

## Statement of Investment Policies and Goals

### University of Ottawa Long Term Portfolio

#### 1. Purpose of the Statement of Investment Policies and Goals

The Statement of Investment Policies and Goals (the “SIPG”) provides the objectives, guidelines and procedures for management of the assets of the Long Term Portfolio at the University of Ottawa (the “Fund”), which primarily includes endowment funds, the sinking funds, and the core portfolio component of treasury investments. The primary purpose of this document is to ensure the prudent investment and administration of the Fund.

The Fund has two objectives:

- To provide a steady flow of income in perpetuity to meet expenditure requirements; ideally the income stream should grow each year to maintain purchasing power.
- To increase the market value of the Fund so that capital, in real terms, is maintained; this is achieved by increasing the capital balance by an annual amount that offsets the inflationary erosion of the Fund.

To meet the objectives of the Fund, the asset mix, investment and risk management guidelines, and investment objectives are established in the SIPG.

#### 2. Responsible Investment

The Board has adopted a responsible investment approach that is aligned with the industry best practices framework established by the United Nations supported Principles for Responsible Investment (“PRI”). Responsible investment integrates environmental, social and governance (“ESG”) criteria in the investment decision-making process based on the belief that these criteria can influence the performance of an underlying investment. As such, the consideration of ESG factors is consistent with the objectives of the Long Term Portfolio.

The application and related actions to integrate ESG criteria in investment decisions in a manner that is consistent with the PRI is determined by the Finance and Treasury Committee – Treasury Component (the “Committee”) [*insert hyperlink to Responsible Investment Guideline*].

#### 3. Asset Mix

The table below lists the asset classes that may be used and presents the asset mix policy targets, together with the minimum and maximum exposures for each asset class:

<b>Asset Class</b>	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>
Equities	25%	35%	50%
Fixed Income	15%	20%	35%
Absolute Return Assets	5%	15%	25%
Real Assets	15%	30%	40%
<b>Total Assets</b>		<b>100%</b>	

The asset class components are defined below under Section 5 Permitted Investments.

An interim asset mix with different targets, but within the above ranges, can be used as deemed appropriate by the Committee during the implementation of a new strategic asset mix. The interim asset mix can be adjusted from time to time by the Committee, until the strategic asset mix targets are met.

#### **4. Investment Manager Structure**

The target allocation of the Fund between investment managers as well as minimum and maximum manager exposures is determined by the Committee. Asset mix ranges will be established for each investment manager as appropriate to ensure that the total Fund is managed within all established guidelines.

Where active investment managers have not been retained to manage specific portfolios, the Fund may be invested in a relevant market index portfolio.

University management will direct cash inflows and outflows to maintain the target asset mix and manager structure. If any of the guidelines exceeds the minimum or maximum allocation, a rebalancing will occur by way of a transfer of funds. Management will review the portfolio with respect to SIPG guidelines on at least a quarterly basis. A rebalancing will normally take place within one quarter after an imbalance has been identified.

#### **5. Permitted Investments**

Permitted investments include securities and investment instruments issued by entities domiciled in Canada or in foreign jurisdictions. Subject to the restrictions noted, the Fund may be invested in any of the following categories:

##### Equities:

- Common and convertible preferred stock
- Debentures and notes convertible into common or convertible preferred stock
- Rights, warrants and special warrants for common or convertible preferred stock
- Instalments receipts, American Depository Receipts, and Global Depository Receipts
- Exchange traded index participation units
- Private placements of equities

Fixed Income:

- Bonds, debentures, notes, non-convertible preferred stock, coupons, residuals, and other evidence of indebtedness of issuers, including inflation linked instruments, whether denominated and payable in the issuer's domestic currency or in a foreign currency
- Publicly traded mortgage-backed securities and other asset-backed securities
- Term deposits and guaranteed investment certificates
- Insurance contracts
- Private placements of fixed income instruments

Absolute Return Assets:

- Hedge funds
- Private debt
- Global bonds
- Income and royalty trusts
- Mortgages

Real Assets:

- Real estate
- Infrastructure
- Private equity
- Commodities

The real estate, infrastructure, and private equity investments listed above may be held through participating debentures or shares of corporations or partnerships formed to hold these types of investments.

Hedge funds vary widely due to the large number of strategies that can be employed. Objectives are typically to achieve an absolute level of return with low volatility; the investment process may include use of derivatives, leverage, and short selling.

Income and royalty trusts and mortgages that are not publicly traded may be included in an investment manager's portfolio on a discretionary basis with the prior permission of the Committee.

Cash and Short Term Investments:

- Cash on hand and demand deposits
- Treasury bills issued by the Canadian federal and provincial governments and their agencies and foreign governments
- Obligations of trust companies and Canadian and foreign banks, including bankers' acceptances
- Commercial paper
- Floating rate notes
- Private placements of short-term instruments

Cash and short-term investments may be included in an investment manager's portfolio and/or held for transitional purposes.

Other Investment Structures:

The Fund may hold investments in open-ended or closed-ended pooled funds, investment companies, and other structured vehicles invested in any or all investment categories listed as permitted investments under the SIPG. Investments held in these types of structures are classified according to the primary asset class exposure of the investment structure.

Provisions for permitted investments in the investment policy of the pooled funds or other structures shall prevail over those of the SIPG to the extent that they are in conflict. However, any permitted investment within the trust agreement of an investment vehicle that is not specifically permitted in the SIPG shall be disclosed in writing to the University.

Derivative Instruments:

The Fund may hold derivative financial, commodity, or currency related instruments such as forward contracts, futures contracts, options, or swaps.

Derivative instruments should not be used in a speculative manner and they should be hedged or supported by collateral investments. Derivative instruments, such as currency futures and forward contracts, may be used to hedge currency exposure through currency management strategies established or approved by the Committee.

The use of derivative securities is only permitted as described in the SIPG. Exceptions, such as purchase of securities on margin or short sales, will be dealt with on a case by case basis and may be permitted subject to compliance with specific written guidelines approved by the Committee.

## **6. Fixed Income Quality Standards**

Minimum quality standards are established to limit the Fund's exposure to credit risk from borrower default. All quality ratings must be rated by a recognized bond rating agency and are applied at the time of purchase:

- The minimum quality standard for individual fixed income securities is "BBB" or equivalent, with reference to the restrictions outlined in section 7.
- The minimum quality standard for individual short-term investments is "A-3" or equivalent.
- The minimum quality standard for preferred shares is "P2" or equivalent.

Exceptions to the quality standards in the SIPG may be permitted subject to compliance with specific written guidelines approved by the Committee.

The above ratings are based on Standard & Poor's. The following rating agencies shall

also be considered recognised bond rating agencies for purposes of the SIPG:

- DBRS
- Moody's Investors Service
- Fitch Ratings

## **7. Fixed Income Quantity Restrictions**

Quantity restrictions are established to ensure an acceptable level of diversification is maintained in the Fixed Income Portfolio.

- A maximum of 50% of the market value of the fixed income portfolio can be invested in securities rated BBB and below, and a maximum of 25% can be below BBB.
- Except for federal and provincial government issues (Canadian and foreign), no more than 10% of the fixed income portfolio may be invested in the securities of a single issuer and its related companies.
- Except for federal and provincial government issues (Canadian and foreign), no one holding shall represent more than 10% of the total market value outstanding for that specific issue.

## **8. Equity Quantity Restrictions:**

Quantity restrictions are established to ensure an acceptable level of diversification is maintained in the Equity Portfolio.

- No one equity holding shall represent more than 10% of the market value of the equity portfolio.
- No one equity holding shall represent more than 10% of the voting shares of a corporation.
- No one equity holding shall represent more than 10% of the available public float of such security.

## **9. Performance Measurement**

### Total Fund Objectives

The primary objective for the Fund is to earn a real rate of return of 4.0% after expenses over 4-year moving periods. This will fulfil the Fund's objectives to meet its expenditure requirements and maintain capital in real terms.

The secondary objective for the Fund is to earn a rate of return that exceeds a benchmark that is comprised of market indices relevant to the actual asset mix, as established from time to time by the Committee.

Achievement of investment performance objectives is evaluated after the impact of any currency hedging overlay, used for risk mitigation.

Investment Manager Objectives

The benchmark and value-added performance objective for each external investment manager is tailored to the specific mandate established and are approved by the Committee.

**10. Investment Policy Review**

The SIPG may be reviewed and amended at any time. It must be formally reviewed by the Committee at least annually.

The SIPG is approved by the Board of Governors of the University of Ottawa.