



BOARD OF GOVERNORS
Investment Committee

Wednesday, June 2, 2021

11:30 a.m. – 1:30 p.m.

[Videoconference](#)

Toll-Free: +1.888.240.2560 Meeting ID: 912 811 186

Members: Stephanie Chow (Chair), Ferdinand Jones, Thorsten Koseck, Steven Murphy, Mark Neville, Dietmar Reiner, Maria Saros, Kim Slade

Staff: Becky Dinwoodie, Cheryl Foy, Brad Maclsaac

Guests: Leila Fiouzi, Connor Glassco & Jacinta O'Connor (PH&N)

AGENDA

No.	Topic	Lead	Allocated Time	Suggested Start Time
	NON-PUBLIC SESSION (material not publicly available)			
1	Call to Order	Chair		
2	Agenda (M)	Chair		
3	Conflict of Interest Declaration	Chair		
4	Chair's Remarks	Chair	10	11:35 a.m.
5	Minutes of Non-Public Session of Meeting of February 17, 2021* (M)	Chair	5	11:45 a.m.
6	Investment Review			
6.1	Fourth Quarter Investment Review – Portfolio Components* (U)	PH&N	15	11:50 a.m.
7	Other Business	Chair		
8	Termination (M)	Chair		12:10 p.m.
	BREAK		10	12:10 p.m.
	PUBLIC SESSION			12:20 p.m.
9	Call to Order	Chair		

No.	Topic	Lead	Allocated Time	Suggested Start Time
10	Conflict of Interest Declaration	Chair		
11	Chair's Remarks	Chair		
12	President's Remarks	President	5	12:25 p.m.
13	Investment Review			
13.1	Fourth Quarter Investment Review* (U)	PH&N	15	12:30 p.m.
13.2	Strategic Discussion: Future Investments Strategy* (M)	Chair	25	12:45 p.m.
13.3	Annual Board Report* (M)	Becky Dinwoodie	5	1:10 p.m.
14	Consent Agenda (M):	Chair	5	1:15 p.m.
14.1	Endowment Disbursement*			
14.2	Minutes of Public Session of Meeting of February 17, 2021*			
15	Other Business	Chair		1:20 p.m.
16	<i>In Camera</i> Session	Chair		
17	Termination (M)	Chair		1:30 p.m.

Becky Dinwoodie, Secretary



Presentation to:

Ontario Tech University

Leila Fiouzi, CFA
Vice President & Investment Counsellor

Taylor Woodward, CFA
Investment Counsellor

Connor Glassco, CFA
Associate Investment Counsellor

Jacinta O'Connor
Associate

June 2, 2021

Business Cycle Scorecard

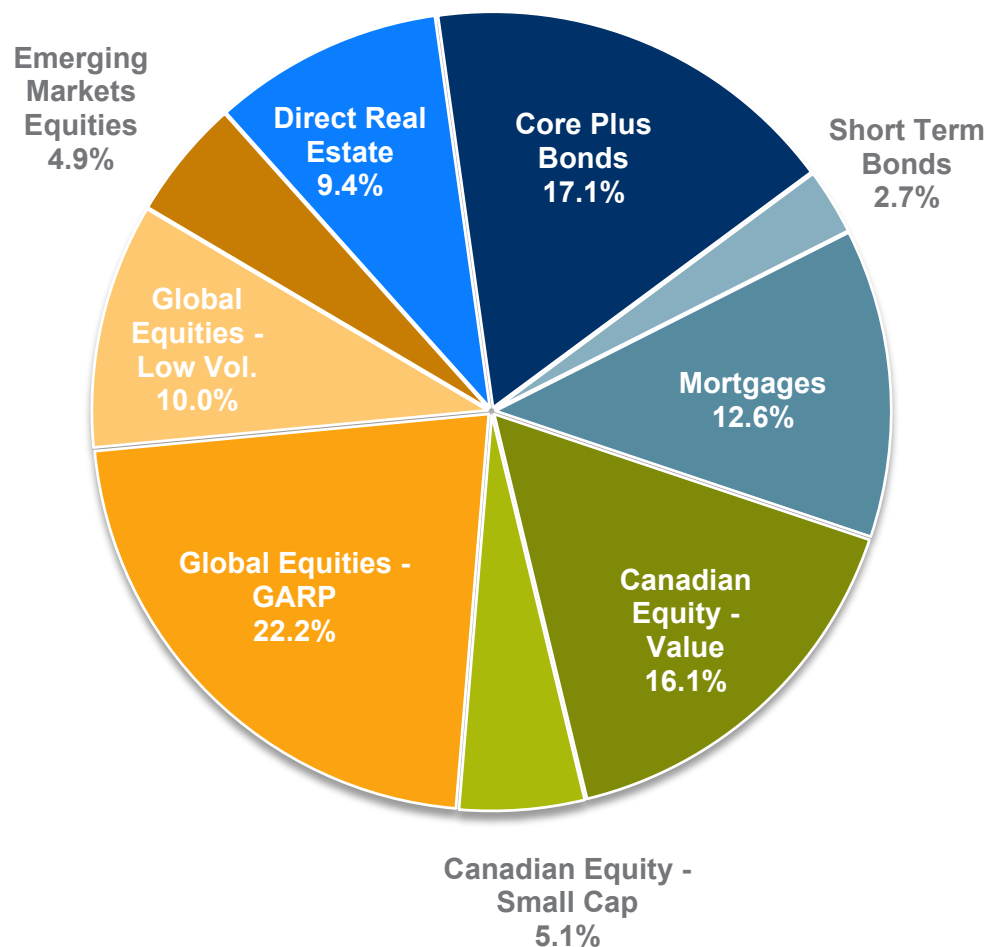
U.S. has now transitioned firmly into “Early cycle”

U.S. business cycle scorecard

	Start of cycle	Early cycle	Mid cycle	Late cycle	End of cycle	Recession
Sentiment						
Bonds						
Corporate profitability						
Economic trend						
Cycle age						
Prices						
Leverage						
Monetary policy						
Consumer						
Housing						
Business investment						
Inventories						
Economic slack						
Employment						
Equities						
Volatility						
Credit						
Allocation to each stage of cycle	11%	62%	12%	4%	2%	8%

Note: As at 2021-02-03. Darkness of shading indicates the weight given to each input for each phase of the business cycle. Source: RBC GAM

Asset Mix as at April 30, 2021



Funds	Target Allocation (%)
Cash and Cash Equivalents	0.0
Mortgages	15.0
Core Plus Bonds	20.0
Canadian Equities	20.0
Global Equities	30.0
Emerging Markets Equities	5.0
Direct Real Estate	10.0

¹ Reflects University of Ontario Institute of Technology account

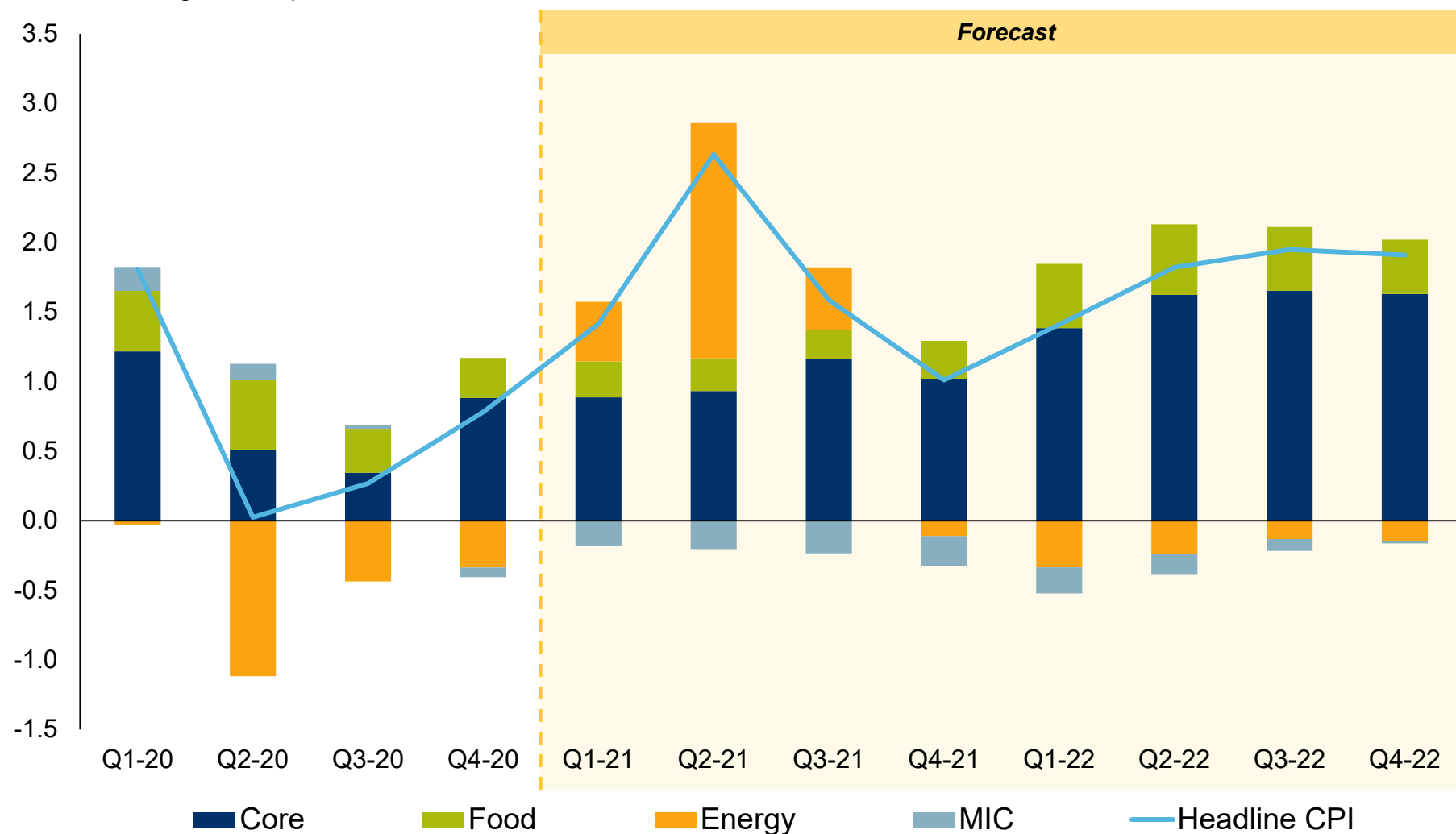
² Short Term Bond exposure pending allocation to mortgages.

Canadian inflation climbing back within target range

Rebound in oil prices expected to cause transitory spike; core inflation remains subdued

Underlying price pressures

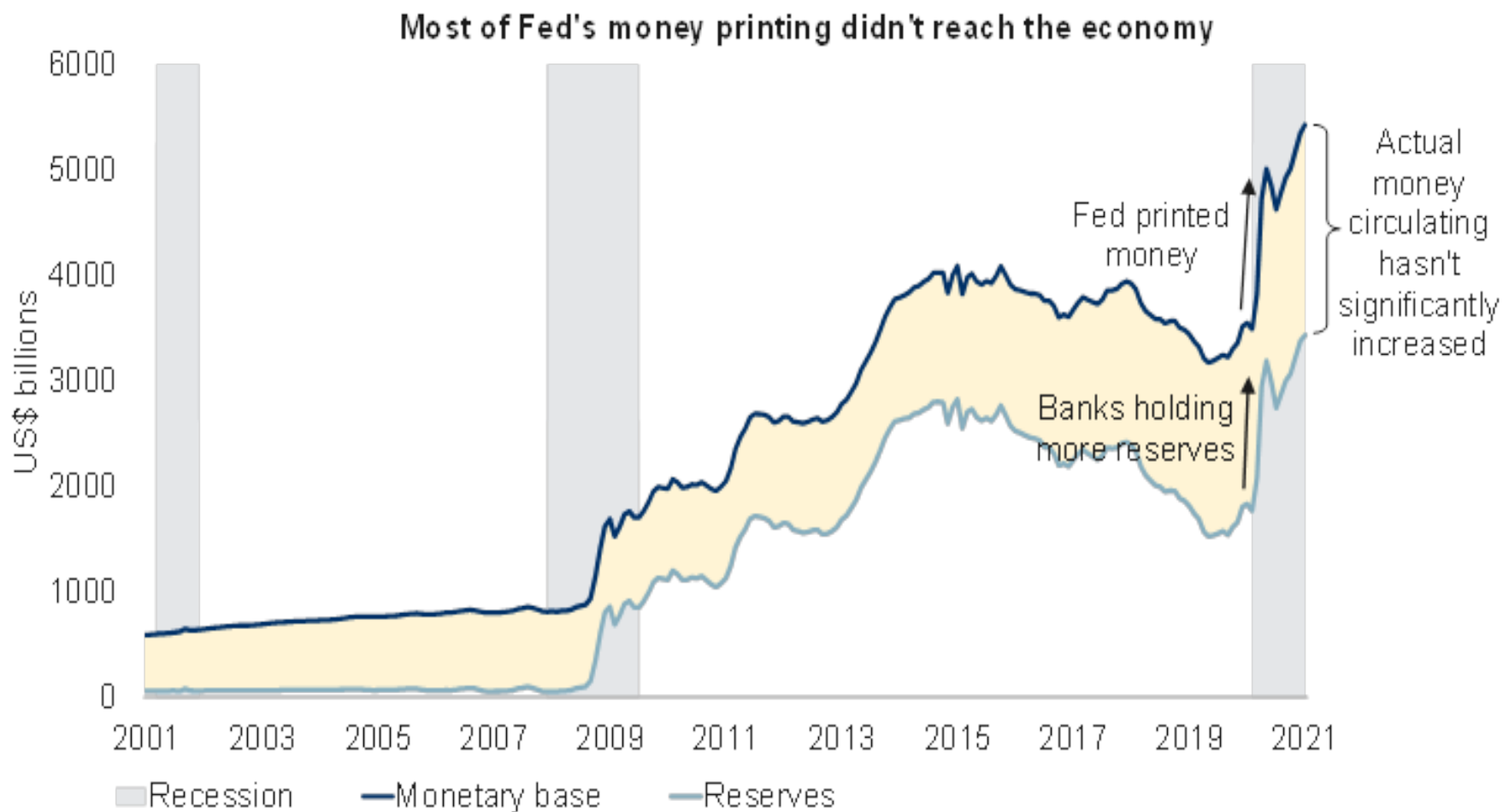
YoY % growth in prices, NSA



Source: Statcan, RBC Economics

Money Supply and Inflation

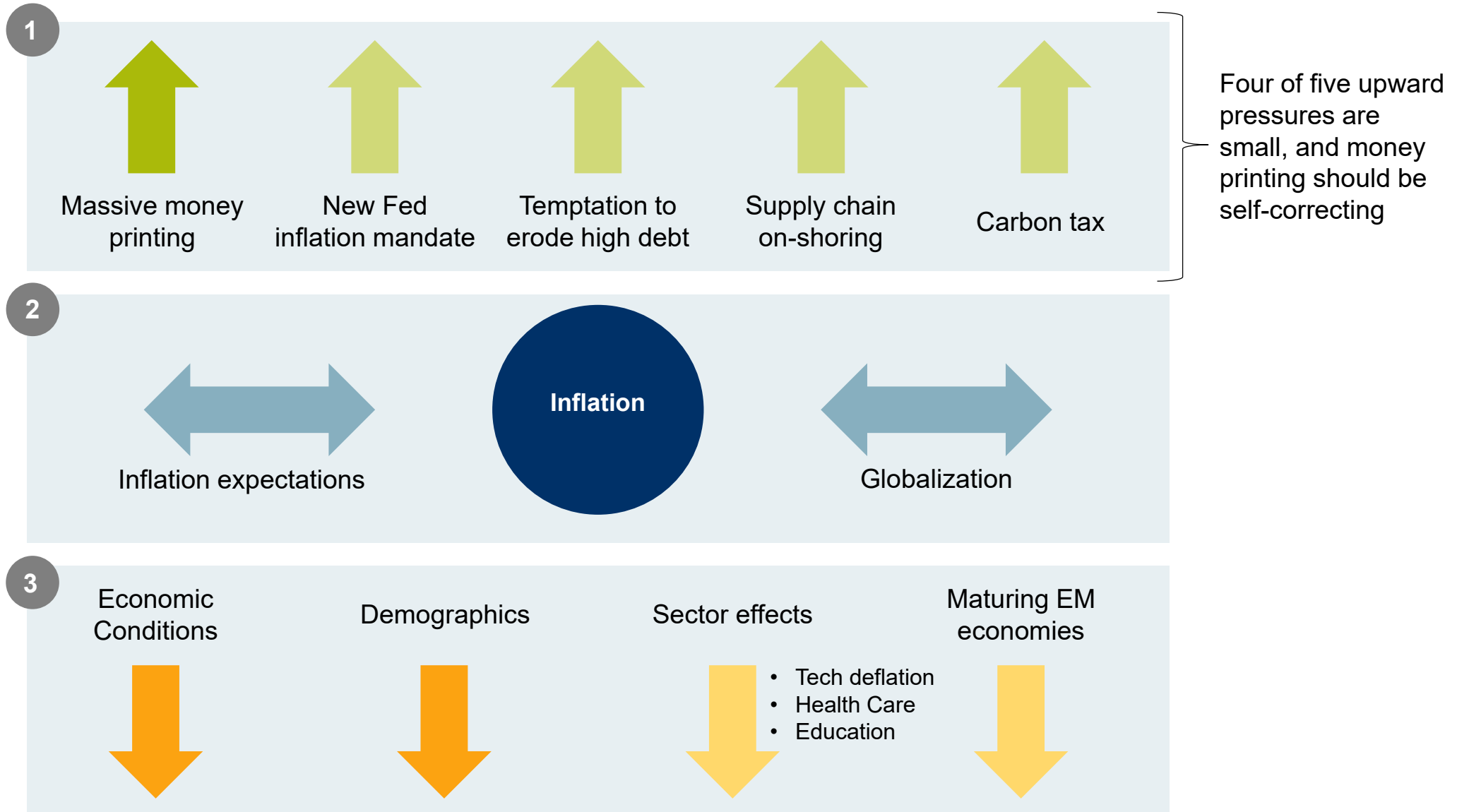
Connection is tenuous



Note: As of Jan 2021. Source: Federal Reserve Board, Haver Analytics, RBC GAM

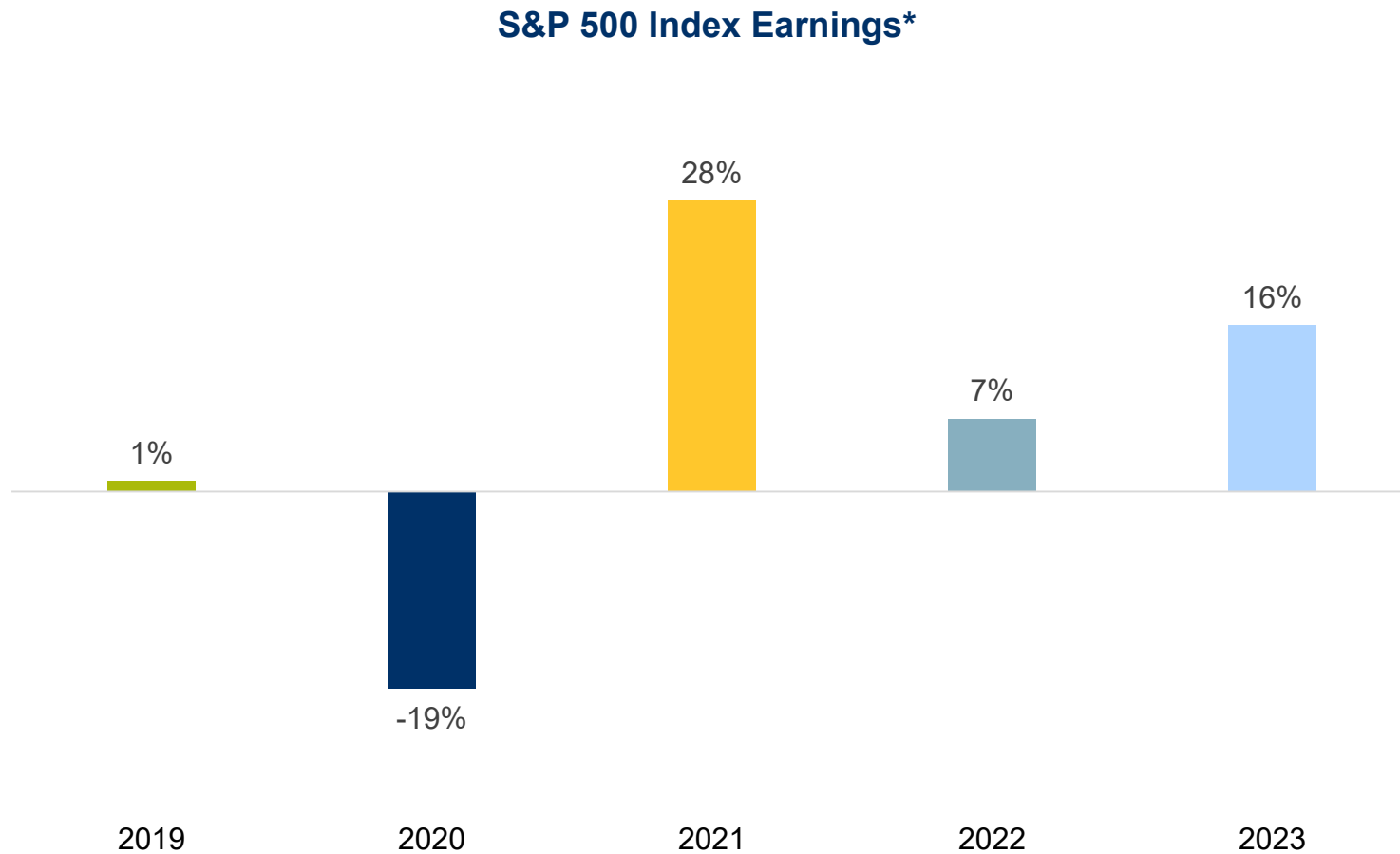
Outlook on inflation

Inflation likely to increase modestly, but remain low



Looking ahead... what are valuation expectations?

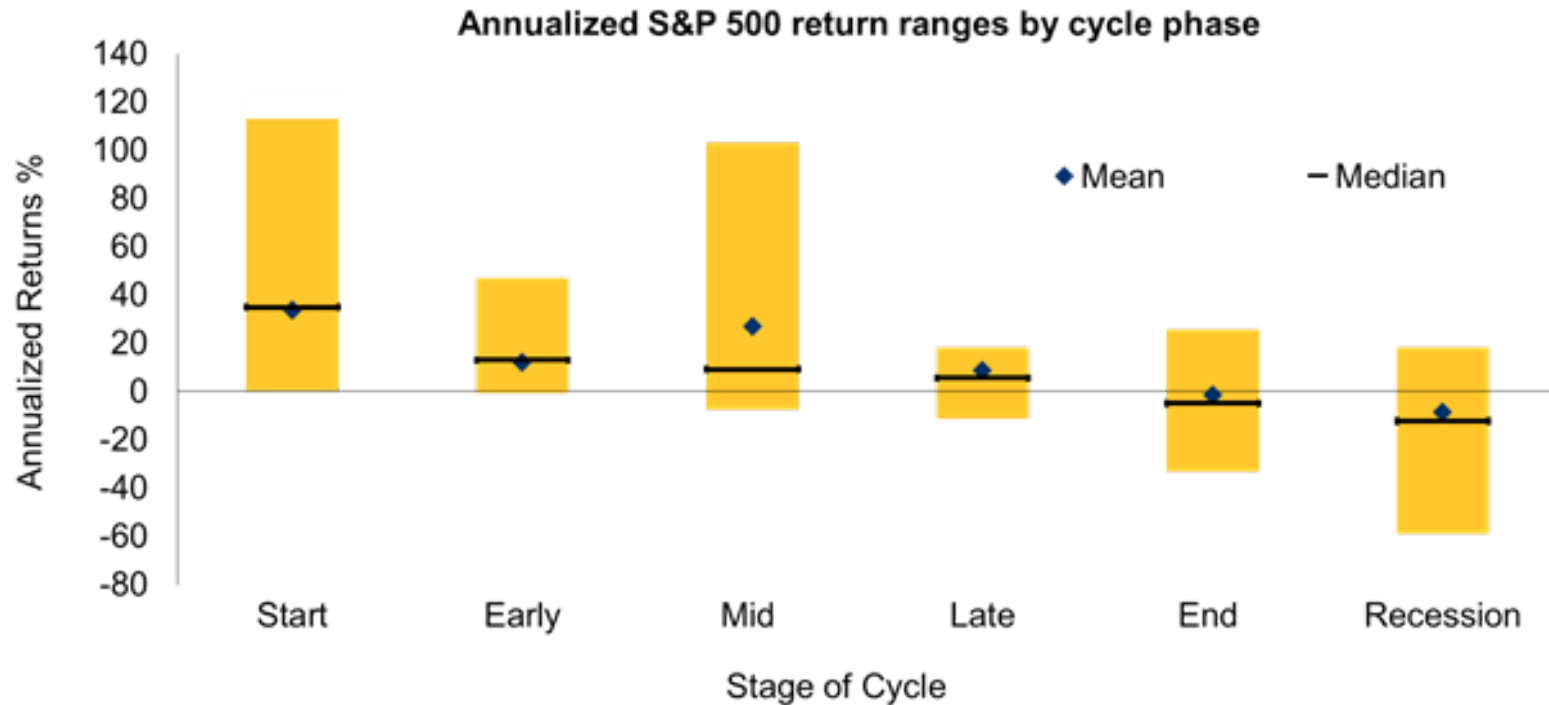
Room for growth despite concerns that stocks are expensive now



* Consensus operating earnings forecast for the calendar year.
Source: Bloomberg, RBC GAM

S&P 500 Performance throughout the Business Cycle

Median returns have been best at the beginning of a new economic cycle



Note: As of 2021/03/12. Source: Macrobond, RBC Global Asset Management. Shaded area represents range. Data from 1949 business cycle onwards.

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COMMITTEE REPORT

SESSION:

Public
 Non-Public

ACTION REQUESTED:

Decision
 Discussion/Direction
 Information

TO: Investment Committee

DATE: June 2, 2021

PRESENTED BY: Brad Maclsaac, VP Administration

SUBJECT: Revised Strategic Investment Policy

COMMITTEE/BOARD MANDATE:

The board is responsible for governing and managing the financial affairs of the university.

The Investment Committee is responsible for overseeing the management of the university's investments (Funds) in accordance with the university's Statement of Investment Policies (SIP). This includes, but not limited to: reviewing on an annual basis the SIP and making appropriate recommendations to the Audit and Finance Committee, and maintaining an understanding of applicable legal and regulatory requirements and constraints.

We are seeking the committee's recommendation of the revisions to the SIP for Board approval to ensure more flexibility to respond to market changes without a reduction in accountability.

BACKGROUND/CONTEXT & RATIONALE:

In winter 2021 a new Vice President Administration was appointed to the university. As a primary strategic action the Investment Committee asked for a review of the SIP and Asset Class Management documents to ensure there was enough flexibility to respond to the evolving market. As noted by one member it seemed like the investment manager would recommend a change that would take months to activate as we need numerous levels of approval. Further to these conversations, in May 2021 a survey was sent to all committee members to help outline the overall investment objective with a keen eye on assessing their opinion of institutional risk appetite as a university official. Based on these collection points the attached changes in Appendix A are being proposed.

The overall investment objective is to obtain the best possible total return on investments that is commensurate with the degree of risk that Ontario Tech is willing to assume in obtaining such return. Management worked to merge the SIP and Asset Class Management Strategy to ensure maximum flexibility with minimal changes. The following bullet points highlight the changes made to each section and the rationale for each:

- Section 6.1: The asset mix table has been fully replaced with a new version that breaks down

fixed income and equity allocations by strategy/region, provides target allocations and ranges, as well as the relevant benchmark to be used for each asset class. We have set ranges such that more conservative asset classes (bonds) have a tighter lower band and a broader upper band. This table effectively replaces the entire Asset Class Management Procedures Document.

As each company has their own funds it is important to note we have just left in the asset class rather than specific funds so the policy applies no matter who the investment manager is. The specific funds will still be outlined in the quarterly reports.

- Section 6.3: added a new item (d) that specifies a minimum requirement for currency hedging in bonds. This is important as most non-Canadian bond exposure should be hedged.

As a reminder, in our current allocation the only non-CAD bond exposure is through the Core Plus bonds which can include tactical exposures to non-CAD bonds.

- Section 6.4: revised item (c) to increase the minimum market capitalization from \$100MM to \$1B. This level is still lower than any small cap exposure we would have in a PH&N portfolio, which averages \$3B, but is much better than \$100MM which falls more in the speculative range of equity investments.
- Section 6.4: removed the reference to Emerging Market not exceeding 10% of market value as this has already been taken care of in the asset mix table in section 6.1. Very important to avoid repetitions because if one instance is missed during a subsequent revision, it can create confusion.
- Section 6.5: for alternatives we have refreshed the section to ensure the investment manager has the ability to allocate up to 20% of the portfolio; however, as these are seen as riskier investments an “offering memorandum” outlining associated risks, fees and expenses must be provided to the committee prior to any such investment being made in the portfolio.
- Section 11: Proxy Voting is an important component of a holistic ESG approach, so the expectations from the manager in this regard should be articulated.

IMPLICATIONS:

These changes are intended to make the SIP document fully functional on a standalone basis. The genesis for the proposed changes is to enhance the ability of our investment managers to execute our tactical asset and strategy mix shifts in a timely fashion while ensuring that we don't breach the risk-reward framework that the Committee operates within.

NEXT STEPS:

- June 16 - Audit & Finance Committee for recommendation
- June 24 – Board of Governors for approval

MOTION for CONSIDERATION:

- *That the Investment Committee hereby recommends the proposed amendments to the Statement of Investment Policies, as presented, for approval by the Board of Governors.*

SUPPORTING REFERENCE MATERIALS:

Appendix A – revised SIP

Appendix A - Proposed Revised SIP:

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 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 the university 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~~ to sit on Audit and Finance Committee;
- receive the Audit and Finance Committee’s recommendations with respect to the SIP and approve or amend the SIP 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 the SIP 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 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) external governors.~~

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

~~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 the SIP ~~and the Asset Class Management Strategy~~, on an annual basis, and make appropriate recommendations to the ~~Audit and Finance Committee~~Board of Governors;
- ~~• provide regular reports to the Audit and Finance Committee;~~
- formulate recommendations to the ~~Audit and Finance Committee~~Board of Governors 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.

2.42.3 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 the university'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 the university is willing to assume in obtaining such return. In general, the university's 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.

5.1 **AUTHORIZED INVESTMENTS**

5.2 **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 issued 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) Alternative investments:

- Direct Real Estate Equity: commercial investment grade income-producing real estate

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

5.3 **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.

5.4 **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.

5.5 **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

Table 6.1

<u>Asset Class</u>	<u>Strategic Target</u>	<u>Range</u>	<u>Benchmark (Total Return)</u>
<u>Cash & short-term</u>	<u>0%</u>	<u>0% - 10%</u>	<u>FTSE 30-Day T-Bill Index</u>
<u>Fixed Income</u>	<u>35%</u>	<u>25% - 45%</u>	
<u>Core Plus Bonds</u>	<u>20%</u>	<u>15% - 35%</u>	<u>FTSE Canada Universe Bond Index</u>
<u>Mortgages</u>	<u>15%</u>	<u>0% - 25%</u>	<u>FTSE Canada Short Term Overall Bond Index</u>
<u>Equities</u>	<u>55%</u>	<u>45% - 65%</u>	
<u>Canadian</u>	<u>20%</u>	<u>10% - 30%</u>	<u>S&P/TSX Capped Composite Index</u>
<u>Global *</u>	<u>30%</u>	<u>20% - 45%</u>	<u>MSCI World Net Index (\$C)</u>
<u>Emerging Market Equities</u>	<u>5%</u>	<u>0% - 10%</u>	<u>MSCI Emerging Markets Net Index (\$C)</u>
<u>Alternatives</u>	<u>10%</u>	<u>0% - 20%</u>	
<u>Direct Real Estate</u>	<u>10%</u>	<u>0 - 15%</u>	<u>Canada CPI (seasonally adjusted) + 4.0%</u>
Asset Class		Range	
Cash & Short Term		0-10%	
Fixed Income		20-50%	
Canadian Equities		15-30%	--
Global Equities		25-45%	
Alternatives		0-20.0%	

- ❖ Global equities will have, on average, a 50% to 60% exposure to US equities.

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 university's Asset Class Management 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 ¹	Minimum in Bond ¹	Maximum Position in a Single Issuer
Government of Canada ²	100%	n/a	no limit
Provincial Governments ²	60%	0%	40 %
Municipals	25%	0%	10%
Corporates	75 %	0%	10%
AAA ³	100%	0%	10%
AA ³	80%	0%	5%
A ³	50%	0%	5%
BBB	15%	0%	5 %
BB and less	20 %	0%	2 %

¹ Percentage of portfolio at market value; ² Includes government-guaranteed issues; ³ 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.

- ~~(d)~~ No less than 80% of non-Canadian dollar denominated bonds should be hedged back to the Canadian dollar.

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~~ 1 billion at the time of purchase
- (d) Illiquid assets are restricted to 10% of the net assets of the Fund.
- ~~(d) Emerging market holdings will not exceed 10% of the total portfolio value.~~
- (e) Foreign equity holdings can be currency hedged to a maximum of 50%

6.5 Alternative Assets

- (a) Illiquid assets shall not constitute more than 15% of the total portfolio.

- (b) Alternative investment solutions have the potential to enhance fixed income returns, reduce equity risk, reduce portfolio volatility and improve portfolio efficiency. They typically require a longer investment horizon, are less liquid, and when considered in isolation may be deemed more risky than other securities. The associated risks, fees and expenses are detailed in a document called an Offering Memorandum which the manager is responsible for providing to the ~~Investment-~~ appropriate Committee prior to any such new investment being made in the portfolio.

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 the university 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 SIP 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 university's 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.

11.0 PROXY VOTING RIGHTS

Proxy voting rights on portfolio securities are delegated to the Manager. The Manager is expected to maintain, and produce upon request, a record of how voting rights of securities in the portfolio were exercised. The Manager will exercise acquired voting rights in the best interests of the unit holders of the pooled fund.

Investment Committee

2020-2021 Annual Report

2020-2021 Work Plan

MANDATE-DRIVEN PRIORITIES

Investment

- Quarterly investment reviews
- Portfolio performance management
- Investment learning on topical subjects
- PH&N annual report on ESG
- Statement of Investment Policies & Asset Class Management Procedures (annual review)
- Annual Investment Manager performance review
- Endowment disbursement recommendation & receipt of annual Endowment Report
- Review of Endowment Policy

Accomplishments

Terms of Reference

- Review of the committee Terms of Reference.

Investment Reviews

- PH&N Investment Manager (“PH&N”) provided the Committee with detailed reporting & review on a quarterly basis.

Investment

- Reviewed Asset Class Management Strategy.
- Strategic discussions focused on the Future Investments Strategy.
- Reviewed & recommended amendments to Statement of Investment Policies to streamline processes & provide investment manager with greater flexibility.

Accomplishments

Responsible Investment Policy

- Committee received & reviewed PH&N's annual report on ESG.

Endowment

- Recommended disbursement of up to \$775,000 from the Endowment Funds to be distributed as student awards in 2021-22.

Investment Learning

- Educational presentations on several topics, including:
 - University Investment Landscape

Future Planning

Review of Quarterly Investment Reports

- Continue to analyse investment reports, and make timely reallocations to maximize portfolio effectiveness.

Investment

- Conduct annual performance review of Investment Manager.
- Review of Endowment Policy.
- Continued timely educational sessions for the Committee.



COMMITTEE REPORT

SESSION:

Public
Non-Public

ACTION REQUESTED:

Decision
Discussion/Direction
Information

TO: Investment Committee

DATE: June 2, 2021

PRESENTED BY: Brad Maclsaac, VP Administration

SUBJECT: Annual Endowment Disbursement

COMMITTEE MANDATE:

The Strategy and Planning Committee (S&P) is responsible for overseeing the strategic planning for all aspects of the university and assessment of the implementation in the context of the university’s vision, mission and values. This includes the plans supporting the implementation of the university’s overarching Integrated Academic Research Plan, including the Advancement Plan. As outlined in the Endowment Management Policy and Procedures approval of the disbursements is to be recommended by S&P to the Board of Governors.

As the Investment Committee oversees the endowment fund and Audit & Finance Committee oversees finances, they are both incorporated into the approval process.

This memo is to seek the Investment Committee’s recommendation of a maximum spending level from the Endowment portfolio for fiscal year 2021-22.

BACKGROUND/CONTEXT & RATIONALE:

This report will highlight additions, earnings, disbursements, and the net position of the Endowment.

Endowments typically accumulate assets and disperse income to beneficiaries over extended periods of time. Ontario Tech’s Endowment consists of funds, largely donations secured through Advancement, which are set aside permanently with a portion of investment returns used to support operations, normally specific student

awards as directed by the donor. Part of Ontario Tech’s endowment philosophy includes ‘capital preservation’ (i.e. adjusting the capital value by inflation) so as to preserve the purchasing power of the awards. Effective oversight requires facing the contradictory goals of maintaining a target spending rate and preserving the real value of the fund while operating in an environment of unpredictable shifts in markets. In general, donor agreements set out an expectation of a 4% disbursement of the inflation adjusted principle (original donation). Increases in donor awards are in discrete increments, which vary by award. Ontario Tech assumes the long term sustainability is supported by establishing a disbursement rate of approximately 3-5% based on a variety of reports (i.e. Morneau Shepell’s Funding Sustainability [report.](#))

Over time, the value of the portfolio has experienced significant growth. A summary of the current portfolio balances (as at Dec 31) are as follows (all numbers in 000’s):

	2020	2019	2018	2017	2016
Principle (Donations)	\$18,387	17,891	16,558	15,818	\$15,452
Capital Preservation	2,970	2,844	2,406	2,191	1,931
Net increase in Book Value	5,914	5,532	5,173	5,109	4,052
Adjusted Unrealized Gain	3,907	2,502	1,247	2,294	1,686
Total Market Value	\$31,178	28,769	25,384	25,412	\$23,121

Key facts:

- i. There are currently 122 specific endowed funds.
- ii. The average inflation rate for the past 5 years has been approximately 1.5%.
- iii. Realized income net of fees (i.e. interest, dividends, realized gains) have averaged 4.4% since 2004
- iv. Total returns have been 3 year = 6.7% and 5 year = 8.1%.

Disbursement amounts and number of awards have been as follows:

Fiscal Yr	Awards	Amount	Distrib. % ¹
2017	253	\$460K	2.6%
2018	261	\$475K	2.6%
2019	309	\$615K	3.2%
2020	409	\$711K	3.4%
2021 -proposed	450 (est)	\$775K (max.)	3.6%

¹ Presents distributions as a percentage of inflation adjusted donations

CONSULTATIONS:

The university's Endowment Committee consists of representatives from Finance, Advancement and Student Awards.

Due to increased donations and a stable portfolio Ontario Tech has been able to increase disbursements over time. In the current environment (i.e. the pandemic) the committee noted that it is even more critical than ever to continue to support students while managing market risk. Based on a review of the portfolio performance and an assessment of the donor agreements, the committee recommended a maximum disbursement for fiscal year 2021-22 of \$775K. This would allow support for a significant number of additional students compared to the \$725K approved in 2020-21 (e.g. 50 more awards of \$1000), while at the same time ensure sustainability of the endowment funds.

PROCESS/ NEXT STEPS:

May 13, 2021 – Strategy & Planning

June 2, 2021 – Investment

June 17, 2021 – A&F

June 24, 2021 - BoG

A review of the policy and procedures is underway.

MOTION:

That the Investment Committee hereby recommends that the Board of Governors approves the disbursement of up to \$775,000 from the Endowment Fund for distribution by student awards in 2021-22.

SUPPORTING REFERENCE MATERIALS:

N/A



BOARD OF GOVERNORS
Investment Committee

Minutes of the Public Session of the Meeting of February 17, 2021
11:30 a.m. – 12:25 p.m., Videoconference

Members: Stephanie Chow (Chair), Mitch Frazer, Ferdinand Jones, Thorsten Koseck, Mark Neville, Dietmar Reiner, Maria Saros, Kim Slade, Steven Murphy

Staff: Becky Dinwoodie, Cheryl Foy, Brad Maclsaac

Guests: Leila Fiouzi & Jacinta O'Connor (PH&N), Chelsea Bauer (FA)

1. Call to Order

The Chair called the meeting to order at 11:31 a.m.

2. Agenda

Upon a motion duly made by M. Saros and seconded by M. Neville, the Agenda was approved as presented.

3. Conflict of Interest Declaration

None.

4. Minutes of Public Session of Meeting of November 12, 2020

Upon a motion duly made by D. Reiner and seconded by F. Jones, the Minutes were approved as presented.

5. Chair's Remarks

The Chair welcomed the members to their first committee meeting of 2021. It's difficult to believe that it has been almost a year since we have all been working from home. It is normally a challenging time of year due to the "winter blues" and this has been exacerbated by the pandemic. The Chair encouraged everyone to prioritize their mental health. She also noted that the agenda has been structured to allow time for strategic discussion and she encouraged the members to actively participate in the discussions.

6. President's Remarks

The President reminded the committee that it is B. MacIsaac's first committee meeting in his new role as VP Administration. The members of the senior leadership team who are committee leads are being encouraged to work with the committee chairs ahead of time to develop the agenda to ensure that it reflects the committee's priorities. During today's meeting, time will be spent discussing the Statement of Investment Policies (SIP) and the university's investment objectives. As we make this shift, there will be growing pains. The goal is to provide additional opportunity for strategic discussion, as members of this committee have expressed the view that there has not been enough time to discuss recommendations. The President thanked the Secretariat, the Board Chair and Committee Chair for helping accomplish this.

7. Investment Review

7.1. Third Quarter Investment Review

L. Fiouzi reviewed the performance of the portfolio over the last quarter. The portfolio performed 1% ahead of the custom benchmark. Further, it is generating more in the cash account than what it would make from regular short term investments.

7.2. Annual ESG Report

L. Fiouzi reminded the committee that RBC is a UNPRI signatory. She explained the rationale for RBC signing onto it. This approach ensures RBC is properly accounting for the risks and opportunities in portfolios. Non-financial factors are playing an increasingly important role in investments. L. Fiouzi reviewed the definitions of environmental, social and governance factors. She advised that as responsible investors, PH&N incorporates ESG into their decision-making processes. Using their position as large asset managers is for the good of their shareholders. PH&N has fossil-free investment products available. She noted that the transparency report is included in the meeting material for the committee's review.

L. Fiouzi advised that RBC has always maintained a grade of A or A+ and last year they received a grade of A+. She reported that they conduct their own due diligence with respect to ESG, in addition to relying on external sources. She emphasized that customer service is also an important factor that is examined, which would never appear on a company's financial statements. If members want to know how PH&N's proxies are voted, they are available publicly, as well as their proxy voting guidelines. There has been an increased focus on diversity over time (minimum of 25% female directors on the boards of companies in which PH&N invests). Well run companies tend to have more diverse boards. L. Fiouzi also reviewed the results of their annual survey of institutional clients with respect to ESG. She highlighted the shift in attitudes of Canadian institutional investors towards ESG over the last few years.

The Chair reminded the committee that this presentation is important as it forms part of the committee's oversight responsibility as set out in the SIP. L. Fiouzi responded to questions from the committee, which included:

- What impact has incorporating ESG had on investment performance?
 - L. Fiouzi advised that incorporating ESG into the assessment of investments has enabled them to produce better returns for their clients, as they are able to identify intangible costs and opportunities.
- Are they seeing an alignment of focus on climate change and new opportunities?
 - L. Fiouzi responded that they are observing longer term structural changes in companies focused on addressing climate change. They are also observing a change in consumer attitudes with respect to climate change.

The Chair asked L. Fiouzi to provide an overview of the current state of the markets. L. Fiouzi advised that their view is that looking forward, they still see better return opportunities from equities as opposed to bonds. The outlook is for the economic trajectory to improve due to the combination of vaccinations and pent up demand. L. Fiouzi highlighted the strategies already in place in the portfolio to situate it well from an early cycle environment. She confirmed that they are not recommending making any further changes to the asset allocations in the portfolio at this time. There was a discussion regarding whether risk avoidance is worth the .1% being below benchmark. L. Fiouzi cautions clients not to expect to be ahead of benchmark every single time. If a portfolio is performing ahead of benchmark every quarter, it is likely as a result of changing the asset allocation too frequently or investing outside of the the investment guidelines. L. Fiouzi explained how the custom benchmark is set.

7.3. Strategic Discussion: Strategic Review of Statement of Investment Policies

S. Chow provided an overview of the SIP and Asset Class Management Strategy (ACMS). She asked the committee to consider what their risk appetite is, keeping in mind the committee's investment objectives. The committee's comments included:

- not too uncomfortable with the risk profile we have - prefer to keep in line with a balanced recommendation - perhaps move a bit more to equities (up to 45% from 40%);
- looking at the long term performance, it has been quite good and has benefitted from the changes made - cautioned against "chasing the market";
- the SIP does a good job of capturing the committee's objectives - PH&N has done a good job of bringing opportunities that weren't available under "alternatives";

- consider looking at the fixed income proportion and provide flexibility given the low interest environment - consider changing allocation given the low returns;
- notion of "capital preservation" versus "income generation" - must be thoughtful about striking a balance between the two - might have been overly conservative in favour of capital preservation - worthwhile to revisit that language;
- could this be addressed by providing PH&N with a broader range to work within?;
- range in SIP for fixed income is 20-50% - if comfortable with this range, seems PH&N limited by ACMS;
- at the moment, the university has the SIP and ACMS – should review the need to have 2 separate documents, as having only the SIP would provide PH&N with more flexibility;
 - L. Fiouzi advised that the university is one of only two clients that have two separate investment management documents, including one that lists specific funds – this interferes with PH&N's ability to make tactical changes in a timely manner – they discourage clients from having specific fund names listed.
- is there some way for PH&N and management to review the documents and bring them together to ensure we know how we are sitting with respect to the SIP – what does over/under weight mean? Suggest cleaning things up and keeping things in one place, if possible;
 - L. Fiouzi added that targets must be included within the range to ensure the committee can measure the investment manager's ability to add value.
- member expressed support for eliminating the ACMS in order to provide PH&N with additional flexibility with the assurance that there are controls in place;
 - L. Fiouzi confirmed that controls are in place in the current SIP.

The committee directed B. Maclsaac to work with PH&N to incorporate the ACMS into the SIP and return with the amendments for review at the next meeting.

8. Other Business

9. Adjournment

There being no other business, upon a motion duly made by M. Saros, the public session of the meeting adjourned at 12:40 p.m.

Becky Dinwoodie, Secretary