

**Monday, November 19, 2018**

**10:30 a.m. to 12:10 p.m.**

**North Campus, ERC 3023**

**Toll-Free: 1-877-385-4099 Participant Passcode: 1028954#**

**Members:** Stephanie Chow (Chair), Doug Allingham, Ferdinand Jones, Thorsten Koseck, Mark Neville, Maria Soros, Steven Murphy, Craig Elliott (non-voting), Susan McGovern (non-voting)

**Staff:** Becky Dinwoodie, Cheryl Foy

**Guests:** Leila Fiouzi & Taylor Woodward (PH&N)

**AGENDA**

No.	Topic	Lead	Allocated Time	Suggested End Time
	<b>PUBLIC SESSION</b>			
<b>1</b>	<b>Call to Order</b>	Chair		
<b>2</b>	<b>Agenda (M)</b>	Chair		
<b>3</b>	<b>Conflict of Interest Declaration</b>	Chair		
<b>4</b>	<b>Chair's Remarks</b>	Chair		
<b>5</b>	<b>Approval of Minutes of Public Session of Meeting of August 15, 2018* (M)</b>	Chair		10:35 a.m.
<b>6</b>	<b>Investment Review</b>			
6.1	Second Quarter Investment Review* (U)	PH&N	20	10:55 a.m.
6.2	Investment Learning – Cannabis & Canadian Market Implication* (D)	PH&N	15	11:10 a.m.
6.3	Review of: (a) Statement of Investment Policies* (M)	C. Foy	5	11:15 a.m.
<b>7</b>	<b>Terms of Reference Review* (M)</b>	C. Foy	5	11:20 a.m.
<b>8</b>	<b>Other Business</b>	Chair		
<b>9</b>	<b>Adjournment (M)</b>			11:25 a.m.
	<b>BREAK</b>			<b>11:30 a.m.</b>
	<b>NON-PUBLIC SESSION (material not publicly available)</b>			11:30 a.m.
<b>10</b>	<b>Call to Order</b>	Chair		
<b>11</b>	<b>Conflict of Interest Declaration</b>	Chair		

\* - Documents attached    D – Discussion    M – Motion    P – Presentation    U - Update

No.	Topic	Lead	Allocated Time	Suggested End Time
<b>12</b>	<b>Approval of Minutes of Non-Public Session of Meeting of August 15, 2018* (M)</b>	Chair		11:35 a.m.
<b>13</b>	<b>Investment Review</b>			
13.1	Second Quarter Investment Review – Portfolio Components* (D)	PH&N	15	11:50 a.m.
13.2	Review of: (a) Asset Class Management Procedures* (M)	C. Foy	5	11:55 a.m.
<b>14</b>	<b>Other Business</b>	Chair		
<b>15</b>	<b><i>In Camera</i> Session</b>	Chair		
<b>16</b>	<b>Termination (M)</b>	Chair		12:10 p.m.

Becky Dinwoodie, Secretary

**Public Session Minutes for the Meeting of August 15, 2018  
10:00 a.m. to 10:45 a.m., ERC 3023**

**Attendees:** Stephanie Chow (Chair), Nigel Allen, Doug Allingham, Craig Elliott (non-voting), Thorsten Koseck, Steven Murphy, Yowsif Yakub

**Staff:** Becky Dinwoodie

**Guests:** Leila Fiouzi from PH&N

**Regrets:** Susan McGovern

**1. Call to Order**

The Chair called the meeting to order at 10:00 a.m.

**2. Agenda**

*Upon a motion duly made by D. Allingham and seconded by S. Murphy, the Agenda was approved as presented.*

**3. Conflict of Interest Declaration**

There were no conflict of interest declarations.

**4. Chair's Remarks**

The Chair welcomed everyone to the last meeting of the 2017-2018 Board year. She thanked Y. Yakub for his contributions, as it was his last meeting as a Board member. She wished him well in his future endeavours.

**5. Approval of Minutes of the Meeting of May 31, 2018**

*Upon a motion duly made by D. Allingham and seconded by Y. Yakub, the Minutes were approved as presented.*

## 6. Investment Review

### 6.1 First Quarter Investment Review

L. Fiouzi reviewed the portfolio's performance in the last quarter. She confirmed that the cash account is used for scholarships. The portfolio performance is compared to a benchmark that fully represents the asset allocation with passive investment. The portfolio performed +0.33 better than the benchmark in the last quarter. The asset mix is generally on target, being a bit overweight in equities. The RBC economist predicts a Canadian recession at about 35% for 2019.

### 6.2 Investment Learning – Tariffs 101

L. Fiouzi reviewed the types of trade war ammunition, including:

- tariffs;
- non-tariff barriers:
  - import quota
  - border thickness (cost of moving products across the border)
  - technical barrier (additional regulations)
- investments; and
- export restrictions.

A country subject to US tariffs could try to impose its own export restrictions (e.g. Chinese “rare Earths metals”). Other pressure points include: immigration restrictions, constrain individual firms (example of ZTE & Huawei), access to money clearance system, government procurement contracts, or inflame public sentiment (boycotts).

(S. Chow arrived in person at 10:13 a.m.)

#### Theoretical Tariff Considerations

The positive consequences for a country imposing a tariff:

- more domestic production; and
- tariff tax revenue.

The downside of imposing a tariff include:

- higher product prices;
- less specialization;
- less selection; and
- supply chain headaches.

The net effect is usually negative for the country imposing the tariff. The consequences are almost always a net negative for the country facing the tariff. There is increasing concern among the U.S.

public with respect to the impact of tariffs. Tariffs are already resulting in higher product prices (e.g. steel mill products).

### **U.S. & China Trade Tariff Threats**

L. Fiouzi discussed the potential impact on China of trade tariff threats.

Who gets hurt most?

- US & China are 2 of the largest global economies
- Would affect other countries, as well (e.g. as price of steel increases globally, will affect price of German products)
- Tariffs will hurt multinationals
- Automotive sector would be hard hit (e.g. Mexico imports most of its auto parts & exports most of the products)

L. Fiouzi also discussed the potential impact of tariffs on certain industries, the auto industry in particular. Canada would be one of the countries least impacted by an auto tariff. She explained that there is a mechanism in the U.S. for companies to apply for an exemption from a tariff. She also examined the impact of the duration of tariffs. The worst outcome would be a full on trade war that has a long duration.

There was a discussion regarding how tariffs are taken into account when balancing an equity trading fund. When factoring in tariffs, the history of how a company handles adversity is considered.

### **Turkish Currency Prices**

There was a discussion regarding the history of relations between Turkey and the U.S. and how the devaluation of the Turkish currency might affect the markets.

### **7. Other Business**

### **8. Adjournment**

*There being no other business, upon a motion duly made by D. Allingham and seconded by S. Chow, the public session of the meeting adjourned at 10:40 a.m.*

Becky Dinwoodie, Secretary



# Presentation to University of Ontario Institute of Technology

## Public Session

Leila Fiouzi, CFA  
Vice President & Investment Counsellor

Taylor Woodward, CFA  
Associate Investment Counsellor

Connor Glassco  
Associate

November 19, 2018



**Wealth Management**  
PH&N Investment Counsel



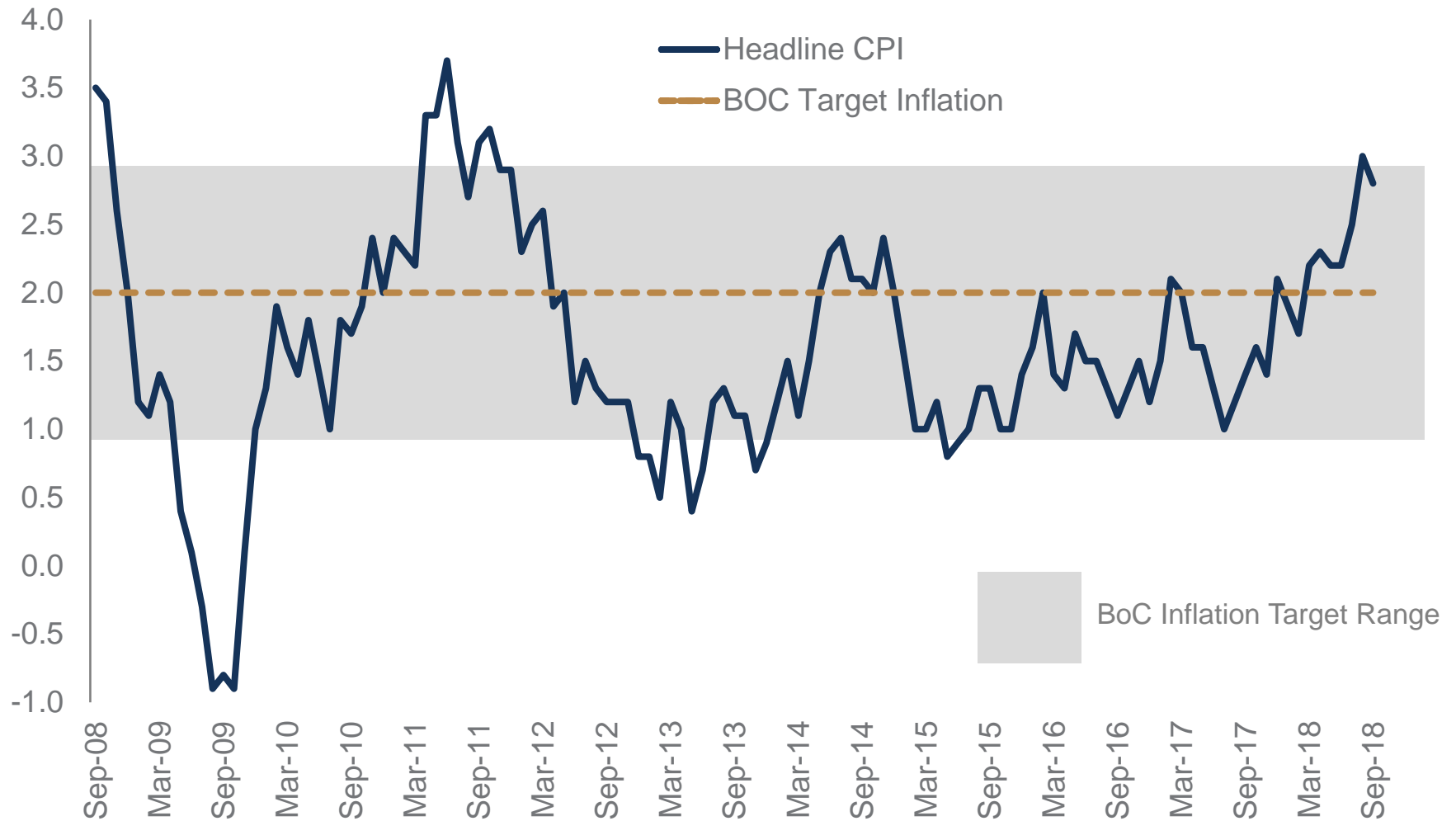
## Portfolio and Market Review





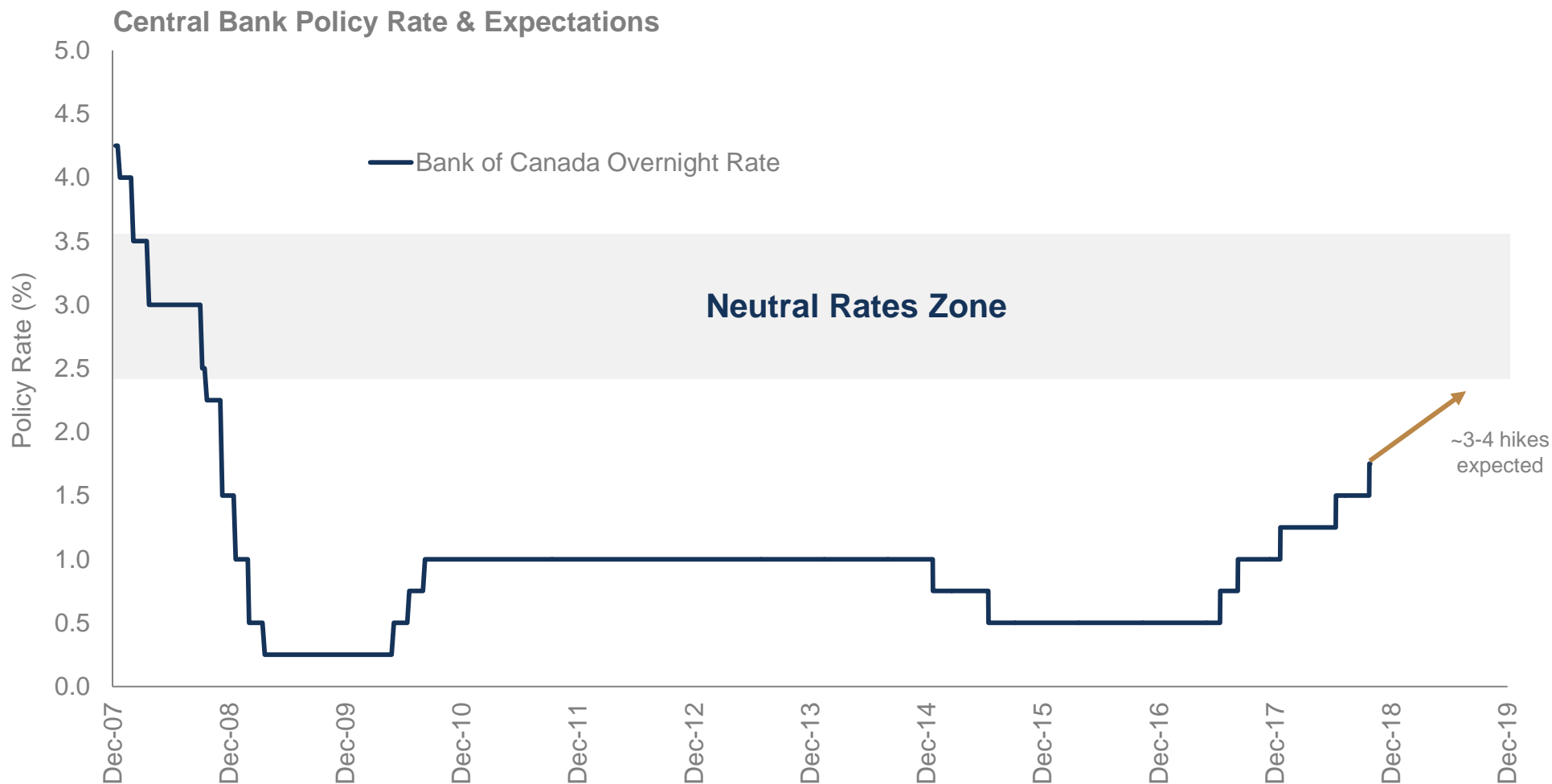
# Inflation on the Rise

Driven by Energy Prices, Tariffs and Higher Minimum Wages



# More “Normal” Central Bank Policy Rates On the Horizon

## Strong Economic Conditions Support Gradual Approach to Rate Hikes



Source: Bank of Canada, Bloomberg, RBC GAM, CME Group  
 Last updated October 4, 2018

# NAFTA vs. USMCA

## The Good, the Bad, and the Ugly



### Net Positives:

<b>Dairy Sector</b>	U.S. granted less access than expected to Canadian dairy market; benefit to Canadian consumers
<b>Trade dispute mechanism</b>	Majority of trade dispute mechanisms remain in place
<b>Cross-border shopping</b>	Higher cross-border shopping limits; benefit to Canadian consumers
<b>Modernization</b>	Provides opportunity to modernize the prior deal to reflect new technologies and jobs

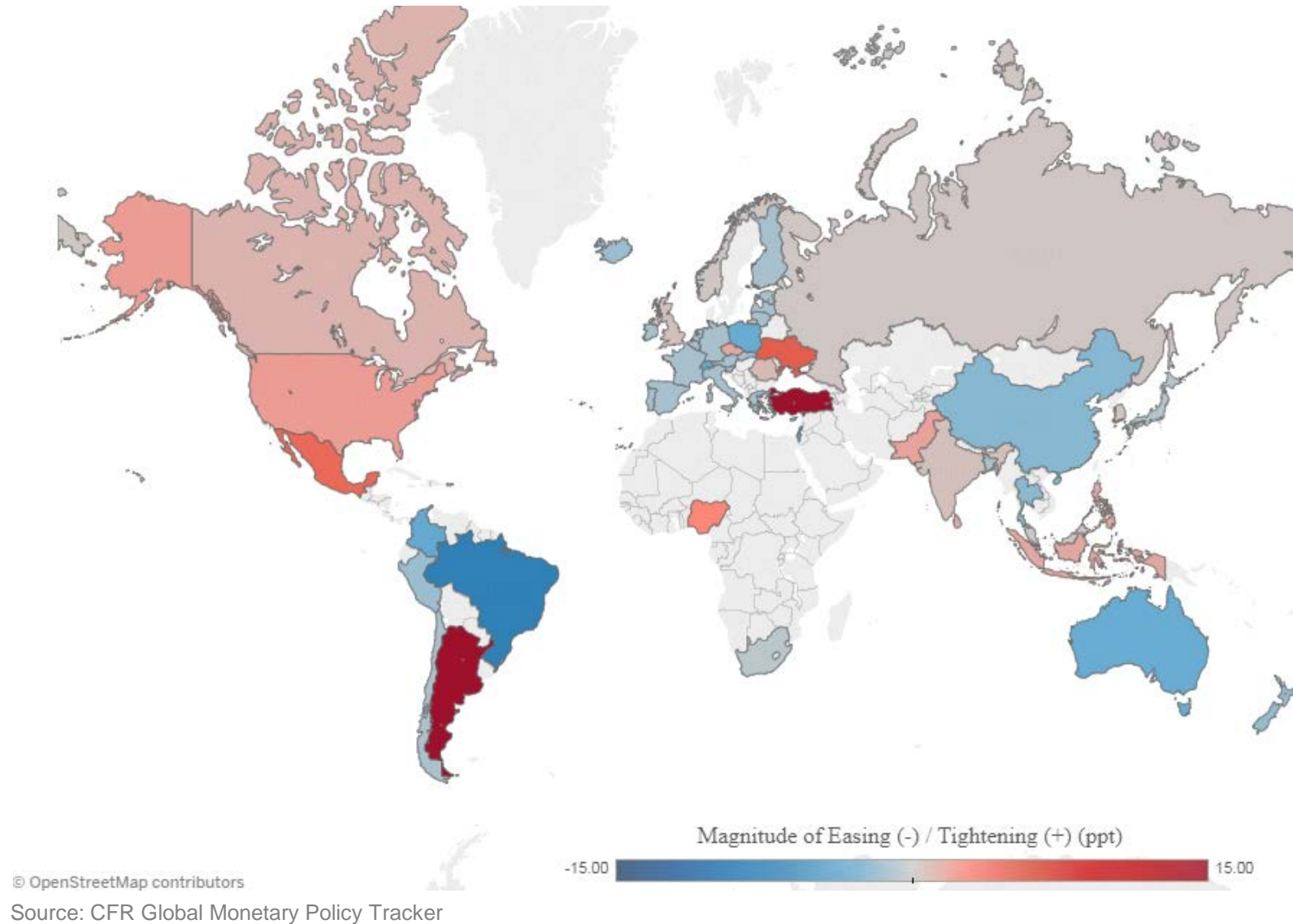


### Net Negatives:

<b>Auto Sector</b>	Larger percentage of auto production must take place within North America, resulting in higher production costs
<b>Tariffs</b>	Steel and aluminum tariffs remain in effect
<b>China</b>	Limited ability to negotiate free trade agreements with China
<b>Sunset Clause</b>	Weaker than it was previously – Agreement is subject to a review after 6 years, but will remain in effect for 16 years minimum

# The Tides of Monetary Policy are Changing

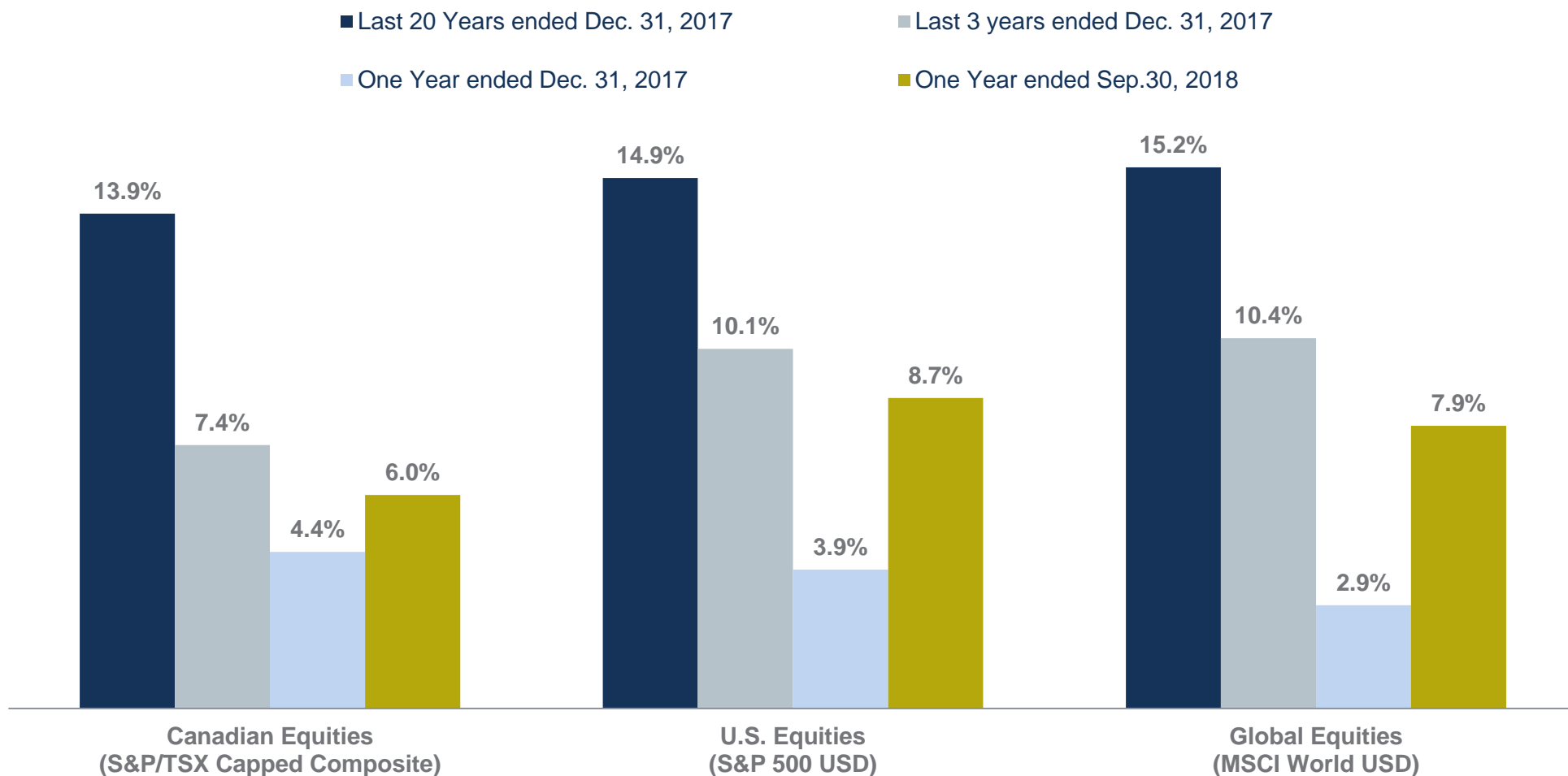
## Economies Across the Globe are Tightening or Reducing Easing



# Equity Market Volatility

## Record Lows Set in 2017!

### Annualized Volatility



1. Annualized standard deviation of monthly returns, in base currencies, as of December 31, 2017 and September 30, 2018; Source: RBC GAM

# Summary Investment Returns

## September 30, 2018

**Market Value:** Investment Account \$ 25,497,046.08  
 Cash Account \$ 642,403.14

	Three Months (%)	One Year (%)	Three Years (%)	Five Years (%)	Since Inception (%)	Month of October 2018 (%)
<b>UOIT</b>	<b>0.36</b>	<b>8.64</b>	<b>9.22</b>	<b>9.17</b>	<b>8.34</b>	<b>-4.97</b>
<i>Benchmark **</i>	<u>0.55</u>	<u>7.05</u>	<u>7.64</u>	<u>7.41</u>	<u>7.23</u>	<u>-4.45</u>
Difference	-0.19	+1.59	+1.58	+1.76	+1.11	-0.52
<small>*Inception date Aug 31, 2010</small>						
<b>UOIT (Cash A/C)</b>	<b>0.44</b>	<b>1.56</b>	<b>1.14</b>	<b>-</b>	<b>1.11</b>	<b>0.17</b>
<i>FTSE TMX Canada 30 Day T-Bill Index</i>	<u>0.32</u>	<u>1.10</u>	<u>0.70</u>	<b>-</b>	<u>0.73</u>	<u>0.13</u>
Difference	+0.12	+0.46	+0.44	<b>-</b>	+0.38	+0.04
<small>*Inception date Nov 30, 2013</small>						

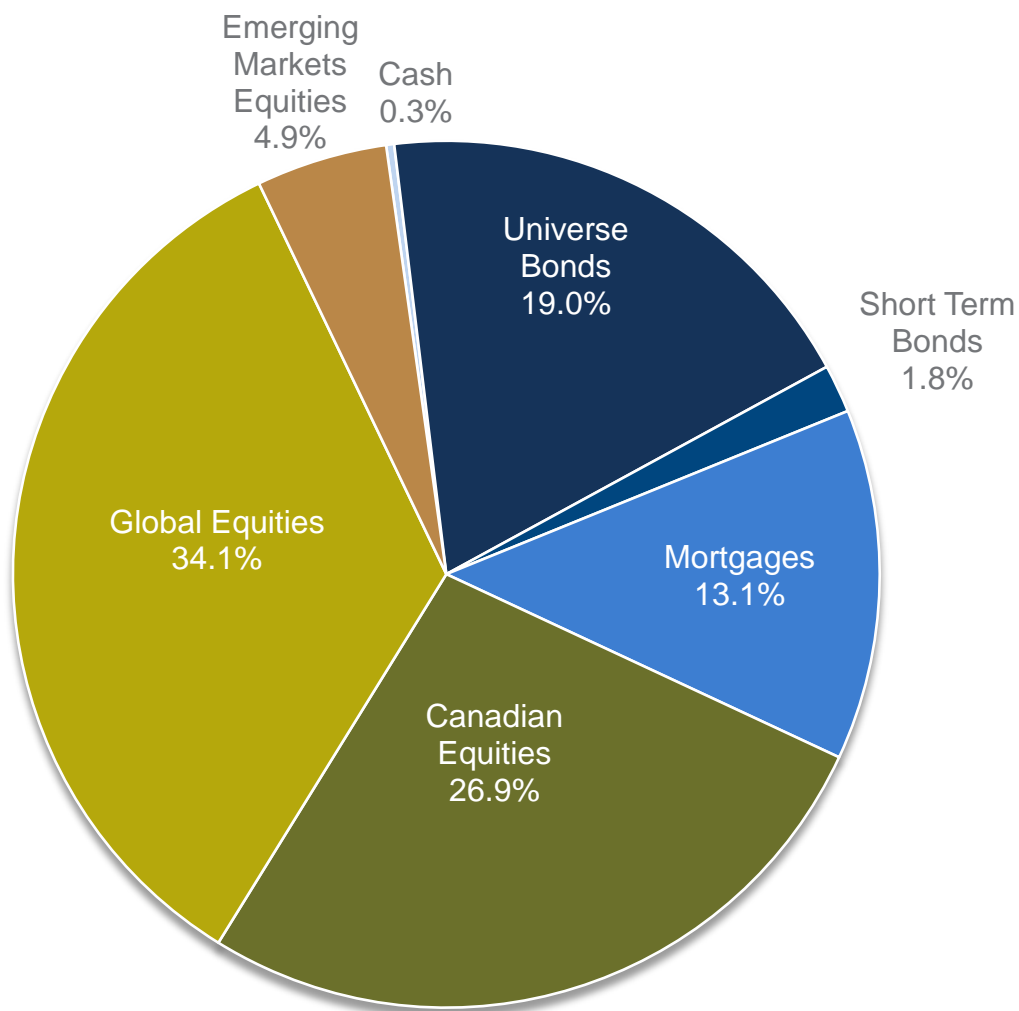
\*\* Current Custom benchmark: 20% FTSE TMX Canada Universe Bond Index; 15% FTSE TMX Canada Short Term Overall Bond Index; 27% S&P/TSX Capped Composite Index; 33% MSCI World Net Index (C\$); 5% MSCI Emerging Markets Net Index (C\$).

Note: All performance is shown gross of annual investment management fees of 36 basis points



# University of Ontario Institute of Technology

## Asset Mix as at September 30, 2018



Funds	Target Allocation (%)
Cash and Cash Equivalents	0.0
Mortgages	15.0
Core Plus Bonds	20.0
Canadian Equities	27.0
Global Equities	33.0
Emerging Markets Equities	5.0

\* Temporary position as we await drawdown for the PH&N Mortgage Pension Trust

# Shifting Macro Regimes

## Market Implications

Regimes	Growth	Inflation	Policy rate	Stock valuations	Prognosis
Post-crisis	Slow	Low	Low	Cheap	Happy risk assets
2017	Solid and improving	Normal and rising	Low and rising	Fair	Happy risk assets
2018+	Solid but slowing	Above normal	Middling and rising	Fair	Middling risk assets?

Source: RBC GAM

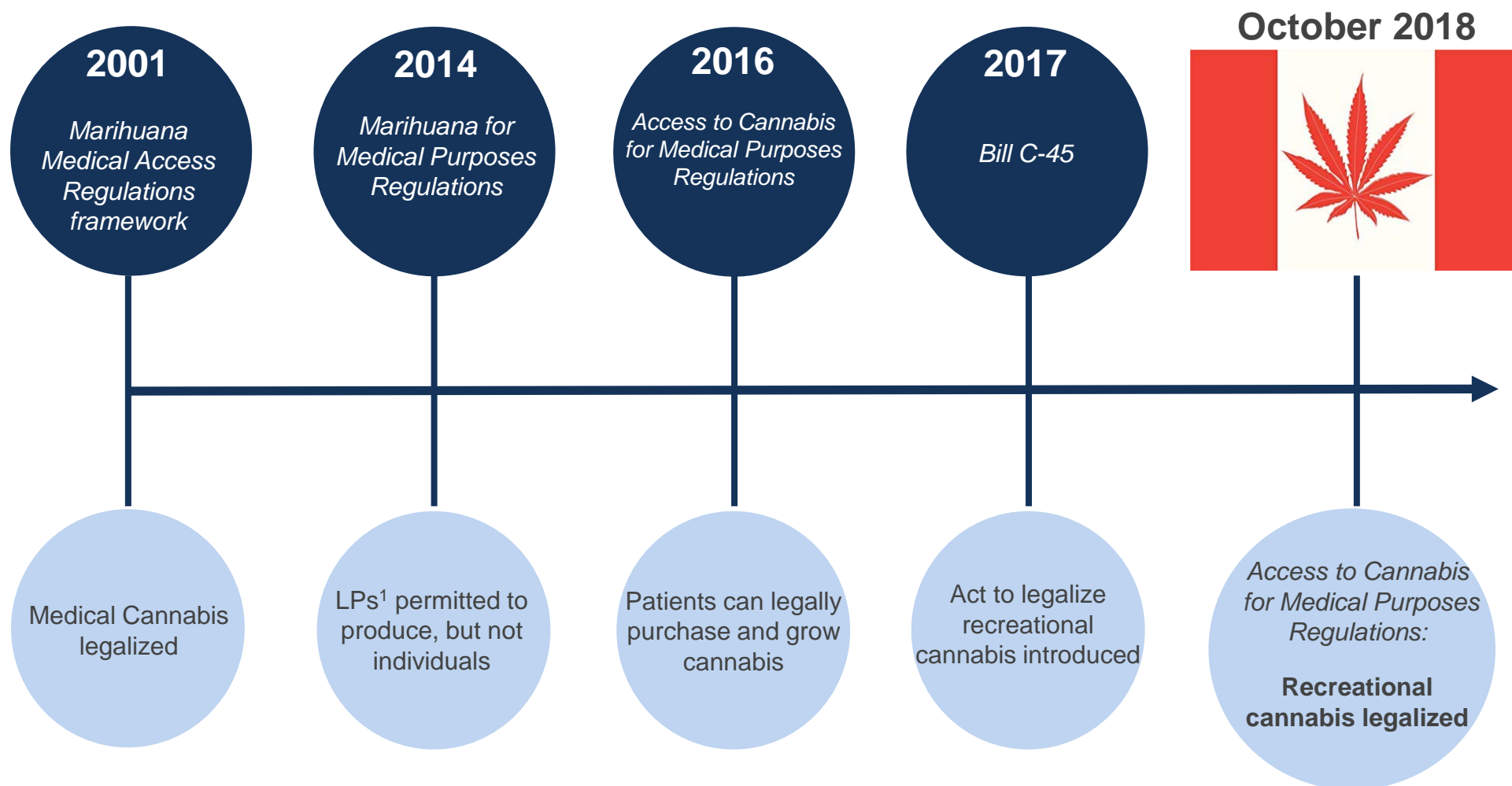


**Reefer Madness**  
*Cannabis and Canadian Market Implications*



# Cannabis in Canada

## A Brief History



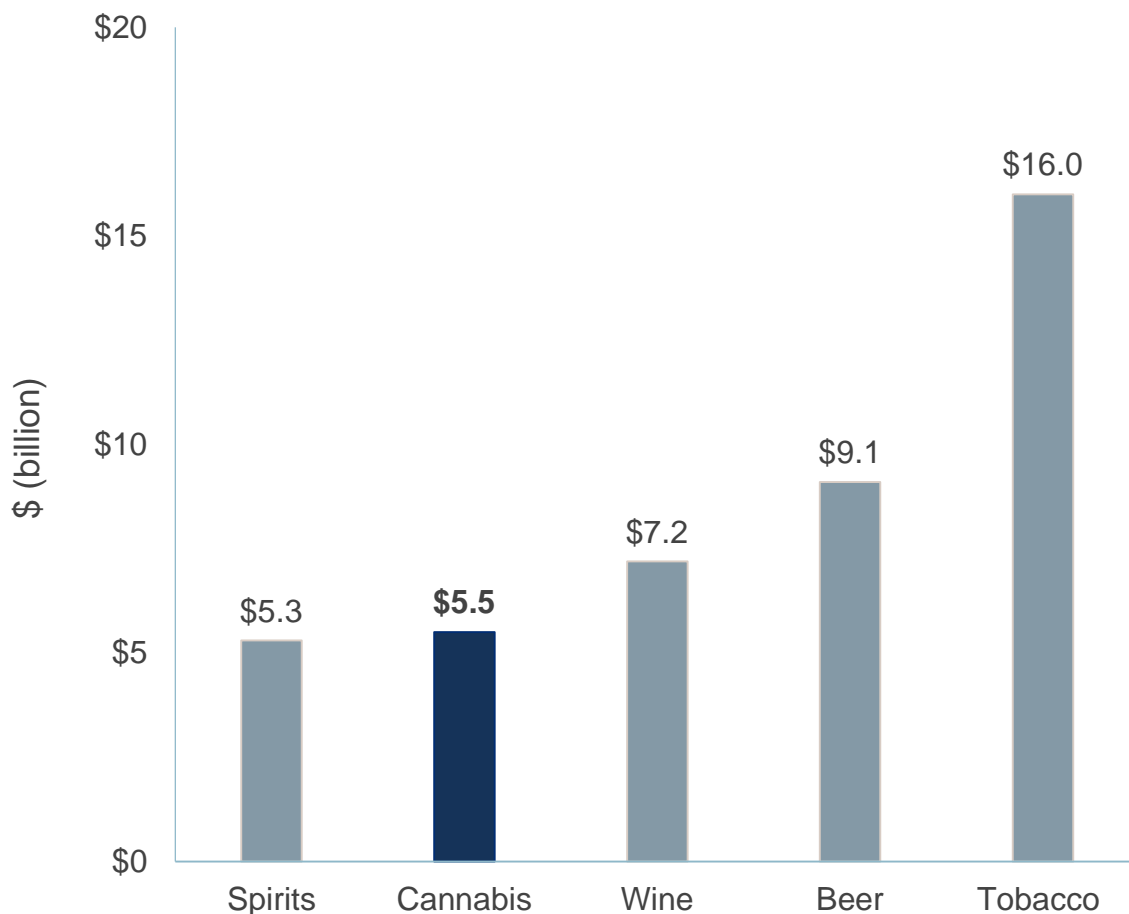
Source: Scotiabank GBM. October 2018

<sup>1</sup> LPs = Licensed Producers

# Canadian Cannabis – Suspected Size of the Prize

## Sizable Pre-existing Black Market

**Market Size by Expenditure Levels**  
Canada 2017



- Estimated total expenditures (illicit + medical) of \$5.5 billion in 2017
  - 4.9 million Canadians aged 15 to 64
  
- Subsequent black market decline likely to temper net economic boost of legalization
  - Shifting consumer preferences (eg. alcohol to cannabis) may impact future consumption levels

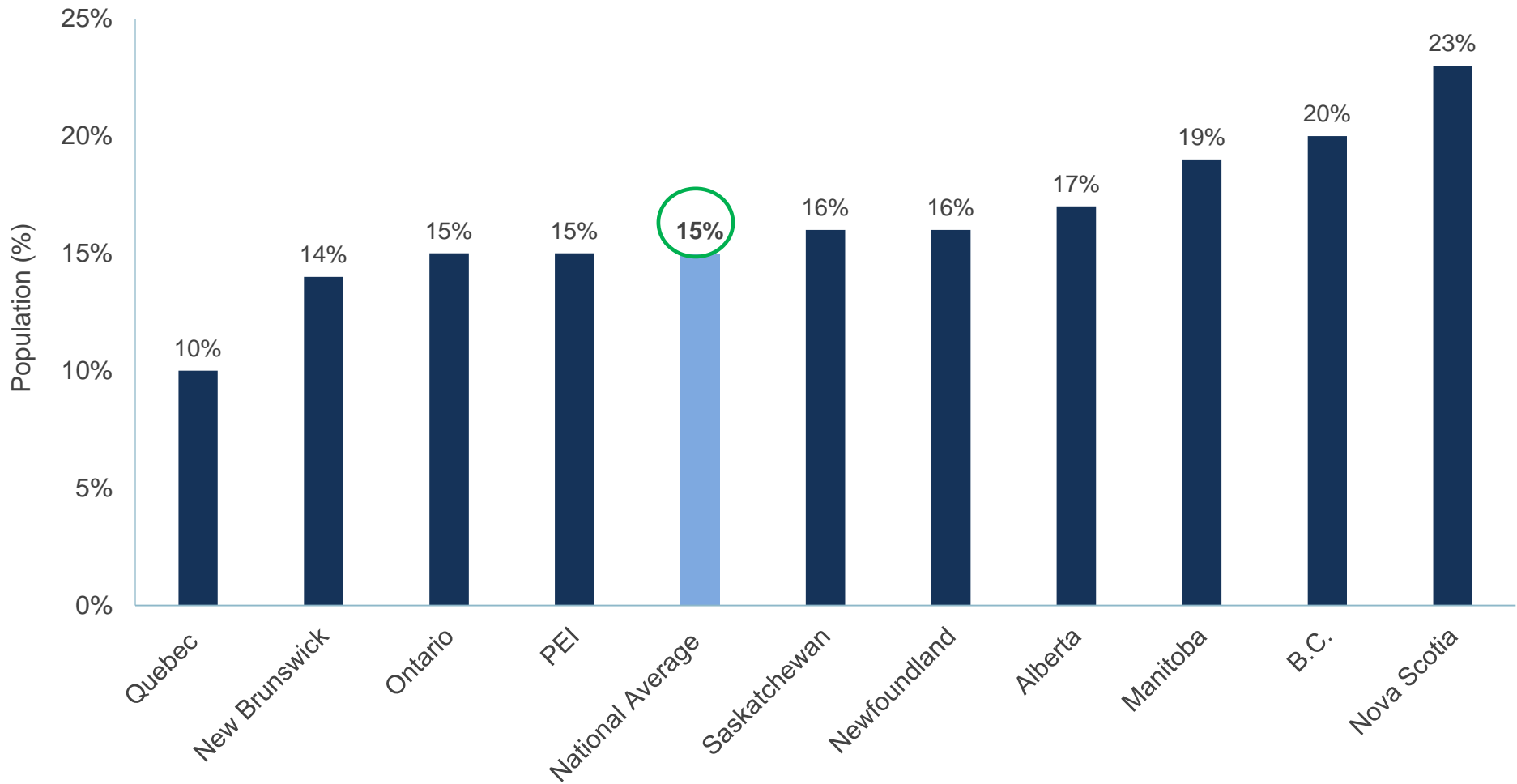
Source: Statistics Canada Cannabis Stats Hub. October 2018

Statistics Canada assumptions: Expenditure based on a average cannabis purchase price of ~\$7/g

# Canadian Cannabis Trends

## Aggregate Cannabis Consumption

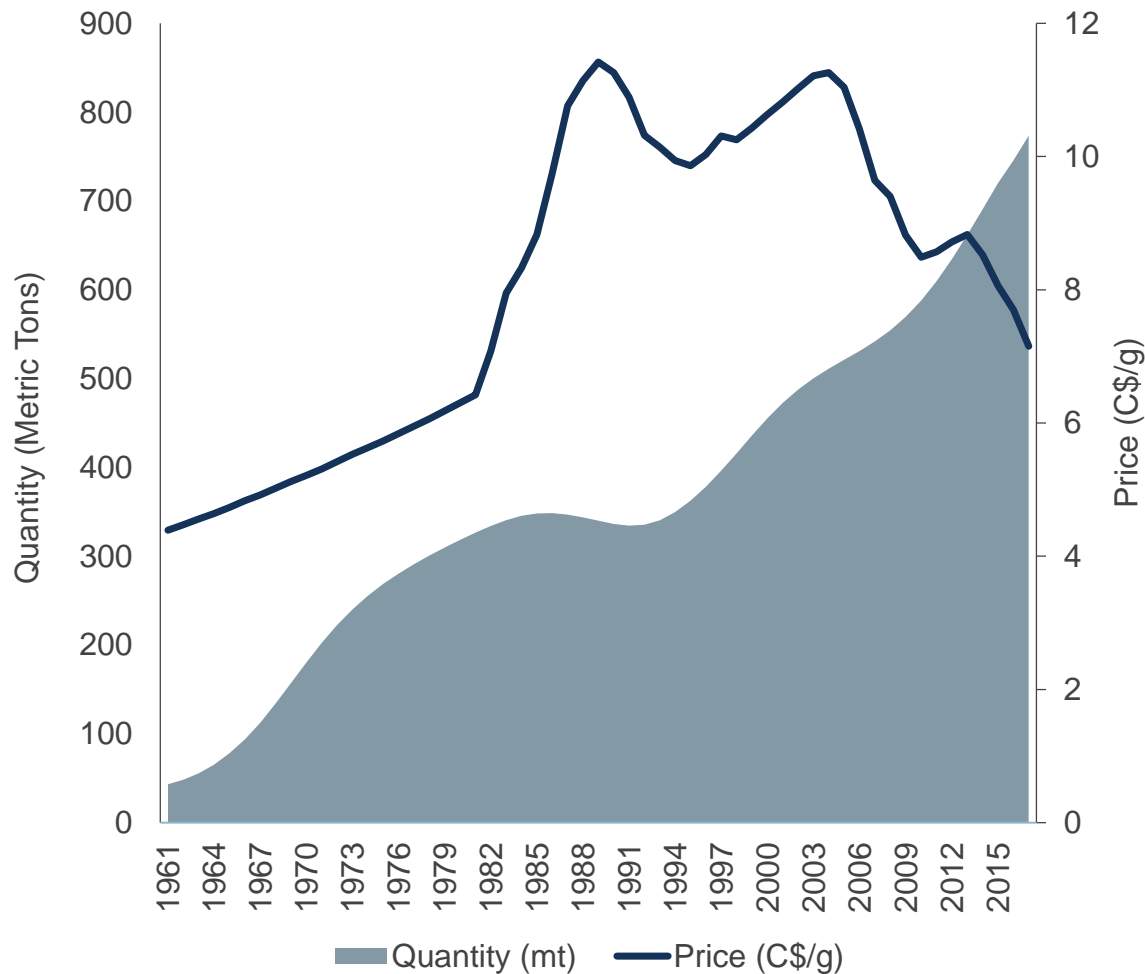
Consumption by Province



Source: Statistics Canada Cannabis Stats Hub. October 2018

# Canadian Domestic Consumption Still an Estimate...

## Relative Canadian Consumption by Price

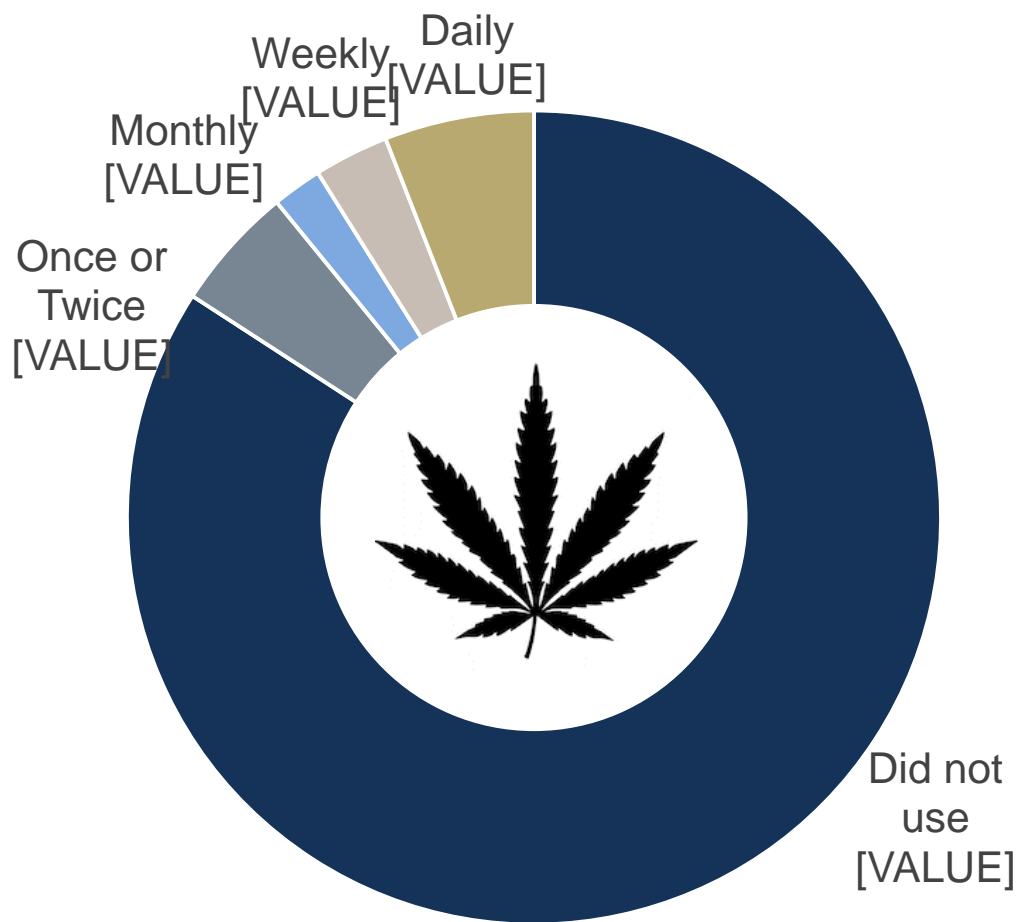


- ~ 775 metric tons of domestic consumption in 2017
- Historically volatile price elasticity
  - Usage growth of ~ 5%/year since the early 1960s

Source: Statistics Canada Cannabis Stats Hub. Data as of December 31, 2017

# Frequency of Cannabis Use (Canada)

## 3 Months (ended of September 30, 2018)



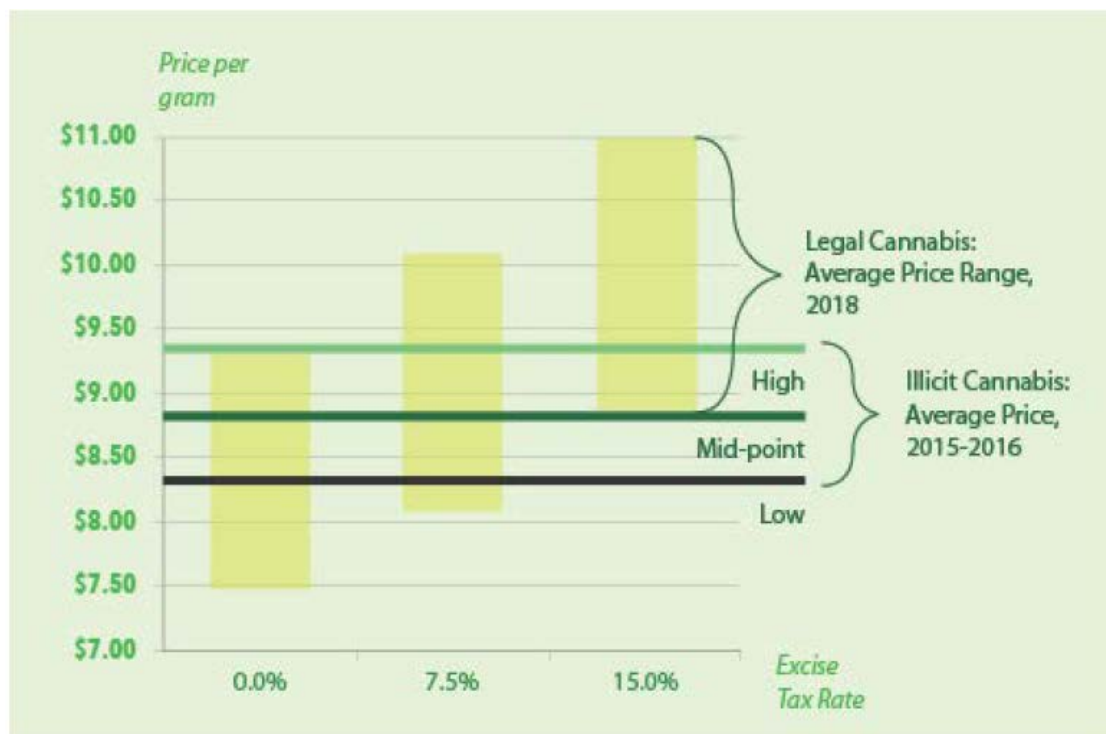
- Economic impact, while positive, will not be enormous
  - Estimated five-year usage increase of 13% from current levels<sup>1</sup>

Source: Statistics Canada Cannabis Stats Hub. October 2018  
<sup>1</sup> Parliamentary Budget Office, RBC GAM. October 2018

# Illicit Demand Could be Sticky

## Impact of Price and Distribution Method

### After-tax Legal & Illicit Average Price - Canada 2018



Note: The after-tax legal price ranges include HST/GST/PST. The weighted average sales tax rate as 12.1 per cent in Canada in 2016.

Source: Legalized Cannabis: Fiscal Considerations, by Nigel Wodrich, published by the Office of the Parliamentary Budget Officer (PBO), November 2016.

- Difficult to predict Illicit demand conversion
  - Illicit market may remain competitive on price, convenience, and product selection post legalization
  
- Total projected annual revenues of <\$10 billion from legal and illegal purchases combined.
  - Represents under 0.5% of Canadian GDP

# Financial Market Implications

## *-The **Marijuana** Boom*



# Canadian Marijuana Index – Industry Leaders

## An Increasingly Saturated Market



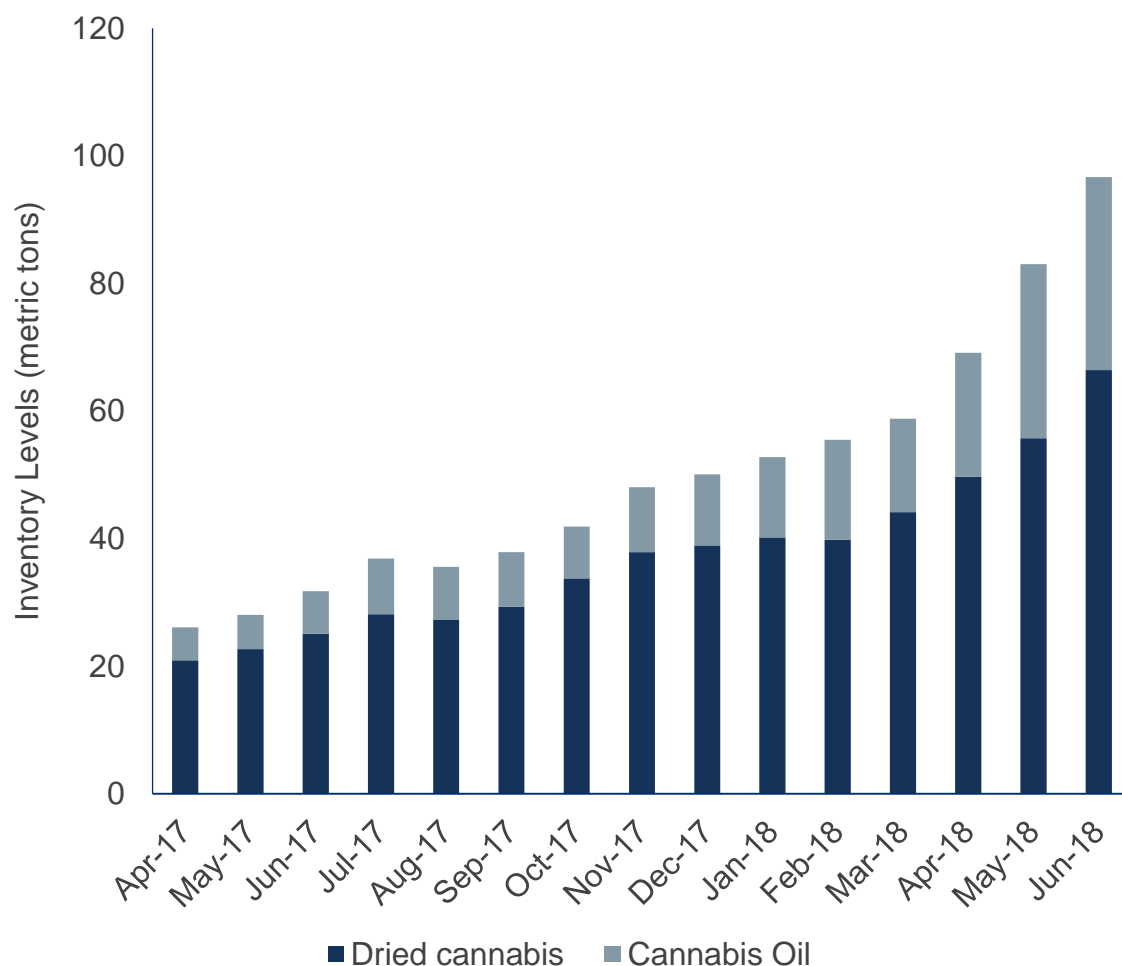
- Canadian universe dominated by 18 publicly traded companies with aggregate market cap of ~ \$47.6B
- Shares trade on the TSX, TSX Venture, CSE and NASDAQ

Source: Canadian Marijuana Index. Data as of November 6, 2018. Denoted in Canadian dollars

# Inventories... Growing Like Weed

## Initial Shortage to be Followed by Expected Oversupply

### Canadian Licensed Producer Inventory



- Inventory levels were high and growing before legalization
  - Legalization delay gave producers time to ramp-up production
  
- Industry could experience initial shortage followed by oversupply<sup>1</sup>
  - Corporate rush for margins accompanied by new facilities and capacity poses oversupply risk
  - Oversupply could lead to sector disruption and consolidation

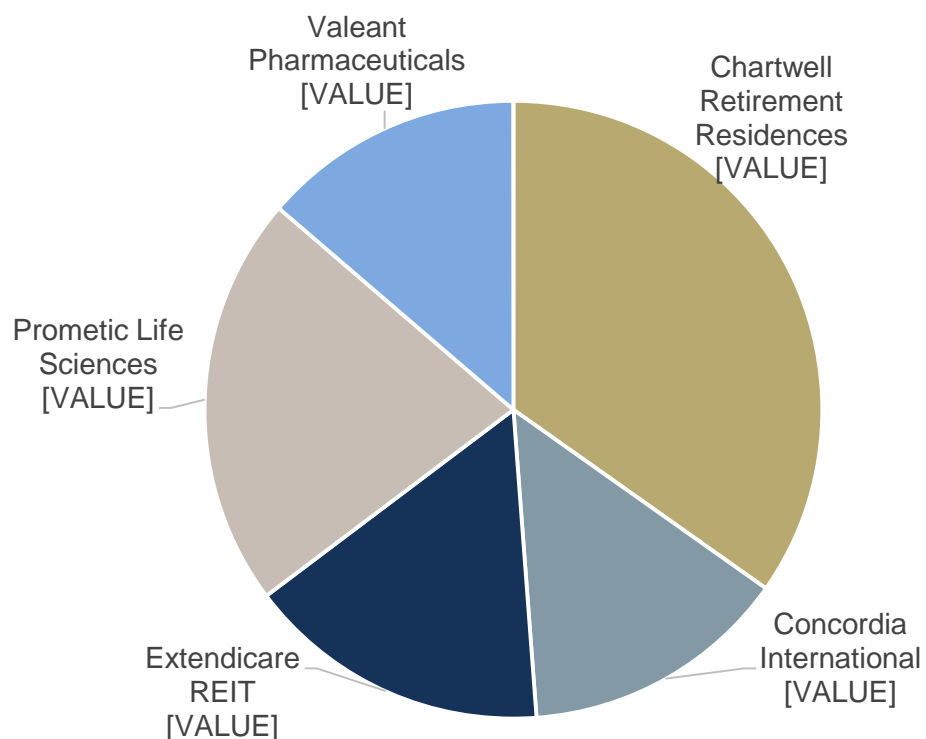
Source: Licensed Producers: Market Data. Health Canada, 2018

<sup>1</sup> Veritas Investment Research, Canadian Cannabis, October 11, 2018

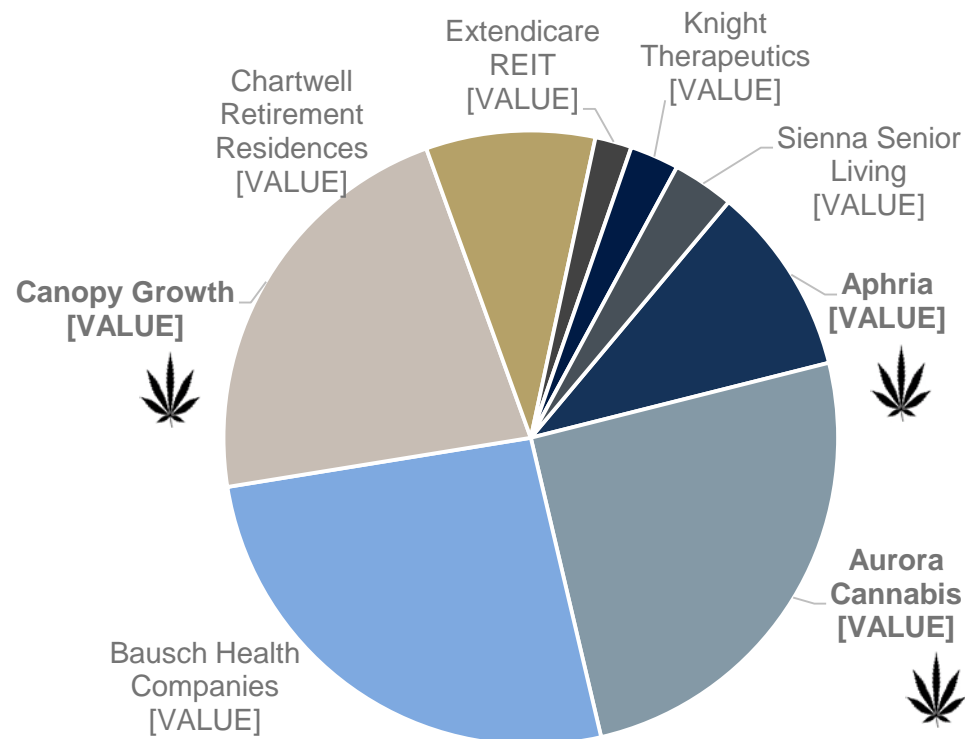
# Canadian Stock Market Implications

## S&P/TSX Composite Index - the Remaking of a Sector

**S&P/TSX Health Care Index – Then**  
October 2015



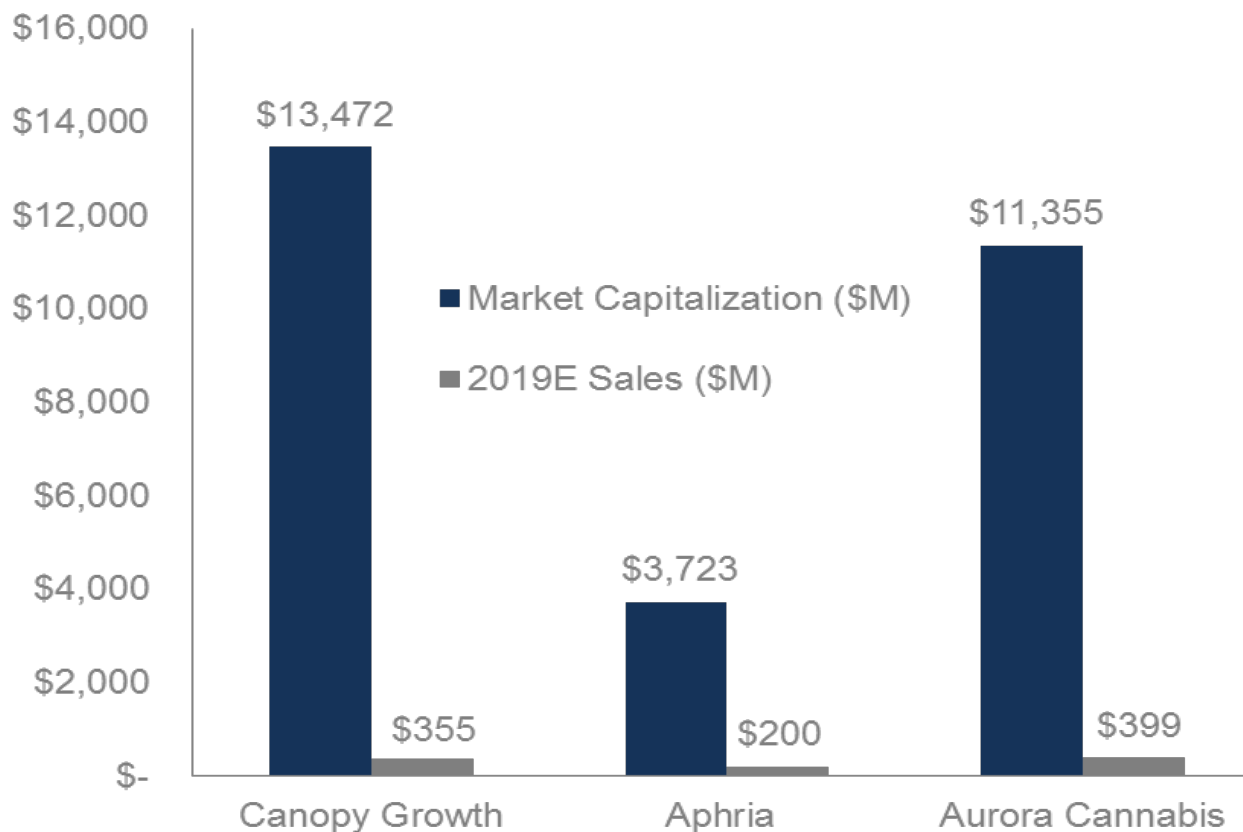
**S&P/TSX Health Care Index – Today**  
October 2018



**Weed** stocks now account for ~ **60%** of Canadian Health Care sector

Source. RBC GAM

# Surging Cannabis Valuations Set to Go Up in Smoke?



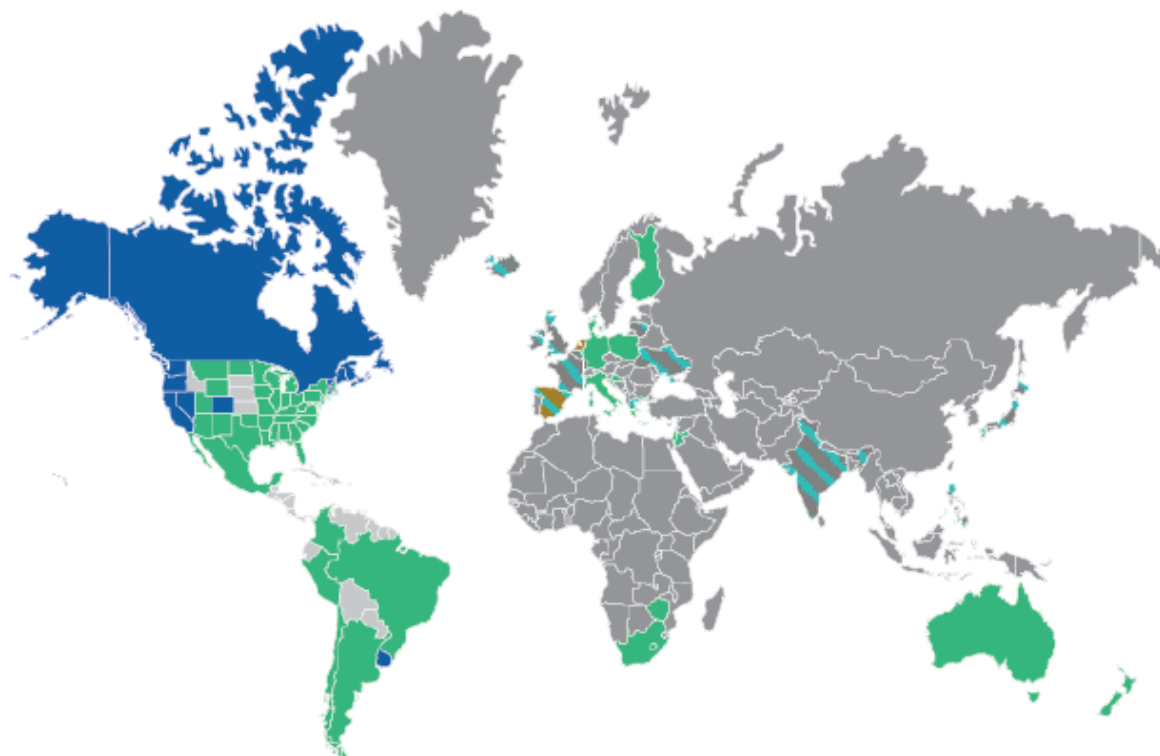
<b>Price/Sales</b>	<b>38x</b>	<b>15x</b>	<b>194x</b>
S&P/TSX Index Weight	0.6%	0.2%	0.5%
Q3 2018 Performance	+65%	+56%	+30%

Source: RBC GAM. Data as at Sept 30, 2018

# Why the Hype?

## Where there's Smoke, there was a Spark

### Prospective Spread of Legalization



Current or Pending Commercial Legal Status <sup>1</sup>

- Medical
  Recreational and Medical
  Limited
- In the Process of / Exploring Legalization
  Illegal

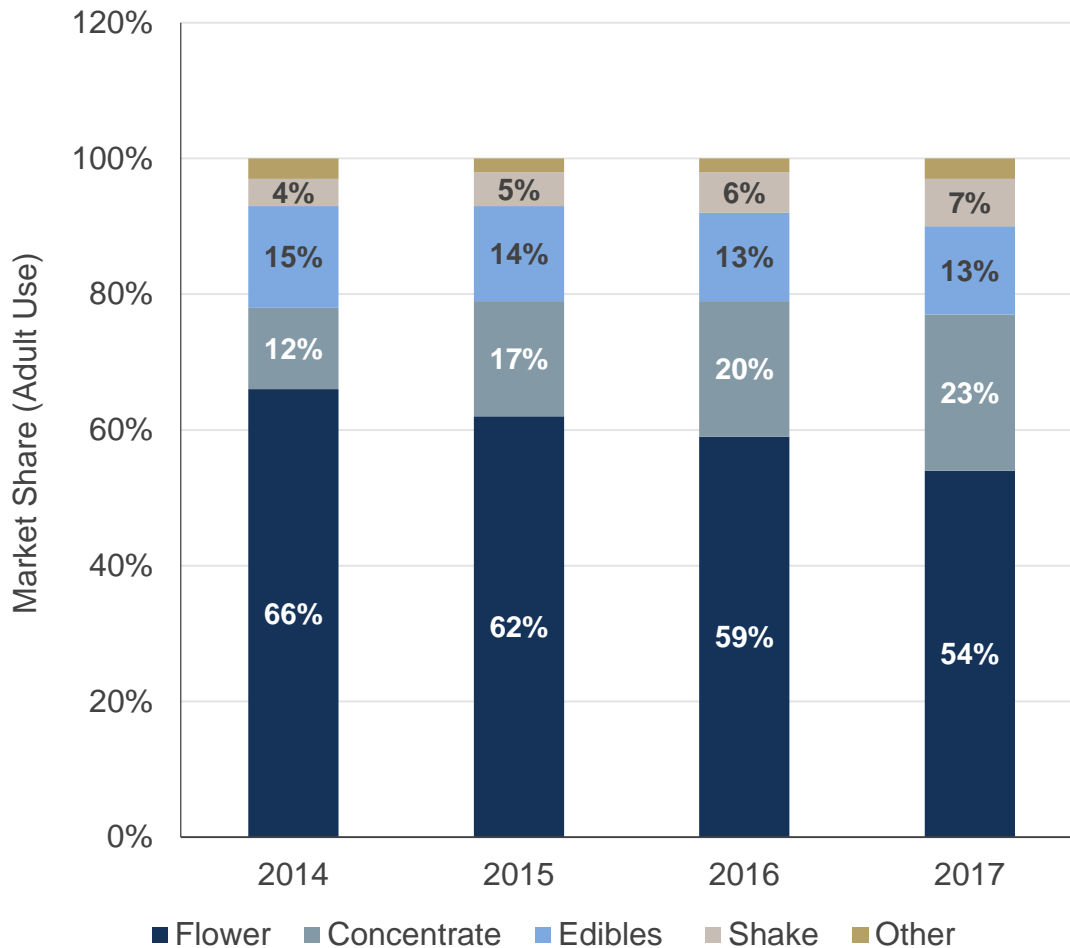
- US market represents an opportunity roughly ten times that of Canada
- **First-mover advantage** positions Canada to establish a thriving and potentially highly profitable industry
- Canadian success hinges on U.S. cannabis legalization at the national level

Source: Canopy Growth Corporation. Scotiabank GBM. October 2018

# New product formats

## Case Study – Colorado

### Post Legalization Consumer Preferences



- Consumer preference shifted to concentrates and edibles post legalization in 2012
- Evolution of new products and potential new consumers
  - Potentially disruptive to recreational alcohol industry
  - Agreements between LPs and alcohol companies underway

Source: Marijuana Policy Group LLC (MPG); Scotiabank GBM; data as of December 31, 2017



# Investment Considerations

## Puff, Puff... or Pass?

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### Investment Catalysts

- Regulatory reform could attract new consumer base
- Cannabis coverage may be provided by health insurers
- Increased market transparency of Canadian sales data is made available
- Growth in market share as new product channels are introduced



### Investment Risks

- Regulatory reform may not be favourable
- Market size potentially over-estimated
- Industry valuations may be too high, leading to consolidation/ attrition
- Revenue depletion - Illicit market may persist despite legalization
- Pricing pressure as a result of increased competition/ oversupply



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## COMMITTEE REPORT

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**SESSION:**

Public   
 Non-Public

**ACTION REQUESTED:**

Decision   
 Discussion/Direction   
 Information

**TO:** Investment Committee

**DATE:** November 19, 2018

**PREPARED BY:** Becky Dinwoodie, Assistant University Secretary

**SUBJECT:** Review of Statement of Investment Policies

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**COMMITTEE MANDATE:**

- In accordance with section 1(ii) of the Investment Committee’s Terms of Reference and sections 2.3 and 8.3 of the university’s Statement of Investment Policies (“SIP”), one of the Investment Committee’s responsibilities is to review the SIP on at least an annual basis and make appropriate recommendations for changes to the Audit & Finance Committee.
- As a result of the committee’s discussions when reviewing and recommending changes to the SIP last year, a further review of the SIP was included on the committee’s work plan for early 2018-2019.

**BACKGROUND/CONTEXT & RATIONALE:**

- The purpose of the SIP is to define the management structure governing the investment of non-expendable (endowed) University funds, and to outline the principal objectives and rules by which assets will be managed.
- The SIP outlines UOIT’s investment objectives and risk strategy.
- A more detailed breakdown of asset classes, strategic targets, ranges and benchmarks is set out in the university’s Asset Class Management Procedures (ACMP).
- In accordance with section 2.1 of the SIP, the Board of Governors is responsible for receiving the Audit and Finance Committee’s recommendations with respect to the SIP and to approve or amend the SIP, as appropriate.

- As set out in section 2.2 of the SIP, the Audit & Finance Committee is responsible for receiving the Investment Committee's recommendations with respect to the SIP and making recommendations to the Board.
- The Audit & Finance Committee is also responsible for approving the Investment Committee's recommendations to amend the ACMP.
- The SIP currently incorporates the ACMP as an appendix, which means it is subject to approval by the Board. This is contrary to the intention set out in the SIP for the Audit & Finance Committee to be the approval authority for changes to the ACMP.

**PROPOSED CHANGES:**

**Section 2.3 – Investment Committee**

- Clarify that committee to consist of a minimum of three (3) external governors and remove maximum number of committee members so as not to conflict with the committee's Terms of Reference.

**Section 6.1 – Asset Mix and Ranges**

- Change "A more detailed breakdown of asset classes, strategic targets, ranges and benchmarks is maintained in the UOIT Asset Class Management Procedures appended to this Statement as Appendix "A" to "A more detailed breakdown of asset classes, strategic targets, ranges and benchmarks is maintained in the university's Asset Class Management Strategy."
- The name "Asset Class Management Strategy" is more accurate since the document does not contain procedures and sets out the university's specific investment strategy.
- Further, this change more accurately reflects the approval structure set out in the SIP, with the Audit & Finance Committee approving the Asset Class Management Strategy.

**COMPLIANCE WITH POLICY/LEGISLATION:**

- The Investment Committee's review of the SIP complies with the committee's Terms of Reference, as well as sections 2.3 and 8.3 of the SIP.

**NEXT STEPS:**

- If the Investment Committee recommends these changes to the SIP, the changes will be presented to the Audit & Finance Committee for recommendation at its meeting on February 20, 2019 and to the Board for approval on February 28, 2019.

**MOTION:**

*That the Investment Committee hereby recommends the amendments to the Statement of Investment Policies, as presented, to the Audit and Finance Committee for recommendation to the Board of Governors for approval.*

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**SUPPORTING REFERENCE MATERIALS:**

- blacklined version of Statement of Investment Policies



Classification	LCG 1128
Framework Category	Legal, Compliance and Governance
Approving Authority	Board of Governors
Policy Owner	Chief Financial Officer
Approval Date	June 27, 2018
Review Date	June 2019
Supersedes	Statement of Investment Policies, June 2016

## Statement of Investment Policies

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## 1.0 Purpose

The purpose of this Statement of Investment Policies (“SIP”) is to define the management structure governing the investment of non-expendable (endowed) University funds, and to outline the ~~principle~~principal objectives and rules by which assets will be managed. The assets will be managed in accordance with this Statement and all applicable legal requirements. Any investment manager (“Manager”) or any other agents or advisor providing services in connection with assets shall accept and adhere to this Statement.

## 2.0 RESPONSIBILITIES

### 2.1 Board of Governors

The Board of Governors (“the Board”) of UOIT has responsibility and decision-making authority for these assets. The Board has the responsibility to govern these assets and has chosen to appoint members of the Audit and Finance Committee to sit on the Investment Committee.

As part of its fiduciary responsibilities, the Board will:

- appoint members of the Investment Committee in consultation with the Audit and Finance Committee;
- receive the Audit and Finance Committee’s recommendations with respect to Statement of Investment Policies and approve or amend the Statement as appropriate;
- review all other recommendations and reports of the Audit and Finance Committee with respect to the Fund and the selection, engagement or dismissal of professional investment managers, custodians and advisors, and take appropriate action.

### 2.2 Audit & Finance Committee

As part of its fiduciary responsibilities, the Audit and Finance Committee will:

- receive the Investment Committee’s recommendations with respect to Statement of Investment Policies and make recommendations to the Board for the selection, engagement or dismissal of professional investment managers, custodians and advisors, as appropriate;
- review all other recommendations and reports of the Investment Committee, including recommendations with respect to the investments within the Fund, and recommendations to amend the Asset Class Management ~~Procedures~~Strategy and approve such recommendations and receive such reports.

### 2.3 Investment Committee

The Investment Committee (the Committee”) consists of a minimum of three (3) ~~members external governors and a maximum of five (5) members.~~

**Commented [A1]:** Changed to be consistent with committee Terms of Reference.

The Committee may delegate some of its responsibilities to agents or advisors. In particular, the services of a custodian (the “Custodian”) and of one or more investment managers (the “Manager”) may be retained.

The Investment Committee will have an active role to:

- formulate recommendations to the Audit and Finance Committee regarding the investments in the Fund;
- maintain an understanding of legal and regulatory requirements and constraints applicable to these assets;
- review this Statement of Investment Policies and the ~~appended~~-Asset Class Management ~~Procedures~~Strategy, on an annual basis, and make appropriate recommendations to the Audit and Finance Committee;
- provide regular reports to the Audit and Finance Committee;
- formulate recommendations to the Audit and Finance Committee regarding the selection, engagement or dismissal of professional investment managers, custodians and advisors.
- oversee the Fund and the activities of the Manager, including the Manager’s compliance with their mandate and the investment performance of assets
- ensure that the Manager is apprised of any amendments to their mandate; and
- inform the Manager of any significant cash flows.

### 2.4 Investment Manager(s)

The Manager is responsible for:

- Selecting securities within the asset classes assigned to them, subject to applicable legislation and the constraints set out in this Statement;
- Providing the Committee with quarterly reports of portfolio holdings and a review of investment performance and future strategy and recommending appropriate changes to the investment portfolio; (see Section 7 on “Reporting and Monitoring”);
- Attending meetings of the Committee at least once per year to review performance and to discuss proposed investment strategies;

- Informing the Committee promptly of any investments which fall outside the investment constraints contained in this Statement and what actions will be taken to remedy this situation; and
- Advising the Committee of any elements of this Statement that could prevent attainment of the objectives.

### **3.0 PORTFOLIO OBJECTIVES**

#### **3.1 Investment Policy**

The Investment Policy outlines UOIT's investment objectives and risk guidelines. Investment objectives are defined in the context of Total Return which is defined as the sum of income and capital gains from investments.

#### **3.2 Investment Objectives**

The overall investment objective is to obtain the best possible total return on investments that is commensurate with the degree of risk that UOIT is willing to assume in obtaining such return. In general, UOIT investment decisions balance the following objectives:

- generate stable annual income for the funds' designated purpose;
- preserve the value of the capital;
- protect the value of the funds against inflation; and
- maintain liquidity and ease of access to funds when needed

Stable annual incomes are an essential part of the disbursement process, and facilitate the forecast of spendable income each year. The investment object for non-expendable (endowment) funds is to generate a total return that is sufficient to meet obligations for specific purposes by balancing present spending needs with expected future requirements. The total return objective must take into consideration the preservation of endowment capital, and the specific purpose obligations according to donor wishes.

All endowment funds are to be accumulated and invested in a diversified segregated or pooled fund of Canadian and foreign equities and fixed income securities. These funds must be structured to optimize return efficiency such that the return potential is maximized within the organization's risk tolerance guidelines. The Manager is expected to advise the Committee in the event that the pooled fund exhibits, or may exhibit, any significant departure from this Statement.

### **4.0 GENERAL GUIDELINES**

The University uses the investment pool method, except that in those instances where funds are precluded under agreement or contract from being pooled for investment

purposes. The acquisition of specific investment instruments outside of authorized investment pools, requires the approval of the Chief Financial Officer and one of either President or VP External Relations.

All securities shall be registered in the University Of Ontario Institute Of Technology's name; or in the name of a financial institution that is eligible to receive investments under the University Of Ontario Institute Of Technology's Investment Policy.

The University may or may not directly or internally manage any portion of its endowed funds.

External investment managers and/or advisors shall be selected from well-established and financially sound organizations which have a proven record in managing funds with characteristics similar to those of the University.

The University shall maintain separate funds in the general ledger for endowment fund donations. Within these funds, the University shall maintain accurate and separate accounts for all restricted funds.

Investment income, capital gains and losses on the sale of equities and securities, and the amortization of premiums and discounts on fixed term securities earned on endowment funds accrue to the benefit of the endowment accounts and are distributed to capital preservation, stabilization and distribution accounts annually.

## 5.0 **AUTHORIZED INVESTMENTS**

### 5.1 **Investment Criteria**

Outlined below are the general investment criteria as understood by the Committee. The list of permitted investments includes:

(a) Short-term instruments:

- Cash;
- Demand or term deposits;
- Short-term notes;
- Treasury bills;
- Bankers acceptances;
- Commercial paper; and
- Investment certificates issues by banks, insurance companies and trust companies.

(b) Fixed income instruments:

- Bonds;
- Debentures (convertible and non-convertible); and
- Mortgages and other asset-backed securities.



(c) Canadian equities:

- Common and preferred stocks;
- Income trusts; and
- Rights and warrants.

(d) Foreign equities:

- Common and preferred stocks;
- Rights and warrants; and
- American Depository Receipts and Global Depository Receipts.

(e) Pool funds, closed-end investments companies and other structured vehicles in any or all of the above permitted investment categories are allowed.

## 5.2 Derivatives

The Fund may use derivatives, such as options, futures and forward contracts, for hedging purposes, to protect against losses from changes in interest rates and market indices; and for non-hedging purposes, as a substitute for direct investment.

Up to 15% of the Fund may be invested in strategies that use derivatives to engage in short selling.

## 5.3 Pooled Funds

With the approval of the Committee, the Manager may hold any part of the portfolio in one or more pooled or co-mingled funds managed by the Manager, provided that such pooled funds are expected to be operated within constraints reasonably similar to those described in this mandate. It is recognized by the Committee that complete adherence to this Statement may not be entirely possible; however, the Manager is expected to advise the Committee in the event that the pooled fund exhibits, or may exhibit, any significant departure from this Statement.

## 5.4 Responsible Investing

The Board has a fiduciary obligation to invest the Fund in the best interests and for the benefit of the University.

The Board recognizes that environment, social, and governance (ESG) factors may have an impact on corporate performance over the long term, although the impact can vary by industry. Best practices suggest that incorporating ESG factors in the investment process is prudent and aligned with the University's social commitment.

Given the fact that the University uses the investment pool method, it is not practical for the Committee to directly engage individual companies on ESG related issues, either through dialogue or by filing shareholder resolutions. Subject to its primary fiduciary

responsibility of acting in the best interests of the University and its stakeholders, and within the limits faced by an investor in externally managed pooled funds, the Committee will incorporate ESG factors into its investment process through the following methods:

**(a) Manager Selection and Reporting**

The integration of ESG factors in the investment process will be a criterion in the selection, management and assessment of the Manager.

The Committee will require the Manager to provide regular and annual reporting on the incorporation of formal ESG factors in the management of their portfolios.

**(b) Engagement**

Since the University does not directly invest in companies, proxy voting is delegated to the Manager. The Committee will encourage the Manager to incorporate into their proxy voting guidelines policies that encourage issuers to increase transparency of their ESG policies, procedures and other activities, and also to bring to the Committee's attention any significant exposure through the Fund to a particular company, industry or nation that is facing a material ESG issue.

**6.0 RISK GUIDELINES**

All investment of assets must be made within the risk guidelines established in this Statement. Prior to recommending changes in investments, the Manager must certify to the Committee that such changes are within the risk guidelines. For the purposes of interpreting these guidelines, it is noted that all allocations are based on market values and all references to ratings reflect a rating at the time of purchase, reviewed at regular intervals thereafter. In the event that the portfolio is, at any time, not in compliance with either the ranges or ratings profile established in this Statement, such non-compliance will be addressed within a reasonable time after the Manager or Committee has identified such non-compliance.

6.1 **Asset Mix and Ranges**

Table 6.1

Asset Class	Range
Cash & Short Term	0-10%
Fixed Income	20-50%
Canadian Equities	20-40%
Global Equities	25-45%

Investment of assets must be within the asset classes and ranges established in Table 6.1. A more detailed breakdown of asset classes, strategic targets, ranges, and benchmarks is maintained in the [UOFT-university's Asset Class Management Procedures appended to this Statement as Appendix "A" Strategy](#).

6.2 **Cash and Cash Equivalents**

Cash and cash equivalents must have a rating of at least R1, using the rating of the Dominion Bond Rating Service ("DBRS") or equivalent.

6.3 **Fixed Income**

(a) Maximum holdings of the fixed income portfolio by credit rating are:

Credit Quality	Maximum in Bond <sup>1</sup>	Minimum in Bond <sup>1</sup>	Maximum Position in a Single Issuer
Government of Canada <sup>2</sup>	100%	n/a	no limit
Provincial Governments <sup>2</sup>	60%	0%	40 %
Municipals	25%	0%	10%
Corporates	75 %	0%	10%
AAA <sup>3</sup>	100%	0%	10%
AA <sup>3</sup>	80%	0%	5%
A <sup>3</sup>	50%	0%	5%
BBB	15%	0%	5 %
BB and less	20 %	0%	2 %

<sup>1</sup> Percentage of portfolio at market value; <sup>2</sup> Includes government-guaranteed issues; <sup>3</sup> Does not apply to Government of Canada or Provincial issues

(b) Maximum holdings of the fixed income portfolio, other than Canadian denominated bonds as illustrated in 6.3 (a), by asset type:

- 20% for asset-backed securities;
- 60% for mortgages or mortgage funds;

- 20% for bonds denominated for payment in non-Canadian currency; and
  - 10% for real return bonds.
- (c) All debt ratings refer to the ratings of Dominion Bond Rating Service (DBRS), Standard & Poor's or Moody's.

**6.4 Equities**

- (a) No one equity holding shall represent more than 15% of the market value of the assets of a single pooled fund.
- (b) There will be a minimum of 30 stocks in each equity (pooled fund) portfolio.
- (c) No more than 5% of the market value of an equity portfolio (pooled fund) may be invested in companies with a market capitalization of less than \$100 million at the time of purchase
- (d) Illiquid assets are restricted to 10% of the net assets of the Fund.
- (e) Emerging market holdings will not exceed 10% of the total portfolio value.
- (f) Foreign equity holdings can be currency hedged to a maximum of 50%

**7.0 PERFORMANCE EXPECTATIONS**

**7.1 Portfolio Returns**

The portfolio is expected to earn a pre-fee rate of return in excess of the benchmark return over the most recent four-year rolling period. Return objectives include realized and unrealized capital gains or losses plus income from all sources. Returns will be measured quarterly, and calculated as time-weighted rates of return. The composition of the benchmark is developed from the asset mix outlined in this Statement and more specifically described in the Asset Class Management Procedures, Appendix A. In order to meet the University's disbursement requirements, investments need to earn a minimum level of income, measured over a four year rolling market cycle. The minimum recommended level is defined as the sum of the following items:

Minimum disbursement requirement	3.5%
Investment management fees	0.5%
Capital preservation amount	<u>2.0%</u>
Minimum Rate of Return	<u>6.0%</u>

Note: The disbursement requirement and capital preservation amounts will be reviewed, and updated as required.

## **8.0 REPORTING & MONITORING**

### **8.1 Investment Reports**

Each quarter, the Manager will provide a written investment report containing the following information:

- portfolio holdings at the end of the quarter;
- portfolio transactions during the quarter;
- rates of return for the portfolio with comparisons with relevant indexes or benchmarks; Compliance report;

### **8.2 Monitoring and Recommendations**

At the discretion of the Committee as required, the Manager will meet with the Committee regarding:

- the rate of return achieved by the Manager;
- the Manager's recommendations for changes in the portfolio;
- future strategies and other issues as requested.

The agreement with the Manager or any Custodian will be reviewed by the committee on a four year cycle. This review could include a Request for Proposal for these services.

### **8.3 Annual Review**

It is the intention of UOIT to ensure that this policy is continually appropriate to the university's needs and responsive to changing economic and investment conditions. Therefore, the Committee shall present the Statement of Investment Policies to the Audit and Finance Committee, and through that Committee to the Board, along with any recommendations for changes, at least annually.

## **9.0 STANDARD OF CARE**

The Manager is expected 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 Manager will manage the assets with the care, diligence and skill that an investment Manager of ordinary prudence would use in dealing with all clients. The Manager will also use all relevant knowledge and skill that it possesses or ought to possess as a prudent Investment Manager.

The Manager will manage the assets in accordance with this Statement and will verify compliance with this Statement when making any recommendations with respect to changes in investment strategy or investment of assets.

The Manager will, at least once annually, provide a letter to the Committee confirming the Manager's familiarity with this Statement. The Manager will, from time to time, recommend changes to the SIP to ensure that the SIP remains relevant and reflective of the University's investment objectives over time.

#### **10.0 CONFLICT OF INTEREST**

All fiduciaries shall, in accordance with the UOIT Act and By-laws and policies on conflict of interest, disclose the particulars of any actual or potential conflicts of interest with respect to the Fund. This shall be done promptly in writing to the Chair of the Investment Committee. The Chair will, in turn, table the matter at the next Board meeting. It is expected that no fiduciary shall incur any personal gain because of their fiduciary position. This excludes normal fees and expenses incurred in fulfilling their responsibilities if documented and approved by the Board.



## COMMITTEE REPORT

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**SESSION:**

Public   
 Non-Public

**ACTION REQUESTED:**

Decision   
 Discussion/Direction   
 Information

**TO:** Investment Committee

**DATE:** November 19, 2018

**FROM:** Cheryl Foy, University Secretary & General Counsel

**SUBJECT:** Review of Investment Committee Terms of Reference

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**COMMITTEE MANDATE:**

- As part of the committee’s mandate, it must conduct a periodic review of its Terms of Reference and recommend revisions to the Board of Governors when appropriate.
- We are seeking the committee’s feedback and recommendation of the proposed amendments to the Investment Committee Terms of Reference.

**BACKGROUND/CONTEXT & RATIONALE:**

- We reviewed the Investment Committee’s Terms of Reference in the context of the newly implemented By-laws, as well as any comments received since they were last updated in March 2016.

**PROPOSED CHANGES:**

**Section 1**

- Change “Statement of Investment Policies and Procedures (“SIPP”)” to “Statement of Investment Policies (“SIP”)”, which reflects the updated name of the policy instrument.

**Section 3**

- Removal of the Vice-President, Finance and Vice-President, External Relations as non-voting members of the committee - members of the Senior Leadership Team will be providing support to Board committees as required and/or requested and it is no longer necessary to include them as committee members.

- Deletion of “The Board Chair and Vice Chair(s) and the President are invited to attend as voting members.” - Article 7.4 of By-law No. 1 provides that the Board Chair and President “shall be members of all Board Committees, whether standing, special or ad hoc.” Accordingly, it is no longer necessary to stipulate that they are invited to attend as voting members.
- Change reference from “voting members” to “external governors” to be consistent with the language used in the Terms of Reference of the other committees.

**COMPLIANCE WITH POLICY/LEGISLATION:**

- It is compliant with the Act and By-laws.

**NEXT STEPS:**

1. If the committee supports the proposed amendments to the committee’s Terms of Reference, the amended Terms of Reference will be presented to the Board for approval on November 29, 2018.

**MOTION:**

*The Investment Committee hereby recommends the proposed amendments to the Investment Committee Terms of Reference, as presented, for approval by the Board of Governors.*

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**SUPPORTING REFERENCE MATERIALS:**

- blacklined version of Investment Terms of Reference



## BOARD OF GOVERNORS Investment Committee of the Audit and Finance Committee

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### 1. TERMS OF REFERENCE

The Investment Committee is a sub-committee of the Audit and Finance Committee and is responsible for overseeing the management of the University's investments (Funds) as outlined below and in accordance with the Statement of Investment Policies ~~and Procedures~~ ("SIPP"). The University's investments include all funds invested by the University other than funds that may be invested from time to time in the university's pension plan(s).

Commented [BD1]: Reflects updated name of Statement of Investment Policies

The Committee shall also consider such other matters delegated to the Committee by the UOIT Board of Governors under the auspices of the Audit and Finance Committee.

The Investment Committee shall have the following responsibilities:

- i) Maintaining an understanding of applicable legal and regulatory requirements and constraints;
- ii) Reviewing on an annual basis the university's Statement of Investment Policies ~~and Procedures~~ (SIPP) and making appropriate recommendations to the Audit and Finance Committee;
- iii) Providing semi-annual reports to the Audit and Finance Committee, and through that Committee to the Board of Governors, on the performance of the Funds and any other aspects of the Funds that the Investment Committee deems appropriate or as requested by the Board;
- iv) Formulating recommendations to the Audit and Finance Committee regarding the selection, engagement and dismissal of the Investment Manager ("the Manager"), the Custodian, the Consultant, and any other agents or advisors that may be necessary to prudently manage the Funds;
- v) Overseeing the Fund and the activities of the Manager, including the Manager's compliance with their mandate and the investment performance of assets;
- vi) Considering ESG factors in its investment process;
- vii) Ensuring that the Manager is apprised of any new amendments to their mandate; and
- viii) Informing the Manager of any significant cash flows.

### 2. MEETINGS

The Committee shall meet at least four (4) times per year. In accordance with the UOIT Act and the Board of Governors Meeting Policy and Procedures, the Committee shall conduct three types of Meetings as part of its regular administration: Public, Non-Public and *In Camera* (when required).

### 3. MEMBERSHIP

Committee members shall be appointed by the Board of Governors in consultation with the Audit and Finance Committee and comprised of:

- Between three (3) and seven (7) external governors, including:
  - one governor who is also a member of the Audit and Finance Committee; and
  - one governor who is also a member of the Strategy and Planning Committee
- Up to three (3) elected governors
  - ~~Vice-President, Finance (non-voting)~~
  - ~~Vice-President, External Relations (non-voting)~~

**Commented [BD2]:** SLT members will provide support to Board committees as required/requested – it is no longer necessary for the VPs to be committee members

Consideration shall be given to governors who possess the requisite financial and investment expertise to provide knowledgeable oversight of the investment portfolio.

~~The Board Chair and Vice Chair(s) and the President are invited to attend as voting members.~~

**Commented [BD3]:** Article 7.4 of By-law No. 1 states that Chair & President are members of all Board committees – this is no longer necessary

The Chair will be selected from among the ~~voting membersexternal governors. of the Investment Committee.~~

**Commented [BD4]:** Changed to be consistent with the Terms of Reference of the other committees.

### 4. QUORUM

Quorum requires that half of the Committee members entitled to vote be present.