management, the Committee and the Investment Consultant of any significant changes in their personnel, firm structure, investment philosophy, style, approach or policies, or compliance breaches;
- meeting with the Committee at least annually;
- providing feedback on the Policy as requested;
- exercising all voting rights acquired through the Fund's investments in the best interests of the Fund and providing a written summary of all voting matters annually; and
- adhering to the Code of Ethics and Standards of Professional Conduct adopted by the CFA Institute or equivalent standards.

ASSET MIX CONSTRAINTS

Operating Fund

All of the assets in the Operating Fund are to be invested in short-term cash and money market securities.

Investment Fund

The policy asset mix and constraints for the Investment Fund are as follows:

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Policy Asset Mix</u>
Cash/Money Market	0%	5%	0%
Bonds	35%	45%	40%
Mortgages	0%	25%	20%
Canadian Equities	5%	15%	10%
Global Equities	25%	35%	30%

The policy asset mix and constraints for the Balanced Manager are as follows:

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Policy Asset Mix</u>
Cash/Money Market	0%	10%	0%
Bonds	45%	55%	50%
Canadian Equities	7.5%	17.5%	12.5%
Global Equities	32.5%	42.5%	37.5%

The bond portfolio will be managed in a segregated, laddered, buy-and-hold portfolio, subject to the quality constraints of this Policy.

PERMITTED INVESTMENT CATEGORIES

Operating Fund

The Operating Fund may be invested in the following categories of investments:

Short-Term Securities: Government of Canada treasury bills, term deposits, GICs and savings accounts from Canadian schedule 1 chartered banks with a minimum credit rating of R-1 (low) from DBRS at the time of investment or from B.C. credit unions that are guaranteed by the Credit Union Deposit Insurance Corporation, B.C. Provincial Treasury's Central Deposit Program.

All investments are to be issued in Canadian dollars.

Investment Fund

The Investment Fund may be invested in the following categories of investments:

- Fixed Income: Bonds and debentures. All fixed income securities are to be issued in Canadian dollars by Canadian organizations. The maximum term to maturity of any fixed income security is 10 years.
- Mortgages: Open-ended pooled funds that invest in Canadian commercial mortgages.
- Equities: Common shares, preferred shares, convertible securities, rights, warrants and real estate investment trusts.
- Cash/Money Market: Cash on hand, demand deposits, treasury bills, short-term notes and bankers' acceptances, commercial paper, term deposits and guaranteed investment certificates. All cash investments are to be issued in Canadian dollars by Canadian organizations. Cash investments may be in U.S. dollars or other foreign currencies within approved pooled funds and limited partnerships.
- Derivatives: May be used in the Investment Fund for the purposes stated below, as long as the underlying investments would be permissible under this Policy and the use of derivatives will not result in borrowing:
- (a) synthetic indexing - passively investing in an attempt to replicate the returns of an index;
 - (b) risk control - managing interest rate, equity or currency market risk through the use of hedging strategies. Derivatives may be used to hedge exposure to a specific foreign currency for defensive purposes;
 - (c) lowering transaction costs and liquidity management - reducing the transaction costs on currency conversions, trading, and custody and brokerage services (e.g. through use of forward contracts or index futures). Substituting derivatives for specific securities, with the same net exposure to market variables, for the purposes of exploiting pricing inefficiencies and managing liquidity; and
 - (d) asset mix shifts - reducing market movement and transaction costs of shifting asset weights or rebalancing, by allowing instantaneous implementation of the shift through derivatives.

Pooled Funds, Mutual Funds

and Limited Partnerships: Any pooled funds, mutual funds and limited partnerships consisting of investments that are otherwise eligible under this Policy.

INVESTMENT CONSTRAINTS FOR INVESTMENT FUND

The combined cash and bond investments in the securities of any one issuer will not be more than 5% of the total market value of all cash and bond investments held by the Investment Fund, unless the issuer is the Government of Canada or any province of Canada with at least a credit rating of A (low), or unless such securities are guaranteed by one of those entities. The average credit rating from DBRS, Fitch, Moody's and Standard & Poor's will be used for determining the credit rating of a fixed income security for the purposes of this Policy unless otherwise stated.

No single equity investment will represent more than 10% of the market value of all equities held in each of the Canadian equity portfolio or global equity portfolio. Within the global equity portfolio, investment in emerging markets (as defined by MSCI) is allowed up to 15% of the market value of the global equity portfolio.

The Committee requires that at least 70% of the Investment Fund's investment holdings be liquid at all times, i.e. able to be converted into cash within 5 business days. No investments are allowed in direct real estate or hedge funds, including pooled funds holding these asset categories.

QUALITY CONSTRAINTS

Operating Fund

- Investments in short-term notes and treasury bills will be rated at least R-1 (low) by DBRS or equivalent at the time of purchase.

Investment Fund

- Investments in Canadian bonds and debentures will be rated at least BBB (low) by DBRS or equivalent at the time of purchase. If a bond held in the Investment Fund is downgraded below BBB (low), the Fund Manager holding the bond will sell the bond within a 6-month period at the appropriate time to minimize any loss to the Investment Fund.
- Not more than 15% of the market value of the fixed income portfolio of the balanced mandate within the Investment Fund may be invested in BBB bonds and debentures.
- Investments in Canadian and non-Canadian equities will be made in accordance with the Standards of Practice established by the CFA Institute, and will be restricted to shares listed on a major stock exchange or other recognized trading facility.
- Investments in short-term notes and treasury bills will be rated at least R-1 (low) by DBRS or equivalent at the time of purchase.
- The minimum quality standard for counterparties in a derivative transaction is "A", at the time of the transaction.

- The maximum loan-to-value ratio allowed on any single property in the mortgage portfolio is 85%.

If there is a discrepancy between this policy and the investment policy (or equivalent documents) of the pooled funds or limited partnerships held by the Fund pertaining to the constraints and limits, the Committee will review the constraints and limits governing the pooled funds and accept the constraints and limits of the pooled funds or limited partnerships in lieu of those in this Policy so as to avoid conflict. The Fund Manager will notify the Committee immediately of any changes to their pooled fund or limited partnership investment policies.

All securities held by the Fund that fall below the quality constraints will be disclosed by the Fund Managers to the Committee as part of the regular quarterly compliance reporting.

DELEGATION OF VOTING RIGHTS

The Fund Managers are delegated the responsibility of exercising all voting rights acquired through the Fund's investments. The Fund Managers will integrate environmental, social and governance factors in their voting guidelines and vote all proxies in the best interests of the Fund.

The Fund Managers will report the following annually to the Committee, if applicable:

- A written summary of all voting matters, including how they voted on environmental, social and governance issues; and
- Any changes in their proxy voting policy.

CONFLICTS OF INTEREST AND RELATED PARTY TRANSACTIONS

Any person providing services to the Fund must notify the Chair of the Committee in writing as soon as any actual or perceived conflict of interest arises. Conflicts of interest specifically include, but are not limited to, the selection of investments and the determination of the actual asset mix between investments.

Where an actual or perceived conflict of interest arises or may exist, the person with such conflict may not act with respect to any matter for which such conflict exists unless the Chair of the Committee expressly requests. The Chair of the Committee will report all conflicts of interest to the Board.

The Fund or Fund Managers may not enter into any transactions with parties related to the members of the Board or Committee of Douglas College.

LENDING OF SECURITIES OR CASH

Lending of cash or securities at the total Fund level is not permitted.

The Fund Managers may lend securities in their pooled funds, but is required to:

- Fully disclose their securities lending policies to the Committee; and
- Notify the Committee immediately of any changes in their securities lending policies.

VALUATION OF INVESTMENTS

In most cases, securities held by the Fund will have an active market, in which case the valuation of those securities will be based on their market values. Securities that are not regularly traded will be valued by the Fund Manager based on industry best practices and will be subject to annual independent audits or appraisals by an auditor or a valuation firm retained by the Fund Manager.

BORROWING

The Fund may not borrow cash or securities or enter into short-selling transactions.

FUND MANAGER REPORTING AND MEETINGS

The Fund Managers shall provide quarterly reports to the Committee and shall meet with the Committee at least annually. The Fund Managers' reports and presentations will include:

- A market commentary.
- A comparison of returns compared to the investment objectives in this Policy.
- Attribution analysis of the reasons for value-added compared to the Fund Manager objectives, if applicable.
- Update on any significant changes to the firm's ownership, structure or investment personnel.
- Commentary on how environmental, social and governance factors were integrated into investment decisions and the rationale for investments in companies involved in non-SRI business activities as defined by MSCI.
- A statement of compliance with all restrictions in this Policy or the Fund Manager's investment policy in the case of the mortgage and infrastructure equity managers.
- A review of historical investment decisions and future investment strategies.

F. LINKS TO SUPPORTING FORMS, DOCUMENTS, WEBSITES, RELATED POLICIES

- n/a

G. RELATED ACTS AND REGULATIONS

- College and Institute Act [RSBC 1996] Chapter 52
- Trustee Act [RSBC 1996] Chapter 464

H. RELATED COLLECTIVE AGREEMENT CLAUSES

- n/a