

INVESTMENT POLICY			
<b>Effective Date</b>	February 18, 2022	<b>Policy Type</b>	Administrative
<b>Responsibility</b>	Vice-President, Finance and Administration	<b>Cross-Reference</b>	1. Endowment Policy 2. Asset management Policy
<b>Approver</b>	Board of Governors	<b>Review Schedule</b>	Annually

## 1. Policy Statement

Northwestern Polytechnic (“NWP” or “Polytechnic”) shall discharge its responsibility with respect to maintaining, managing and enhancing its investment portfolio in a prudent manner.

## 2. Policy Objective

The NWP Board is entrusted with the care of endowed and non-endowed gifts and the prudent management of these gifts.

## 3. Scope

This policy applies to all investment activities relating to the Portfolio funds of the Polytechnic.

## 4. Purpose

- 4.1. The purpose of this policy is to outline an approach which will guide the investment management of the Portfolio funds toward the desired results that will support the Polytechnic’s activities and mission.
- 4.2. This policy defines and assigns the responsibilities of all involved parties.
- 4.3. This policy establishes the investment objectives, principles and philosophies for the Portfolio funds.
- 4.4. This policy offers general guidance and limitations to all Investment Managers regarding the investment of the Portfolio funds. Investment Managers will be subject to specific objectives, criteria, and limitations as defined in their mandate and investment agreement with NWP. The design and content of these mandates and agreements will be guided by and be consistent with this policy unless otherwise approved by the Finance Committee.

## 5. Definitions

- 5.1. “Finance Committee” – The Finance Committee is a subcommittee of the NWP Board of Governors (“Board”), and the President and CEO shall designate appropriate staff to serve as resource members.
- 5.2. “Agent” - a company, organization, association, or individual, as well as its employees, retained by the Finance Committee to provide specific services with respect to the administration and management of the Portfolio.
- 5.3. “Benchmark” - the point of reference used for comparison purposes of the performance of a predetermined set of securities. It may be based on published indexes or may be customized to suit an investment strategy.
- 5.4. “Credit rating” - the perceived ability of the borrower to pay what is owed on the borrowing in a timely manner; it represents the ability of an entity to withstand adverse impacts on its

cash flows.

- 5.5. “Credit risk” - the risk of loss caused by a counterparty’s or debtor’s failure to make a promised payment.
- 5.6. “Derivative” - a financial instrument whose value depends on the value of an underlying asset or factor (e.g., a stock price, an interest rate, or an exchange rate).
- 5.7. “Endowment Funds” – Consists of endowed trust funds of a permanent or long-term nature that have been provided or donated to the Polytechnic for the purpose of providing awards for a prescribed purpose. Endowed funds balance present spending needs with expected future requirements.
- 5.8. “Impairment” - the diminishment in value as a result of carrying (book) value exceeding fair value and/or recoverable value.
- 5.9. “Liquidity” - the ability to purchase or sell an asset quickly and easily at a price close to fair market value. It is the ability to meet short-term obligations using assets that are the most readily converted into cash without delay at relatively low cost and in relatively large quantities.
- 5.10. “Net Spending Rate” – is the projected rate of return on the portfolio used to fund the operational and capital needs of NWP. The rate is determined by the ‘total return’ less management and investment fees and, in the case of endowments, less the current consumer price index (CPI).
- 5.11. “Option” - a financial instrument that gives one party the right, but not the obligation, to buy or sell an underlying asset from or to another party at a fixed price over a specific period of time.
- 5.12. “Portfolio” - a collection of investments.
- 5.13. “Operating/Operational Funds” – Consists of institutional funds that are available for both short-term and long-term operating and capital expenditures. To the extent that surplus cash flow exceeds current requirements (the amount of current funds in excess of current expenditures), the excess is available for investment.
- 5.14. “Purchasing on margin” - an investor borrows a portion of the money required to purchase a certain amount of securities. In futures markets, there is no borrowing, so the margin is more of a down payment or performance bond.
- 5.15. “Reserve Funds” - a collection of operating surplus, internally restricted, deferred revenue amounts, and other surplus funds accumulated by the Polytechnic.
- 5.16. “Resource members” - shall consist of the following:
  - 5.16.1. Vice-President, Finance and Administration
  - 5.16.2. Vice-President, External Relations
  - 5.16.3. Director, Financial Services
- 5.17. “Security” - a documentation of ownership that proves ownership of stocks, bonds and other investments.
- 5.18. “Short selling” - selling a security that the seller does not own but is committed to repurchasing eventually. It is used to capitalize on an expected decline in the security’s price.

## 6. Guiding Principles

- 6.1. This policy will establish appropriate risk and return objectives in a responsible investment approach that is aligned with industry best practices.

- 6.2. As the funds invested are public funds, the primary objective is the preservation of capital.
- 6.3. To balance present spending needs with future funding requirements (intergenerational equity).
- 6.4. To protect the purchasing power of the capital base of the Endowment and Reserve Funds while achieving stability in year to year spending.
- 6.5. To attain real increases in spending through capital appreciation from new gifts, capital investment gains, and the capitalization of investment earnings.

**7. Investment Objectives**

- 7.1. The investment strategy of the Portfolio is to emphasize total return. Specifically, the primary objectives in the investment management of fund assets shall be:
  - 7.1.1. Preservation of Capital – To preserve the principal value of the Endowment and Reserve assets. Any new funds received will be invested for one year prior to any distribution, to allow for growth to preserve capital.
  - 7.1.2. To produce sufficient investment returns to ensure the preservation of the real (Bank of Canada CPI adjusted) purchasing power of Endowment and Reserve funds after accounting for spending, inflation, and costs of portfolio management.
  - 7.1.3. Provide reasonable administration expense over rolling 4-year periods to achieve smooth and predictable inflation-adjusted spending.
  - 7.1.4. The invested funds are to be kept at a reasonable level of risk to avoid large absolute losses and to keep volatility below the benchmark target.
  - 7.1.5. The target annual Total Return expectation is determined in the following formula:

***Total Return = Net Spending Rate + Inflation + Management/Administration fees***

Example:

Return Type	%
Net Spending Rate	4.00%
Inflation (variable) - CPI	3.00%
Management and Administration Fees	1.00%
Total Return	8.00%

**8. Asset Mix for Endowment and Reserve Funds**

- 8.1. Due to spending and capital preservation objectives of the Endowment and Reserve Funds, investment will have to be made in a diversified group of assets and strategies with defined allocations to earn the returns required while keeping the risks of volatility and capital loss within reasonable and tolerable limits.
- 8.2. The Portfolio shall be invested in cash and equivalents, fixed income, and equities as outlined in Section 9. The asset mix will be adjusted according to the capital market expectation in a way that produces the desired mix of target returns while adhering to the investment objectives, subject to the following parameters:

## Endowment Fund Asset Mix

Asset Class	Minimum	Maximum	Target Long-Term
Cash & Equivalents	2%	5%	3%
Fixed Income	25%	40%	32%
Equity*	50%	75%	65%
Total			100%

## Long Term Reserve Fund Asset Mix

Asset Class	Minimum	Maximum	Target Long-Term
Cash & Equivalents	2%	10%	5%
Fixed Income	35%	50%	45%
Equity*	40%	55%	50%
Total			100%

*Equity Distribution	Total Equity Allocation
Canada	40%
U.S.	40%
International (Non-North American)	20%

If the weightings of the above investments fall above or below the aforementioned allocation range, the portfolio shall be rebalanced at the end of each quarter to realign within the minimums and maximums bands.

## 9. Permitted Investments

9.1. Subject to the asset mix and investment guidelines contained in this Policy, investments will be permitted in the following categories:

9.1.1. Cash and Equivalents – The Investment Manager may invest in the highest quality paper, repurchase agreements, Treasury Bills, certificates of deposit, and money market funds to provide income, liquidity for expense payments, and preservation of the Portfolios principal value, subject to the following limitations:

Commercial paper assets must be rated at least A1 (Canadian CP Scale), P1, or R1 (low). Investments in the obligations of a single issuer may exceed 5% of the total market value of the Portfolio only when the security is investment grade or better or where the investment is with the Government of Canada and provincial and municipal governments. Examples of acceptable investments are:

- Canadian Federal and Provincial Government and Agency obligations
- Term deposits and GIC's
- Banker's Acceptances
- Commercial Paper

- Corporate Bonds and Debentures
  - Treasury Bills and short-term debt obligations of Foreign Governments
- 9.1.2. Fixed Income Securities – The purpose of fixed income investments, both domestic and international, is to provide diversification, and a predictable and dependable source of current income. Investments in fixed income securities should be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums. The Investment Manager may select from appropriately liquid preferred stocks, corporate debt securities, and obligations of the Government of Canada and provincial and municipal governments that are rated in accordance to Section 10. Examples of acceptable investments are:
- Canadian Federal and Provincial Government and Agency obligations
  - Municipal Bonds
  - Corporate Bonds and Debentures
  - Asset Backed Securities
  - Fixed Income Securities of Foreign Governments and Corporations
  - Private placements
  - Exchange Traded Funds
  - Mortgages
  - Preferred Stock
- 9.1.3. Equity Securities – Equity holdings shall generally be restricted to high quality, readily marketable securities of corporations that are actively traded on the major stock exchanges. Examples of acceptable Equities are:
- Common Stock
  - Installment Receipts, American Depository Receipts (ADRs) or other recognized depository receipts
  - Warrants
  - Rights
  - Convertible Bonds and Debentures
  - Exchange traded index participation units and exchange traded funds
  - Income trusts, Real Estate Investment Trusts (REITs), royalty trusts or other publicly listed trust securities registered in jurisdictions that possess limited legislation for the unit holders.
- 9.1.4. Derivatives
- May be used for hedging and risk management including the hedging of foreign currency exposure.
  - May be used to create an exposure to a recognized market index.
  - May be used as part of a portable alpha strategy or beta overlay.
  - Derivative instruments may be utilized for hedging and risk mitigation purposes, used for the reduction of volatility and to replicate positions within the portfolio.
  - Leveraged positions are not permitted.
  - Under no circumstances will derivatives be used for speculative purposes or to create leveraging of the portfolio.

## 9.1.5. Other Investments

NWP may invest in pooled unit trusts, exchange traded funds, mutual fund vehicles or limited partnerships that include any of the above categories. For Non-Traditional assets, no direct investments will be made, instead only approved, diversified, well-established funds or funds of funds or multi-strategy managers will be utilized, due to the limited allocation size to this asset class.

## 9.1.6. Speculative Trading

Investment strategies shall be of a long-term buy and hold nature, with changes in positions mandated by sound analysis of economic and industry fundamentals. NWP is restricted from engaging in any investment activity that would be considered speculative in nature.

## 10. Portfolio Constraints and Diversification

10.1. The Investment Managers shall not without the Polytechnic Board's prior written permission/consent:

10.1.1. Invest in securities which are not listed on a capped registered Canadian stock exchange, in the case of Canadian equities; or, a major non-Canadian stock exchange, in the case of non-Canadian equities.

10.1.2. No more than 20% of the fixed income holdings may be invested in bonds or debentures whose quality standard is less than a "BBB" rating as measured by the Standard and Poor's Rating Services or Moody's Credit Reports.

10.1.3. Permit at any time security holdings taken at market value to aggregate:

- More than 10 percent of the fixed income investments mandated to that Investment Manager to be invested in the debt of a single issuer other than the Government of Canada or a province of Canada or their guarantees having at least an "A" credit rating or,
- More than 5 percent of the equity investments mandated to that Investment Manager to be invested in the securities of a single issuer,

10.1.4. Purchase securities on margin or engage in short sales;

10.1.5. Borrow money, pledge or otherwise encumber any of the assets of the Endowment Funds, except as permitted to meet short-term cash needs or to the extent that temporary overdrafts occur in the normal course of day-to-day portfolio management, within applicable legislation.

10.1.6. Investments held in the Endowments Funds shall be invested in a name that clearly indicates that the investment is held in trust for the Endowment Funds, or registered in the name of the Endowment Funds, or in the name of a financial institution or nominee thereof in accordance with a custodial agreement that indicates the investment is held for the Endowment Funds, or in the name of The Canadian Depository for Securities Limited in accordance with a custodial agreement that indicates the investment is held for the Endowment Funds, or in the name of The Canadian Depository for Securities Limited in accordance with a custodial agreement that indicates the investment is held for the Endowment Funds.

## 11. EXPOSURE TO NON-CANADIAN CURRENCIES

11.1. The Canadian equity market represents approximately 2% of total world equity market in terms of total capitalization. Non-Canadian investments are included in the Endowment and Reserve Funds in order to add diversification and reduce volatility of returns. Some foreign exchange exposure provides additional diversification benefits, however non-Canadian investments need not necessarily incur gains or losses from increases or decreases in the value of the Canadian dollar relative to currencies in other countries. Foreign currency exchange volatility can be managed through currency hedging techniques, and the extent of currency hedging deployed will be assessed from time to time.

## 12. INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

12.1. Performance reports shall be compiled by the Investment Manager at least quarterly and communicated to the Finance Committee for review. The investment performance of total portfolios will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in their respective mandates. The Finance Committee normally will evaluate the portfolio over a rolling four-year period, but may terminate an Investment Manager at any time for any reason including, but not limited to, the following:

12.1.1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification for poor results.

12.1.2. Failure to adhere to any aspect in its investment mandate, including communication and reporting requirements.

12.2. Identify any significant qualitative changes (i.e. corporate mergers or senior personal changes) to the Investment Manager organization. Investment Managers shall be reviewed at least quarterly regarding performance, personnel, strategy, research capabilities, organization and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

## 13. INVESTMENT MANAGER REPORTING

13.1. The Investment Manager will provide written acceptance of the Investment Policy, and any subsequent changes thereto, and comply with the following requirements, unless agreed upon otherwise in writing between the Finance Committee and the Investment Manager:

13.2. Monthly, within 5 days:

13.2.1. Portfolio holdings

13.2.1.1. Listing of securities held

13.2.1.2. Present book value and current market value

13.2.1.3. Listing and summary of monthly investment transactions

# INVESTMENT POLICY

## 13.3. Quarterly. Within 30 days:

### 13.3.1. Investments

- 13.3.1.1. Confirm adherence to policy guidelines (compliance report)
- 13.3.1.2. Provide any comments or suggestions regarding constraints, guidelines, etc.
- 13.3.1.3. Discuss any changes to investment strategy or process
- 13.3.1.4. Report on any environmental, social and governance risks they have discovered in the portfolio.

### 13.3.2. Performance Benchmark

Asset Class	Benchmark	Target
Cash & Equivalents	FTSE/TMX DEX 30 Day T-Bill Index Total Return	3%
Fixed Income		32%
Domestic	FTSE/TMX Canada Bond UNI	15%
International	Citigroup World Government Bond Index (CAD Hedged)	10%
Preferred Shares	S&P/TSX Preferred TR	3%
High Yield	BofA Merrill Lynch US High Yield Master II Index (CAD)	4%
Equities		65%
Domestic	S&P/TSX Comp Total Return	25%
U.S.	S&P 500 Total Return	25%
Non-North American	MSCI EAFE TR Net Taxes	10%
Other	MSCI Emerging Markets Net of Taxes Index TR	5%

- 13.3.2.1. Present total fund and asset class returns on a quarterly basis
- 13.3.2.2. Discuss performance relative to benchmark
- 13.3.2.3. Provide portfolio returns relative to benchmark

### 13.3.3. Portfolio Holdings – the following items will be reported quarterly.

- 13.3.3.1. Listing of individual securities by sector
- 13.3.3.2. Annual income yield by security
- 13.3.3.3. Percent allocation of each security



# INVESTMENT POLICY

- 13.4. Annually (fiscal year end) or upon written or oral request within 5 days;
  - 13.4.1.1. Copies of all documentation in support of any investment activity.
  - 13.4.1.2. Certified statement of financial condition of the investment management organization.
  - 13.4.1.3. Evidence of suitable insurance coverage of the investment manager's fiduciary responsibilities.
  - 13.4.1.4. Disclosure reports in compliance with Public Sector Accounting Standards.

## 14. CONFLICT OF INTEREST

- 14.1.1. This standard applies to members of the Finance Committee as well as to all agents employed by the committee, in the execution of their fiduciary responsibilities.
- 14.1.2. A conflict of interest arises when the personal interests, investments, or future plans of any person or Agent involved in the administration of the Portfolio, conflict with his or her duties in respect of the Portfolio, or impair his or her ability to make an unbiased judgement in completing responsibilities to the Endowment Funds. In particular, accepting or being the direct or indirect beneficiary of any fee, brokerage, commission, gift (other than of nominal value) or their consideration for or on account of any investment, purchase, sale, payment, or exchange made by or on behalf of the Portfolio shall constitute a conflict of interest.
- 14.1.3. Where a conflict of interest exists or might exist for a Finance Committee Member, the Committee Member shall disclose his or her interest as soon as possible after becoming aware of the potential conflict.
- 14.1.4. Where a conflict of interest exists or might exist for an Agent, the party shall advise the Finance Committee as soon as possible of any conflict of interest. The Finance Committee will assess the nature and materiality of the potential conflict and determine appropriate action which may range from limitations on recommendations or action relative to a specific issue to termination of the NWP and the Portfolio relationship with the Agent.
- 14.1.5. The failure of a Committee Member, Investment Manager, Consultant Agent or advisor, to comply with the procedures described in his section shall not of itself invalidate any decision, contract or other matter.
- 14.1.6. Every disclosure or conflict of interest shall be recorded in the minutes of the Finance Committee meeting.

## 15. INVESTMENT POLICY REVIEW

- 15.1.1. To assure continued relevance of the guidelines, objectives, financial status and capital market expectations as established in this statement of investment policy, the Finance Committee will review the investment policy and revise annually, as required.

## 16. ROLES AND RESPONSIBILITIES

Stakeholder	Responsibilities
Executive Council	<ul style="list-style-type: none"> <li>Formally support this policy.</li> </ul>
Board of Governors	<ul style="list-style-type: none"> <li>Approve and formally support this policy.</li> </ul>
Finance Committee	<ul style="list-style-type: none"> <li>Oversee and provide strategic advice on the investments of the Portfolio.</li> <li>Review and recommend amendments to the Investment Policy.</li> <li>Recommend Investment Managers.</li> <li>Monitor investment performance and investment managers.</li> <li>Monitor investment activities to ensure compliance with established investment parameters.</li> <li>Appoint suitable agents and council, as required.</li> </ul>
Vice-President, Finance and Administration	<ul style="list-style-type: none"> <li>Develop and maintain this policy.</li> <li>Review and approve any exception requests relative to the requirements in this policy.</li> <li>Take proactive steps to reinforce compliance with this policy by all stakeholders.</li> <li>Establish and monitor appropriate procedures, processes, practices, and internal controls:                             <ul style="list-style-type: none"> <li>to achieve the objectives identified in this Policy,</li> <li>for employees and persons to engage in investment activities,</li> <li>to safeguard the Polytechnic funds,</li> <li>for custody and safekeeping of investments; and,</li> <li>for the accounting and reporting of investment activities.</li> </ul> </li> <li>Prepare and present quarterly reporting to the Finance Committee.</li> <li>Communicate with Investment Managers on a regular basis on NWP's Strategic Plan.</li> </ul>
Investment Managers	<ul style="list-style-type: none"> <li>Manage funds in accordance with this Policy with the care, diligence and skill that a prudent person skilled as a professional investment manager would use in dealing with public sector monies. The investment manager will also use all relevant knowledge and skill that it possesses or ought to possess as a prudent investment manager.</li> <li>Abide by the Code of Ethics and Standards of Professional Conduct as established by the Investment Industry Regulatory Organization of Canada.</li> <li>Provide regular investment reporting to NWP as outlined in this policy.</li> <li>Meet with NWP as required and provide quarterly written reports regarding performance, portfolio strategy and other issues as required.</li> <li>Notify the Vice-President, Finance and Administration immediately, in writing, of changes in ownership, investment philosophy and processes, personnel and organizational structure.</li> <li>Notify the Vice-President, Finance and Administration immediately, in writing, of any legal or regulatory proceedings or charges of which the Investment Manager may be aware, against the investment manager's firm or investment personnel or against any sub-advisor.</li> </ul>

## 17. Exceptions to the Policy

17.1. Under certain circumstances, the Vice-President Finance and Administration may conclude that though an investment may not meet the criteria outlined in the investment policy statement, the investment may be within keeping of the spirit of the policy. In such an event, the Polytechnic may deviate from stated policy subject to the following condition:

**The Vice-President Finance and Administration receives unanimous approval of the Finance Committee prior to the investment.**

## 18. Inquiries

18.1. Inquiries regarding this policy can be directed to the Vice-President Finance and Administration.

## 19. Amendments (Revision History)

19.1. May 30, 2017

19.2. Amendments to this policy will be published and circulated to the Institution community.

19.3. This policy shall be reviewed annually by the Finance Committee to ensure that it remains consistent with the overall objectives of NWP and prudent and conservative investment practices. This policy may be reviewed and updated more frequently if necessary.

19.4. Post Implementation Approval: December 18, 2018

19.5. February 18, 2022