

SUBJECT	SUSTAINABLE FUTURE FUND STATEMENT OF INVESTMENT POLICIES AND PROCEDURES
MEETING DATE	SEPTEMBER 21, 2016

Forwarded to the Board of Governors on the Recommendation of the President

**APPROVED FOR
SUBMISSION**



Santa J. Ono, President and Vice-Chancellor

DECISION REQUESTED	IT IS HEREBY REQUESTED that <i>the UBC Board of Governors approve the Statement of Investment Policies and Procedures for the Strategic Future Fund.</i>
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Report Date	August 25, 2016
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Presented By Andrew Simpson, Vice-President Finance & Operations
Peter Smailes, Treasurer
Jai Parihar, President and CEO, UBC Investment Management Trust

EXECUTIVE SUMMARY

The UBC Board of Governors approved the establishment of the Sustainable Future Fund at the February 2016 meeting. The Sustainable Future Fund is an endowment fund that will explicitly incorporate Environmental, Social and Governance (ESG) factors into its investments. Establishment of the Sustainable Future Fund is consistent with the University’s leadership in sustainability.

The attached *Statement of Investment Policies and Procedures* sets out the parameters of how the fund will be managed and invested by UBC Investment Management Trust (IMANT) on behalf of the University. The fund will be invested 30% in bonds and 70% in global equities with materially lower carbon dioxide emissions and higher ESG ratings than a passive equity portfolio. The fund will be established with a \$10 million contribution from the Trek endowment (land lease revenues endowed by the Board of Governors) and donors may contribute to the fund over time. The Directors of the UBC IMANT Board have approved the Statement of Investment Policies and Procedures. IMANT will continue to keep the UBC Board of Governors apprised of the details of the Sustainable Future Fund through the quarterly reporting to the Board of Governors Finance Committee.

INSTITUTIONAL STRATEGIC PRIORITIES SUPPORTED

- Learning Research Innovation Engagement
(Internal / External) International

or Operational

DESCRIPTION & RATIONALE	At the February 2016 meeting, the UBC Board of Governors approved the establishment of the Sustainable Future Fund, an endowment fund that will explicitly incorporate Environmental, Social and Governance (ESG) factors into its investments. By including
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these ESG considerations in the fund's investment objectives, the fund is expected to serve as a practical, real-life vehicle for incorporating non-financial preferences alongside financial objectives. Establishment of the Sustainable Future Fund is consistent with the University's leadership in sustainability.

The *Statement of Investment Policies and Procedures* sets out the parameters of how the fund will be managed and invested by UBC Investment Management Trust (IMANT) on behalf of the University. The fund will be invested 30% in bonds and 70% in global equities with materially lower carbon dioxide emissions and higher ESG ratings than a passive equity portfolio. By not being invested in private investments, it is expected that the volatility of this fund may be higher than the volatility of the UBC Endowment Fund. Equity investments are anticipated to generate the bulk of expected returns used for distributions.

The fund will be established with a \$10 million contribution from the Trek endowment (land lease revenues endowed by the Board of Governors) and donors may contribute to the fund over time.

Portfolio performance will be evaluated against Investment Policy Portfolio benchmarks with respect to four criteria:

- (a) financial performance, with the goal of meeting the long term target return objective,
- (b) financial performance, with the goal of meeting the Investment Policy benchmark which is a weighted average of Asset Class IPP Benchmarks,
- (c) CO2 emissions, with the goal of the Fund portfolio having materially lower CO2 emissions than the Investment Policy Portfolio, and
- (d) ESG scores, with the goal of the Fund portfolio having higher ESG scores than the Investment Policy Portfolio.

The Directors of the UBC IMANT Board have approved the *Statement of Investment Policies and Procedures* for the Fund. IMANT will continue to keep the UBC Board of Governors apprised of the details of the Sustainable Future Fund through the quarterly reporting to the Board of Governors Finance Committee.

BENEFITS
Learning, Research,
Financial,
Sustainability &
Reputational

The fund is expected to serve as a practical, real-life vehicle for incorporating non-financial preferences alongside financial objectives.

RISKS
Financial,
Operational &
Reputational

The initial small size of the pool impacts the ability to diversify investments and leads to greater exposure to equity markets. This may lead to greater volatility of returns, as compared to a larger, more diversified pool. As the pool grows and diversifies further these risks and limitations are expected to be reduced.

COSTS Capital & Lifecycle Operating	Administrative and investment costs will be funded by investment returns
FINANCIAL Funding Sources, Impact on Liquidity	The fund will be established with a \$10 million contribution from the Trek endowment
SCHEDULE Implementation Timeline	The fund will be established as soon as practically possible after approval of the Statement of Investment Policies and Procedures
CONSULTATION Relevant Units, Internal & External Constituencies	UBC IMANT, Treasury and UBC Legal developed and reviewed the <i>Statement of Investment Policies and Procedures</i> .

Previous Report Date February 15, 2016

Decision IT IS HEREBY RESOLVED that the Board of Governors:

- a) Establishes a Sustainable Future Fund within the Endowment that incorporates non-financial objectives for high environmental, social and governance issues (including a portfolio mandate for low carbon emissions) and provides an alternative investment choice for donors who may direct their past or future contributions to the Endowment.
- b) Authorizes an initial allocation of \$10 million to be transferred from the Trek Endowment to seed the Sustainable Future Fund.

Attachments:

- A) UBC IMANT Board of Directors approval of the Sustainable Future Fund *Statement of Policies and Procedures*
- B) The Sustainable Future Fund *Statement of Policies and Procedures*



September 1, 2016

Mr. Andrew Simpson
Vice President, Finance
University of British Columbia
Finance Leadership Office
Koerner Library, 6th Floor
1958 Main Mall
Vancouver, BC
V6T 1Z2

Dear Mr. Simpson,

Re: UBC Sustainable Future Pool: Statement of Investment Policies and Procedures

The IMANT Board has approved the attached Statement of Investment Policies and Procedures (SIPP) for the UBC Sustainable Future Pool (SFP). The IMANT Board is now recommending approval of the SFP SIPP to the UBC Board of Governors (BOG). Once approved by the BOG, IMANT will undertake to implement the SFP SIPP as soon as possible.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Parihar", is written over a light blue horizontal line.

Jai Parihar
President and Chief Executive Officer

cc: Martin Glynn, Board Chair
Peter Smailes, Treasurer, UBC
Reny Kahlon, UBC Board of Governors
Maciek Kon, IMANT

University of British Columbia (UBC)

Sustainable Future Pool

Statement of Investment Policies and Procedures

September 30, 2016

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SECTION 1 – PURPOSE

- 1.1 This document constitutes the Statement of Investment Policies and Procedures (the “Policy”) applicable to the assets that make up the Sustainable Future Pool (the “Fund”), established by the University of British Columbia (the “University”). The UBC Board of Governors passed a resolution at its February 15, 2016 meeting to establish the Pool.
- 1.2 The purpose of this Policy is to define the governance structure for the Fund and to formulate investment principles, guidelines and monitoring procedures to manage the assets of the Fund in accordance with the University Act of British Columbia (the “Act”) and in particular Section 57 of the Act. This Policy is supplementary to the Act.
- 1.3 The Strategic Asset Allocation Policy (defined in Section 5.5) included in this Policy is expected to meet or exceed the current funding requirements set by the University. The spending levels and funding requirements must recognize current asset class return expectations.
- 1.4 Any investment manager or fiduciary providing services in connection with the management and investment of the Fund shall accept and comply with this Policy.

SECTION 2 – FUND GOVERNANCE

- 2.1 The University through its Board of Governors (the “Governors”) is the Administrator of the Fund in accordance with the Act and is responsible for the overall management of the Fund. The Governors have established a governance structure and have delegated certain responsibilities and powers for investing the Fund to The University of British Columbia Investment Management Trust (“IMANT”). IMANT acts through its Board of Directors (the “Directors” or the “Board”), who are appointed by the Governors.
- 2.2 The Board, in turn, has appointed an Investment Committee and a President and CEO of IMANT (the “President”) and has delegated specific responsibilities to the Committee and to the President to assist in carrying out duties with respect to the day-to-day management, administration and investment of the Fund. Delegated responsibilities are set out below.

Board

- 2.3 The Directors shall, with recommendations from the Investment Committee:
- (a) Establish, adopt and maintain this Policy.
 - (b) Review the Policy at least annually and confirm or amend it as needed.
 - (c) Establish, approve and maintain the Strategic Asset Allocation Policy (defined in Section 5.5) for the Fund and risk tolerance levels.
 - (d) Establish and approve overall Fund investment manager structure and all operating and administrative policies and procedures for the Fund including the IMANT Code of Conduct and its conflict of interest policies and the IMANT Statement of Signing Authorizations (the “Signing Authorizations”).
 - (e) Delegate specific responsibilities to the President to assist with the day-to-day management and administration of the Fund. Notwithstanding this delegation of authority, the Directors shall ensure oversight of the President’s compliance with this Policy.
 - (f) Rely on independent experts as required for certain aspects of the Fund’s operations.

- (g) Monitor the Fund's investment performance and asset class returns to ensure continued appropriateness of the long term Strategic Asset Allocation Policy.
- (h) Advise the University if the long term Strategic Asset Allocation Policy and the targeted long term return objective are not in alignment.
- (i) Carry out other duties as delegated by the Governors from time to time.

Investment Committee

2.4 The Investment Committee, comprising all members of the Board, within the scope of the general investment beliefs, shall:

- (a) Recommend the investment policy for the Fund and establish policy benchmarks within the University's objectives and risk tolerances.
- (b) Approve the following:
 - Sub-asset categories
 - Asset category/asset manager risk guidelines
 - Manager structures
 - Asset manager selection process
 - Selection and removal of asset managers upon recommendations brought forward by the President
 - Rebalancing rules
 - Proxy voting guidelines
 - Asset-liability study and portfolio review consultants upon recommendations brought forward by the President
- (c) Review and report on investment performance against investment objectives and benchmarks.
- (d) Review and report on manager monitoring and compliance reports prepared by the President.
- (e) Monitor, evaluate and report on performance and cost effectiveness of investment policies and strategies.
- (f) Carry out other appropriate duties as authorized by the Board

President

- 2.5 The President, under the direction of the Board, shall:
- (a) Manage the day-to-day investment activities and administration of the Fund in accordance with this Policy, the Act, and the operating policies and procedures established by the Directors.
 - (b) Recommend to the Directors an appropriate long term Strategic Asset Allocation Policy and investment manager structure taking into account the nature of the Fund's obligations. Implement the Fund's Strategic Asset Allocation Policy.
 - (c) Recommend for approval by the Investment Committee, selection and appointment and/or termination of external investment managers to assist with the management of the Fund (the "Managers").
 - (d) Select and recommend appointment and/or termination of the Custodian of the Fund's assets (the "Custodian").
 - (e) Select and appoint and/or terminate consultants not covered by 2.4 (b), lawyers and other service providers as required.
 - (f) Meet with individual investment Managers on at least an annual basis. Evaluate and monitor the performance of individual Managers relative to agreed upon performance and risk objectives as established by the President. Oversee the Managers' compliance with this Policy.
 - (g) Execute agreements and mandates with the Managers, service providers and agents.
 - (h) Evaluate and monitor the Fund's investment performance and asset class returns to ensure continued appropriateness of the long term Strategic Asset Allocation Policy. Make recommendations to the Investment Committee for confirmation and or changes as required.
 - (i) Prepare reports for the Board and Investment Committee on a regular basis on the management and investment activities of the Fund.
 - (j) Carry out other appropriate duties as authorized by the Directors.

SECTION 3 – FUND OVERVIEW

- 3.1 The Fund is being created primarily with funds that the University has chosen to endow and may also include donor funds which are primarily in the form of endowed trust funds, which stipulate that the contribution(s) for each fund not be spent. The Fund is meant to support specific aspects of the University's charitable activities in perpetuity. In summary, the primary sources of cash to the Fund will be:
- i. Leasing revenues from real property
 - ii. Donated funds in cash or kind
 - iii. Investment income
- 3.2 Investment income is an important funding source and helps maintain the purchasing power of the original donation. The spending obligations/liability stream is a function of the current spending policy approved by the University. Endowments have an indefinite liability stream, with expectations that recipients of each endowment will benefit in perpetuity. Maintaining the purchasing power of endowment capital against inflation is essential in order to protect the interest of future generations.
- 3.3 At this time the Fund's long term minimum target return objective is 6.15% comprised of an annual spending rate of 3.5% of the rolling 36 month average market value, inflation assumption of 2.0% and fund expenses of 0.65%.

SECTION 4 – INVESTMENT PRINCIPLES AND BELIEFS

- 4.1 The Directors have enunciated a set of investment principles and beliefs that forms the basis for the development of this Policy and the manner in which the Fund shall be invested. The beliefs apply at the portfolio level as well as within individual asset classes. The investment principles and beliefs are articulated in the IMANT Mission Statement and Statement of Investment Beliefs (June 2016), the UBC Statement of Investment Values (September 2012) and the UBC Endowment Responsible Investment Policy (April 2014). Those beliefs and values are captured in the statements detailed below:

- (a) The Fund shall be managed as a perpetual fund with no finite term basis with the prudence and standard of care that requires all fiduciaries, including the Managers, to use the same care and diligence that they would use in managing the property of another person and to apply all relevant knowledge that they possess or by reason of their profession ought to possess.
- (b) Investment risk shall be managed with the same degree of prudence and care used in managing investment assets. IMANT shall manage investment risk primarily through asset mix and security diversification, manager diversification, credit analysis, currency management and transparent reporting. To the extent practical risks should be identified, quantified, managed and reported.
- (c) The University and IMANT are committed to a long term view of the assets and liabilities of the Fund. A long term investment horizon provides opportunities to earn higher expected risk premiums from illiquid assets.
- (d) Recognizing that the University is a public institution, investments and investment processes must be transparent and readily communicated.
- (e) In the long term, asset mix is the main determinant of portfolio return and risk, market timing does not consistently add value.
- (f) Diversification can improve portfolio risk and return characteristics.
- (g) It is appropriate to retain Managers to invest the Fund in an efficient and cost effective manner.
- (h) A Manager's knowledge and application of environmental, social and corporate governance (ESG) factors are key criteria in the selection of Managers.
- (i) Passive investment management should be utilized unless it can be demonstrated that, net of fees, active management can add value.
- (j) Public equities are expected to provide higher long term returns versus bonds, albeit with higher volatility. The volatility associated with those allocations is recognized.
- (k) The prudent use of derivatives can help manage risk and enhance returns. Derivatives and synthetic securities may be used as a substitute for more traditional investments in order to meet Fund objectives. This includes

management of asset mix, currency hedging and replication of direct investments.

- (l) In the long run, currency hedging may not add value. Strategic currency hedging however, can be implemented to mitigate overall portfolio volatility particularly over the short to medium term.
- (m) The University is committed to responsible investing. It follows best practices by incorporating Environmental, Social and Governance (ESG) factors in the investment process.
- (n) The initial small size of the pool impacts the ability to diversify investments and leads to greater exposure to equity markets. This may lead to greater volatility of returns, as compared to a larger, more diversified pool. As the pool grows, more risk-diversifying asset classes will be introduced and the volatility and exposure to equity markets are expected to be reduced.

SECTION 5 – OBJECTIVES, RETURN AND RISK EXPECTATIONS, ASSET ALLOCATION POLICY

Fund Objectives

The Fund has two objectives:

- 5.1 The objective to maximize the rate of return at an appropriate level of risk in order to:
 - i. honour the wishes of the donors of endowed funds,
 - ii. provide cash flows and capital appreciation that are sufficient to support the Endowment's Fund's current spending objectives plus inflation and expenses, and
 - iii. preserve the capital and purchasing power of each endowment in order to provide the same level of support to future generations i.e. maintain inter-generational equity.
- 5.2 The objective to incorporate non-financial objectives for high environmental, social and governance outcomes including a portfolio mandate for materially lower CO2 emissions.

Return and Risk Expectation

- 5.3 The Fund is expected to achieve over moving four-year periods a return, before all fees and expenses, at least equal to a composite benchmark made up of passive investments in appropriate market indices (target Investment Policy Portfolio, (the "IPP") and is defined below in Section 5.5) according to the Strategic Asset Allocation Policy weighting.
- 5.4 The risk inherent in the investment strategy over the intermediate term (a five to ten year period) is three fold. There is a risk that long-term market returns will not be in line with expectations. To the degree that an active management style is employed, there is a risk that the added return expected of active management over passive management will not be realized, or will be negative. There is also

the risk of annual volatility in returns which means that in any one year the actual return may be very different from the expected long-term return (such return may also be negative).

The initial measure of risk is the 4-year rolling rate of return compared with the current spending policy.

Risk expectation can be measured in several ways. The initial measures are:

(a) **Standard Deviation**

The Strategic Asset Allocation Policy is expected to achieve a target standard deviation of 12% or less in nominal terms over ten year periods.

(b) **Intergenerational Equity**

The test of intergenerational equity is the retrospective examination of the Fund regarding:

- iv. Maintenance of the inflation-adjusted value of the Fund, balanced by
- v. an equitable distribution of the Fund's real rate of return across all generations in perpetuity for the University's charitable activities.

Asset Allocation

5.5 In identifying the long term Strategic Asset Allocation Policy that would best meet the above Fund objectives, consideration has been given to:

- (a) the factors outlined in Fund Overview (Section 3),
- (b) capital preservation and the need to maintain inter-generational equity,
- (c) the long-term return expectations and the risks associated with key asset classes, as well as the relationships of their returns with each other, inflation and interest rates,
- (d) diversification benefits obtained by the inclusion of several asset classes, and
- (e) practical considerations.

5.6 Over complete market cycles, the allocation is expected to stay within the following ranges and approximate the Strategic Asset Allocation Policy:

Component Asset Classes	Percentage of Fund at Market Value		Investment Policy Portfolio Benchmark (IPP)*	
	<u>Range</u>		<u>Index Name</u>	<u>Policy Allocation</u>
	<u>Minimum</u>	<u>Maximum</u>		
Bonds & Cash	25%	35%	FTSE TMX Canada All Government Bond Index	30%
Total Fixed Income	<u>25%</u>	<u>35%</u>		<u>30%</u>
Global Low Carbon Equities	30%	40%	MSCI World Net Index (CAD)	35%
Global ESG Equities	30%	40%	MSCI World Net Index (CAD)	35%
Total Public Equities	<u>65%</u>	<u>75%</u>		<u>70%</u>

5.7 Portfolio performance will be evaluated against Investment Policy Portfolio benchmarks with respect to four criteria:

- (a) financial performance, with the goal of meeting the long term target return objective (Section 3.3),
- (b) financial performance, with the goal of meeting the Investment Policy benchmark which is a weighted average of Asset Class IPP Benchmarks,
- (c) CO2 emissions, with the goal of the Fund portfolio having materially lower CO2 emissions than the Investment Policy Portfolio, and
- (d) ESG scores, with the goal of the Fund portfolio having higher ESG scores than the Investment Policy Portfolio.

5.8 Recognizing that buying and selling securities does incur a cost and that there is a trade-off between transaction costs and benefits, for public market securities, the Fund will be rebalanced on a quarterly basis:

- (e) If an asset class is above or below an asset class range (plus or minus 5%), management must rebalance to the range. Management has discretion to rebalance to the mid-point or to the range. Any deviations from the asset class mid-point must be reported to the Board.
 - (f) In periods of extreme market volatility, the above rebalancing policy may be suspended upon confirmation and approval by the Chair of the Board and notification to the Board.
- 5.9 In the event the Board or Investment Committee suspends further allocations or redemptions to or from an asset class as a result of unfavorable market conditions, the investment policy asset class weights will be adjusted accordingly until such suspension is removed or the policy amended.
- 5.10 The Investment Policy Portfolio benchmark includes 0% currency hedging for foreign equities.
- 5.11 The Investment Policy Portfolio Benchmark (IPP) based on the Strategic Asset Allocation Policy is outlined in Section 5.5 effective [September 30, 2016].

SECTION 6 – PERMITTED INVESTMENTS

- 6.1 All investments shall be made in accordance with applicable legislation and the standard of care provision contained in the Act.
- 6.2 The Custodian shall be a trust company registered in Canada. All public investments and assets of the Fund shall be held by the Custodian and registered:
- (a) in a name that clearly indicates that the investment is held in trust for the Fund and, where the investment is capable of being registered, registered in that name, or
 - (b) in the name of the Canadian Depository for Securities Limited, the Custodian, or a nominee thereof, in accordance with an agreement with the Custodian that clearly indicates that the investment is held for the Fund and provides that the investment:
 - i. constitutes part of the Fund,
 - ii. shall not at any time constitute an asset of the Custodian or nominee, and
 - iii. that further provides that records shall be maintained by the Custodian that are sufficient to allow the ownership of any investment be traced to the Fund at any time.
- 6.3 From time to time, and subject to this Policy, the Fund may invest in any or all of the following asset categories and sub-categories of investments either directly or through pooled funds or other co-mingled vehicles that hold these investments:
- (a) **Cash or Cash Equivalents:**
 - Deposits with banks or trust companies with a current term to maturity of one year or less
 - Canadian and foreign issuers with a current term to maturity of one year or less
 - Floating rate notes of Canadian issuers with a current term to maturity of one year or less

(b) **Fixed Income:**

- Bonds, debentures, notes, or other debt instruments, including securitized investments, of Canadian, and foreign issuers
- Mortgages and asset-backed securities
- Term deposits or similar instruments of trust companies and banks licensed to carry on business in Canada or the United States.

(c) **Global Equity:**

Canadian and non-Canadian (including emerging markets): common stocks, convertible debentures, preferred shares, share purchase warrants, share purchase rights, American Depositary Receipts (“ADRs”) of non-Canadian companies, Global Depositary Receipts (“GDRs”) of non-Canadian companies, income trust units in limited partnerships, exchange traded funds (“ETFs”) and real estate investments trusts

(d) **Derivatives:**

- Exchange Traded Funds, futures and options that are regularly traded upon recognized public exchanges or other organized public trading facilities where market prices are readily available.
- Forward currency contracts, swap agreements and other derivative investments with financial institutions or business corporations, including investment managers. The International Swaps and Derivatives Association (ISDA) agreement may be utilized.

6.4 Fund investments in pooled funds and/or other co-mingled vehicles will be subject to the specific policies and/or guidelines of the respective pooled fund or co-mingled vehicle. In the event of a conflict between the Policy and the specific policies and/or guidelines of the respective pooled fund and/or co-mingled vehicle, the latter’s policies and/or guidelines will prevail.

6.5 However, IMANT is expected to advise the Board in the event the pooled fund and/or co-mingled vehicle exhibits, or may exhibit, any significant departure from this Policy.

SECTION 7 – PORTFOLIO CONSTRAINTS, DIVERSIFICATION AND LIQUIDITY

- 7.1 Unless otherwise indicated, all percentages used in this Section shall be calculated using market values.
- (a) No more than 3% of the book value of the assets shall be invested in a single corporation, stock or income trust.
 - (b) The Fund shall not acquire securities of a corporation to which are attached more than 30% of the voting rights of any corporation.
- 7.2 All cash equivalents, including those held within the portfolios for each asset class at the discretion of the Manager, shall have a minimum credit rating of "R-1 (low)" or equivalent and be readily marketable or redeemable.
- 7.3 **Fixed Income:**
- (a) No more than 5% of the fixed income portfolio shall be invested in any one corporation or security with the exception of those issued or guaranteed by the Government of Canada or a province of Canada or an agency thereof having at least an "A" rating.
 - (b) The aggregate amount of public and private debt securities in any single issuer except those issued by the Government of Canada shall not exceed 25% of the total debt outstanding by that issuer.
 - (c) Not more than 25% of the fixed income portfolio shall be held in securities denominated for payment in a foreign currency.
 - (d) No more than 10% of the fixed income portfolio shall be invested in aggregate in debt securities having a "BBB" rating.
 - (e) No part of a fixed income portfolio shall be invested in a debt security having a rating lower than "BBB", unless such security had a rating of "BBB" or higher at the time of purchase.
 - (f) Mortgage investments shall be restricted to pooled mortgage funds consisting of first mortgages of industrial, residential, commercial and office properties across Canada. For a mortgage fund to be eligible, the aggregate amount of

each mortgage within the mortgage fund must not exceed 75% of the appraised value of the subject real estate at the time of investment or renewal.

- 7.4 If a security's credit rating falls below the specified level after purchase, the investment manager shall recommend a course of action to the President for approval.
- 7.5 For purposes of this Section, all debt ratings refer to the ratings of Dominion Bond Rating Service unless otherwise indicated, however, equivalent ratings by another major credit rating agency can be used.
- 7.6 **Public Equities:**
Holdings shall be diversified by stock, capitalization and industry and also by region and country.
- 7.7 **Derivatives:**
Derivatives instruments may not be used to leverage the Fund or for speculative purposes.
- (a) Derivative instruments may be used only to:
- i. create an asset mix position (e.g. Exchange Traded Funds) within the ranges and among the asset classes set out in this Policy.
 - ii. adjust the duration of the fixed income portfolio within the ranges set out in this Policy.
 - iii. replicate direct investments in the underlying assets or asset classes (e.g. indexes) allowed under this Policy so as to achieve an advantage of lower cost, transactional ease, market exposure or manager skill.
 - iv. manage the currency exposure of a portfolio of foreign assets.
 - v. reduce risk as part of a hedging strategy, including market, interest rate, credit, liquidity and currency risk.
- (b) Managers shall be responsible for assessing counterparty risk associated with derivative instruments.

- (c) For greater clarity, derivatives used in currency hedging do not violate any of the provisions set out in this Section.

7.8 Counterparties:

The counterparty to any derivative transaction must have a long-term credit rating of at least “A” from Standard & Poor’s Corporation, “A2” from Moody’s Investor Service Inc., or equivalent credit rating as rated by another nationally recognized rating organization.

7.9 Liquidity:

IMANT shall maintain sufficient liquidity in the Fund to meet current operating disbursements and to avoid untimely disposal of securities.

SECTION 8 – LOANS AND BORROWING

- 8.1 No part of the Fund shall be loaned to any party, other than by:
- (a) purchasing securities which otherwise meet the requirements of this Policy for fixed income or cash equivalents, or
 - (b) lending securities by the Custodian provided that a minimum collateral coverage of at least 105% of the current market value of the loaned securities is maintained at all times in cash or high quality liquid securities defined in the lending agreement with the Custodian and provided also that the Custodian provides a guarantee of all such loans.
- 8.2 Money shall not be borrowed on behalf of the Sustainable Future Fund and Fund's assets shall not be pledged or otherwise encumbered in respect thereof, except for and to the extent of temporary overdrafts that occur in the course of normal day-to-day portfolio management.

SECTION 9 – VOTING RIGHTS

- 9.1 The Directors have delegated the responsibility for exercising voting rights of the Fund investments to the President who may either retain an external proxy voting service or delegate this responsibility to the Managers.
- 9.2 The President and Managers shall conform to the principle of voting in favour of measures that promote good social, environmental and corporate governance practices and vote against measures that do not appear to create value for shareholders.
- 9.3 The President and or Managers shall maintain a record of how the Fund's voting rights have been exercised.
- 9.4 It is recognized, however, that the above policy on voting rights may not be enforceable to the extent that part of the Fund is invested in pooled funds.

SECTION 10 – VALUATION OF INVESTMENTS

- 10.1 Marketable securities shall be valued by the Custodian no less frequently than monthly at their market value.

- 10.2 Investment in a pooled fund comprising marketable securities shall be valued according to the unit values calculated at least monthly by the custodian of that pooled fund. The Custodian shall be responsible for requesting and recording the unit values on a monthly basis.

SECTION 11 – RELATED PARTY TRANSACTIONS

11.1 For the purposes of this Policy, “Related Party” has the meaning given in the Act, but for greater certainty includes:

- (a) the University, an affiliate of the University, or a member of the Board of Governors of the University
- (b) an officer or employee of the University
- (c) a member of the IMANT Board of Directors and or IMANT staff

Related Party Transactions

11.2 The Fund may enter into a transaction with a related party only if:

- (a) the transaction is required for the operation or administration of the Fund,
- (b) the terms, conditions and monetary value of the transaction are not less favourable than market terms, conditions and value, and
- (c) the transaction does not exceed 3% of the market value of the Fund at the time of the transaction.

11.3 Notwithstanding 11.2, the Directors shall monitor transactions to ensure ongoing compliance with this Policy.

Conflicts of Interest

11.4 From time to time, real or perceived conflicts of interest may arise. If a Director, or any agent of or advisor to the Fund, or any employee has or acquires any material interest, direct or indirect, in any matter in which the Fund is invested, or may benefit materially from knowledge of, participation in, or by virtue of an investment decision or holding of the Fund. In the case of an IMANT staff member, the disclosure is to the President of IMANT; in the case of the President, to the Board Chair and in the case of a Board member, to the Board Chair. If the Board Chair is involved, disclosure should be made to the Chair of the Governance Committee.

The Chair or President shall then advise all members of the Board. Any conflict should be disclosed prior to the next Board meeting, and the Board shall decide on an appropriate course of action prior to discussing the related business matter. Any such person will thereafter abstain from any decision making with respect to the area of conflict, unless otherwise determined by unanimous decision of the remaining Directors.

- 11.5 Every disclosure of interest under this Section shall be recorded in the minutes of the relevant Board of Directors' meeting.
- 11.6 The failure of a person to comply with the procedures, described in this Section, shall not of itself invalidate any decision, contract or other matter.
- 11.7 The President shall satisfy himself that an appropriate policy regarding conflicts of interest exists and is followed by any fiduciary of the Fund, including the Managers. As a minimum, the Code of Ethics and Standards of Professional Conduct adopted by the Chartered Financial Analysts Institute shall be expected to apply to such fiduciaries.

SECTION 12 – MONITORING

- 12.1 The Directors shall review at least once a year, and as needed:
- (a) the assets and net cash flow of the Fund,
 - (b) the current asset mix of the Fund,
 - (c) risk analysis and investment performance of the Fund and each Manager relative to the objectives of the Policy and the Managers' mandates,
 - (d) portfolio holdings,
 - (e) the fees and expenses incurred in managing the Fund, and
 - (f) compliance with this Policy.

Such a review shall be undertaken on the Board's behalf quarterly through the Investment Committee. Following such review, the Investment Committee shall take action as it deems prudent and appropriate.

- 12.2 The Investment Committee shall evaluate whether any information discovered through the foregoing monitoring activities require specific communication to the Beneficiaries.

SECTION 13 – POLICY REVIEW

13.1 This Policy shall be reviewed at least annually by the Directors in order to determine whether any modifications are necessary or desirable. Such review shall include but not be limited to:

- (a) changes in the payout rate of the Fund by the University,
- (b) revisions to the expected long-term relationship between risk and reward on key asset classes,
- (c) shortcomings of the Policy that emerge in its practical operation,
- (d) changes in applicable legislation,
- (e) recommendations by the President,
- (f) all changes are to be approved by the Board.