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| SUBJECT | SUSTAINABLE FUTURE FUND STATEMENT OF INVESTMENT POLICIES & PROCEDURES |
| MEETING DATE | FEBRUARY 14, 2017 |

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

**APPROVED FOR
SUBMISSION**



Santa J. Ono, President and Vice-Chancellor

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| DECISION REQUESTED | IT IS HEREBY REQUESTED that the UBC Board of Governors approve the Strategic Future Fund Statement of Investment Policies & Procedures. |
| Report Date | January 10, 2016 |

Presented By Andrew Simpson, Vice-President Finance & Operations
Peter Smailes, Treasurer
Rajiv Silgado, President and CEO, UBC Investment Management Trust

EXECUTIVE SUMMARY

The UBC Board of Governors approved the establishment of the Sustainable Future Fund (SFF) at the February 2016 meeting and approved the SFF *Statement of Investment Policies & Procedures* (SIPP) at the September 2016 meeting. At the October 2016 Endowment Responsible Investment Policy Committee meeting, MSCI (an independent risk and performance measurement provider for institutional investors) and UBCC350 presented their views on the potential investments for the SFF. Establishment of the Sustainable Future Fund is consistent with the University’s leadership in sustainability.

The attached *Statement of Investment Policies & 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 may also may exclude investments in companies that own fossil fuel reserves. 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 University may contribute additional Trek funds to the SFF over time, depending on the fund performance. 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
 International
 (Internal / External)

or Operational

DESCRIPTION & RATIONALE The UBC Board of Governors approved the establishment of the Sustainable Future Fund (SFF) at the February 2016 meeting and approved the SFF *Statement of Investment Policies & Procedures* at the September 2016 meeting. At the October 2016 Responsible Investment Policy Committee meeting, MSCI (an independent risk and performance measurement provider for institutional investors) and UBCC350 presented their views on the potential investments for the SFF. The Responsible Investment Policy Committee requested that UBC management and IMANT reconsider the original investment options for the SFF.

UBC asked UBC Investment Management Trust to investigate the potential to construct a well-diversified portfolio of stocks that closely follows the performance of the capitalization weighted global equity index for the SFF. The intention was that the new fund be optimized for reduction in CO2 emissions and initially not include fossil fuel reserve companies. The advantage of this approach was that equity returns of the SFF would be expected to be very similar to the broad equity market and would also be expected to achieve the non-financial goals materially reducing CO2 emissions. Such index-tracking approach is particularly suitable to a small asset pool where manager diversification is not feasible.

After due research, the cost of the MSCI new low/no-fossil indexed fund or ETF is simply unjustifiable for the SFF, but the University will retain the discretion to consider shifting the holdings of the SFF into such an indexed fund to the extent that one becomes available and the costs are economically justifiable.

IMANT also researched suitable existing funds for the SFF and has recommended a fund of approximately 100 holdings that has a material reduction in CO2 emissions. While these types of portfolios are quantitatively diversified, they have considerably different exposures to industry sectors and regions than the broad developed world equity index of over 1,600 securities. IMANT identified and researched two Canadian investment management firms that pursue this strategy. Both funds are quite new and an informative track record of the performance of their approach is limited. One manager, Jarislowsky Fraser takes a fundamental approach to portfolio construction, In the absence of product-specific track record of performance, IMANT staff referenced the performance of managers' global equity product. IMANT is comfortable with Jarislowsky Fraser through their work on managing the UBC Merilees Endowment Chair assets.

Initially IMANT recommended investing the equities and fixed income allocations with two separate managers. However, Jarislowsky Fraser offers a balanced fund that includes global equities and Canadian bonds and IMANT has recommended investing the entire \$10m in the Jarislowsky Fraser fund. Given the small size of the SFF this approach will be administratively simpler and will reduce the fees slightly.

Based on IMANT's recommendation, the SFF will be invested in a global, balanced, low-carbon, ex-energy portfolio managed by Jarislowsky Fraser. The fund will target an asset mix of 70% equities and 30% bonds. The bond component of the portfolio may also include green bonds. As the SFF grows, additional options to invest in a well-diversified

portfolio of stocks that closely follows the performance of the capitalization weighted global equity index may become available and will be considered for the SFF.

The fund is expected to serve as a practical, real-life vehicle for incorporating non-financial preferences alongside financial objectives. Establishment of the SFF is consistent with the University's leadership in sustainability.

Statement of Investment Policies & Procedures

The *Statement of Investment Policies & Procedures* (SIPP) sets out the parameters of how the fund will be managed and invested by 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 will be ex-fossil fuel companies. As the fund is not invested in private investments, it is expected that the volatility of this fund may be higher than the volatility of the UBC Main 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. The University may contribute additional Trek funds to the SFF over time, depending on the fund performance.

Portfolio performance will be evaluated against Investment Policy Portfolio benchmarks with respect to three 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 Investment Benchmarks,
- (c) CO2 emissions, with the goal of the Fund portfolio having materially lower CO2 emissions than the Investment Policy Portfolio and reducing or excluding investments in companies which own fossil fuel reserves.

IMANT will continue to keep the UBC Board of Governors apprised of the details of the SFF through the quarterly reporting to the Board of Governors Finance Committee.

SFF Endowment Trust Agreement

The Endowment Trust Agreement for the SFF, signed by the donor and the University, will differ from that of the Main Endowment. Given the leading edge nature of the SFF and the changing responsible investment landscape, UBC will maintain the ability to adjust the investment profile of the SFF. This includes the potential to transfer the Fund from the SFF to another Endowment Fund at the University and/or discontinue the Sustainable Future Fund if it is deemed in the best interest of the charitable purpose.

More specifically, the trust agreement states:

The University may from time to time, with the approval of the Board of Governors, make decisions regarding the investment, management and administration of the Sustainable Future Pool which the Board of Governors considers to be in the best interest of the University, including but not limited to altering the Non-financial Criteria, transferring the Fund from the Sustainable Future Pool to another Endowment Pool at the University and discontinuing the Sustainable Future Pool.

Spending Rate

The size of the fund and lack of diversification may lead to investment returns that are more volatile. The investment options are all relatively new and without a longer history of returns it is prudent to set the initial spending rate at 3.5% which is 0.5% lower than the spend rate of the Main Endowment Fund. The Trust Agreement will contain the following language to address this issue:

The Donor acknowledges that the Endowment Pool known as the “Sustainable Future Pool” is invested on the basis of non-financial criteria under an investment policy that incorporates values such as sustainability or other values which the Board of Governors identifies from time to time to be in the best interests of the University (the “Non-financial Criteria”). The Non-financial Criteria may result in differing financial performance (including potentially higher volatility) between the Sustainable Future Pool and other Endowment Pools at the University.

Returns will be reviewed annually but after no more than three years, the spending rate will be re-evaluated. Should the fund generate investment returns that are sufficient to support a higher spending rate a recommendation will be made to the Board to increase the spending rate.

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| 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. |
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| 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. |
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| COSTS | Administrative and investment costs will be funded by investment returns |
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| FINANCIAL Funding Sources, Impact on Liquidity | The fund will be established with a \$10 million contribution from the Trek endowment. The University may contribute additional Trek funds to the SFF over time, depending on the fund performance. |
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SCHEDULE The fund will be established as soon as practically possible after approval of the revised
Implementation Timeline *Statement of Investment Policies & Procedures*

CONSULTATION UBC IMANT, Treasury and UBC Legal developed and reviewed the *Statement of*
Relevant Units, Internal & External *Investment Policies & Procedures*
Constituencies

Previous Report Date September 21, 2016

Decision IT IS HEREBY REQUESTED that *the UBC Board of Governors approve the Strategic Future Fund Statement of Investment Policies & Procedures*

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.

Attached:

A) The Sustainable Future Fund *Statement of Investment Policies & Procedures*.

The University of British Columbia (UBC)
Sustainable Future Fund

Statement of Investment Policies & Procedures

January 1, 2017

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SECTION 1 - PURPOSE

- 1.1 The University of British Columbia (the “**University**”) has established the Sustainable Future Fund (the “**Fund**”) as one pool of funds within the University’s endowment (the “**Endowment**”) to support specific aspects of the University’s charitable activities in perpetuity.
- 1.2 This document constitutes the Statement of Investment Policies and Procedures (the “**Policy**”) applicable to the assets that make up the Fund.
- 1.3 The purpose of this Policy is to define the governance structure for the Fund, and formulate the principles, guidelines and monitoring procedures to manage the Fund’s assets 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.

SECTION 2 - FUND OVERVIEW, OBJECTIVES, STRATEGIC ASSET ALLOCATION POLICY AND PERFORMANCE CRITERIA

Overview

- 2.1 The University’s Board of Governors (the “**Board of Governors**”) passed a resolution at its February 15, 2016 meeting to establish the Fund.
- 2.2 The Fund is a pool of funds, which at the time of the Fund’s establishment are primarily the University’s monies which the University has chosen to endow. The Fund may also include donor contributions which are primarily in the form of endowed trust funds, which stipulate that the contribution(s) for each fund not be spent. In both cases, the Fund is meant to support specific aspects of the University’s charitable activities in perpetuity. The primary sources of cash to the Fund will be:
 - (a) leasing revenues from real property;
 - (b) donated funds in cash or kind; and
 - (c) investment income.

2.3 Investment returns are an important funding source and helps maintain the purchasing power of the original contributions. The spending obligations/liability stream is a function of the current spending policy approved by the University. Endowment funds have an indefinite liability stream, with expectations that the charitable activities supported by each endowment fund within the Fund will benefit in perpetuity. Maintaining the purchasing power of the Fund's capital against inflation is essential in order to protect the purchasing power of the funds within the Fund in perpetuity.

Fund Objectives

2.4 The Fund has two objectives:

- (a) 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 Fund's current spending objectives plus inflation and expenses; and
 - (iii) preserve the capital and purchasing power of each endowment fund within the Fund in order to provide the same level of support in perpetuity; and
- (b) incorporate non-financial objectives to materially lower CO₂ emissions, including the objective of reducing or excluding investments in companies that own fossil fuel reserves.

Return Objective

2.5 The Board of Governors approves for the Fund a long term target investment return objective of 6.15% (the "**Return Objective**"), 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%

Strategic Asset Allocation Policy and Investment Policy Portfolio Benchmark

2.6 The Board of Governors approves for the Fund a strategic asset allocation policy where the Fund’s assets are invested in the asset classes listed under the heading “Component Asset Classes” in the percentages listed under the heading “Percentage Of Fund At Market Value” as set out in the following table (“**Strategic Asset Allocation Policy**”):

| Component Asset Classes | Percentage of Fund at Market Value | | | Investment Policy Portfolio Benchmark |
|--|------------------------------------|---------------------------------|-----|---|
| | <i>Policy Allocation</i> | <u>Range</u> Minimum Maximum | | <u>Index Name</u> |
| Bonds & Cash | 30% | 25% | 35% | FTSE TMX Canada All Government Bond Index |
| Global Low CO ₂ Emission Equities | 70% | 65% | 75% | MSCI World Net Index (CAD) |

2.7 The Board of Governors approves the target investment policy portfolio for benchmarking the performance of the Fund’s investments shown in the table in Section 2.6 under the column titled “Investment Policy Portfolio Benchmarks” (the “**Investment Policy Portfolio Benchmarks**”).

2.8 The Strategic Asset Allocation Policy is expected to meet the Return Objective within a suitable risk reward framework. The spending levels and funding requirements must recognize current asset class return expectations.

Performance Criteria

2.9 The Board of Governors approves portfolio performance evaluation against the following criteria:

- (a) financial performance, with the goals of:
 - (i) meeting the Return Objective;

- (ii) meeting the Investment Policy benchmark which is a weighted average of Asset Class Investment Policy Portfolio Benchmarks,
 - (b) CO₂ emissions, with the goals of:
 - (i) the Fund's investment portfolio having materially lower CO₂ emissions than the Investment Policy Portfolio; and
 - (ii) reducing or excluding investments in companies which own fossil fuel reserves,
- (the “**Performance Criteria**”).

SECTION 3 - FUND GOVERNANCE

Structure Overview

- 3.1 The University through its Board of Governors is the administrator of the Endowment in accordance with the Act and is responsible for the overall management of the Endowment, including the Fund. The Board of Governors has established a governance structure and delegated certain responsibilities and powers for investing the Fund to the University of British Columbia Investment Management Trust (“**IMANT**”).
- 3.2 IMANT acts through its Board of Directors (the “**IMANT Board**” and each director on the IMANT Board a “**Director**”). The IMANT Board has appointed an investment committee (the “**IMANT Investment Committee**”) and a President and CEO of IMANT (the “**IMANT President**”). The IMANT Board has delegated specific responsibilities to the IMANT Investment Committee and to the IMANT President to assist in carrying out duties with respect to the day-to-day management, administration and investment of the Fund.
- 3.3 Any external investment managers who assist with the management of the Fund (the “**Managers**”) or fiduciary providing services in connection with the management and investment of the Fund shall accept and comply with this Policy.

Governors

3.4 The Board of Governors is responsible for:

- (a) appointing and removing the Directors;
- (b) approving this Policy and any changes to this Policy and
- (c) monitoring fund performance and adherence to this Policy.

IMANT Board

3.5 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, recommend for approval by the Governors 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.

IMANT Investment Committee

3.6 The IMANT Investment Committee, comprising all members of the IMANT Board, within the scope of the general investment beliefs described in Section 4, shall:

- (a) review and recommend to the IMANT Board changes to this Policy, including the Strategic Asset Allocation Policy, which are within the University's objectives and risk tolerances;
- (b) approve the following:
 - (i) sub-asset categories;
 - (ii) asset category/Manager risk guidelines;
 - (iii) Manager structures;
 - (iv) Manager selection process;
 - (v) selection and removal of Managers upon recommendations brought forward by the IMANT President;
 - (vi) rebalancing rules;
 - (vii) proxy voting guidelines; and
 - (viii) asset-liability study and portfolio review consultants upon recommendations brought forward by the IMANT President;
- (c) review and report on investment performance against the Performance Criteria;

- (d) review and report on monitoring of the Managers and compliance reports prepared by the IMANT President;
- (e) monitor, evaluate and report on performance and cost effectiveness of the Policy and the operating policies and procedures established by the IMANT Board; and
- (f) carry out other appropriate duties as authorized by the IMANT Board.

IMANT President

3.7 The IMANT President, under the direction of the IMANT 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 IMANT Board;
- (b) recommend to the IMANT Board an appropriate long term Strategic Asset Allocation Policy and 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 IMANT Investment Committee, selection and appointment and/or termination of 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 Section 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 IMANT 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 performance against the Performance Criteria to ensure continued appropriateness of the Performance Criteria for the long term. Make recommendations to the IMANT Investment Committee for confirmation and or changes as required;
- (i) prepare reports for the IMANT Board and IMANT Investment Committee on a regular basis on the management and investment activities of the Fund; and
- (j) carry out other appropriate duties as authorized by the IMANT Board.

SECTION 4 - INVESTMENT PRINCIPLES AND BELIEFS

4.1 The Board of Governors 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 Board of Governors 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) in selecting the Managers, consideration of environmental, social and corporate governance (ESG) factors by the Manager in their investment decisions is an important criterion;
- (i) passive investment management should be used 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, and is endeavoring to invest in a manner which results in reduced CO₂ emissions while ensuring financial returns to support the University's charitable activities; and
- (n) the initial small size of the Fund 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 fund. As the Fund grows, more risk-diversifying asset classes will be introduced and the volatility and exposure to equity markets are expected to be reduced.

SECTION 5 - RETURN AND RISK EXPECTATIONS, ASSET ALLOCATION PRINCIPLES

Return and Risk Expectation

- 5.1 The Fund is expected to achieve over moving four-year periods a return, before all fees and expenses, at least equal to the Return Objective.
- 5.2 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 maintenance of the inflation-

adjusted value of the Fund, balanced by an equitable distribution of the Fund's real rate of return to support the University's charitable activities in perpetuity.

Asset Allocation

5.3 In identifying, reviewing and recommending changes to the long term Strategic Asset Allocation Policy that would best meet the above Fund's objectives set out in Section 2.4, consideration is to be given to:

- (a) the factors outlined in Fund Overview (Section 2);
- (b) capital preservation and the need to support the University's activities in perpetuity;
- (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.

5.4 Over complete market cycles, the Fund's assets shall stay within the ranges and the assets set out in the Strategic Asset Allocation Policy, subject to Section 5.5(b).

5.5 Recognizing that buying and selling securities incurs 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 based on the following principles:

- (a) if an asset class is above or below an asset class range set out in the Strategic Asset Allocation Policy (plus or minus 5%), the Manager must rebalance to the range. The Manager 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 IMANT Board; or

- (b) in periods of extreme market volatility, the above rebalancing policy may be suspended upon confirmation and approval by the chair of the IMANT Board or the IMANT Investment Committee, and in either case with notification to the IMANT Board.
- 5.6 If the IMANT Board or IMANT Investment Committee suspends further allocations or redemptions to or from an asset class as a result of unfavorable market conditions, the Policy's asset class weights will be adjusted accordingly until such suspension is removed or the Policy is amended.
- 5.7 The Investment Policy Portfolio Benchmark includes 0% currency hedging for foreign equities.
- 5.8 The Investment Policy Portfolio Benchmark based on the Strategic Asset Allocation Policy is effective [April 1, 2017].

SECTION 6 - PERMITTED INVESTMENTS

- 6.1 All investments shall be made in accordance with applicable legislation and the standard of care set out 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**, which are limited to:
 - (i) deposits with banks or trust companies with a current term to maturity of one year or less;
 - (ii) Canadian and foreign issuers with a current term to maturity of one year or less; and
 - (iii) floating rate notes of Canadian issuers with a current term to maturity of one year or less;
- (b) **fixed income**, which are limited to:
 - (i) bonds, debentures, notes, or other debt instruments, including securitized investments, of Canadian, and foreign issuers;
 - (ii) mortgages and asset-backed securities; and
 - (iii) term deposits or similar instruments of trust companies and banks licensed to carry on business in Canada or the United States;
- (c) **public equities**, which are limited to: common stocks, convertible debentures, preferred shares, share purchase warrants, share purchase rights, American Depositary Receipts of non-Canadian companies, Global Depositary Receipts income trust units in limited partnerships, exchange traded funds and real estate investments trusts;

- (d) **derivatives**, which are limited to:
- (i) 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; and
 - (ii) 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 used.

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

SECTION 7 - LIQUIDITY, PORTFOLIO CONSTRAINTS AND DIVERSIFICATION

- 7.1 Unless otherwise indicated, all percentages used in this Section 7 are calculated using market values.
- 7.2 IMANT shall maintain sufficient liquidity in the Fund to meet current operating disbursements and to avoid untimely disposal of securities.
- 7.3 IMANT shall not:
- (a) invest more than 3% of the book value of the Fund's assets in a single corporation, stock or income trust; or

- (b) acquire securities of a corporation to which are attached more than 30% of the voting rights of any corporation.

Cash or Cash Equivalents

7.4 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.

Fixed Income

7.5 Fixed income assets of the Fund must meet the following requirements:

- (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; and
- (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.

- 7.6 If a security's credit rating falls below the specified level after purchase, the Manager shall recommend a course of action to the IMANT President for approval.
- 7.7 For purposes of this Section 7, 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.

Canadian and Non-Canadian (Including Emerging Markets) Equities

- 7.8 Public equity assets of the Fund shall be diversified by stock, capitalization and industry and also by region and country.

Derivatives

- 7.9 Derivatives instruments may not be used to leverage the Fund or for speculative purposes. Derivative instrument assets of the Fund may be used only to:
- (a) create an asset mix position (e.g. Exchange Traded Funds) within the ranges and among the asset classes set out in this Policy;
 - (b) adjust the duration of the fixed income portfolio within the ranges set out in this Policy;
 - (c) 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 a Manager's skill;
 - (d) manage the currency exposure of a portfolio of foreign assets; or
 - (e) reduce risk as part of a hedging strategy, including market, interest rate, credit, liquidity and currency risk.

- 7.10 Managers are responsible for assessing counterparty risk associated with derivative instruments. 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.
- 7.11 For greater clarity, derivatives used in currency hedging do not violate any of the provisions set out in Section 7.

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 Fund and the 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 IMANT Board has delegated the responsibility for exercising voting rights of the Fund’s investments to the IMANT President who may either retain an external proxy voting service or delegate this responsibility to the Managers.

- 9.2 The IMANT 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. Voting of proxies shall be exercised at all times in the best interest of the University.
- 9.3 The IMANT 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 Business Corporations Act of British Columbia, 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 Director; or
 - (d) IMANT staff.
- 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.

SECTION 12 - CONFLICTS OF INTEREST

12.1 From time to time, real or perceived conflicts of interest may arise. If any person below listed 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, that person must disclose that interest to the person as follows:

- (a) any Manager, agent, or advisor to the Fund, to the IMANT President;
- (b) IMANT staff members, to the IMANT President;
- (c) the IMANT President, to the chair of the IMANT Board;
- (d) a Director, to the chair of the IMANT Board; or
- (e) the chair of the IMANT Board, to the IMANT President and the chair of the Board of Governors' governance committee.

The chair of the IMANT Board or the IMANT President, as applicable, shall then advise all members of the IMANT Board of the disclosed conflict before the next IMANT Board meeting, and the IMANT Board shall decide on an appropriate course of action prior to discussing the related business matter. Any person making a disclosure will thereafter

abstain from any decision making with respect to the area of conflict, unless otherwise determined by unanimous decision of the remaining Directors.

- 12.2 Every disclosure of interest under Section 11.4 shall be recorded in the minutes of the relevant IMANT Board meeting.
- 12.3 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.
- 12.4 The IMANT 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 13 - MONITORING

- 13.1 The IMANT Board shall review on a regular basis, as needed, and at least once a year:
- (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 IMANT Board's behalf quarterly through the IMANT Investment Committee. Following such review, the IMANT Investment Committee shall take action as it deems prudent and appropriate.

13.2 The IMANT Investment Committee shall evaluate whether any information discovered through the foregoing monitoring activities require specific communication to the Board of Governors.

SECTION 14 - POLICY REVIEW

14.1 This Policy shall be reviewed at least annually by the IMANT Board 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 IMANT President; and
- (f) all changes are to be approved by the Board of Governors.

Endowment Responsible Investment Policy Committee

January 31, 2017

1. Sustainable Future Fund *Statement of Investment Policies & Procedures* Board submission

a. SFF *Statement of Investment Policies & Procedures* attached

The *Statement of Investment Policies & Procedures* (SIPP) for the Sustainable Future Fund (SFF) was approved at the September 2016 Board meeting. At the October 2016 Endowment Responsible Investment Policy Committee meeting, an alternative approach to investing the SFF was proposed. UBC Investment Management Trust was asked to review the potential investments and make a recommendation with respect to removing fossil fuel reserve companies from the proposed portfolio. The attached Board submission includes the revised SIPP for the SFF.

2. Draft Endowment Trust Agreement

The SFF Board report makes reference to the Draft Endowment Trust Agreement. A version of this agreement will be signed by each donor that wishes to have their donation invested in the SFF. There are two key differences in the SFF Endowment Trust Agreement as opposed to the Main Endowment Trust agreement:

- The Board may alter the non-financial criteria of the fund or transfer the funds to another pool, and may discontinue the SFF;
- Donors will also be informed that the spending rate for the SFF will initially be set at 3.5% due to the lack of investment history, the small size of the fund and the lesser diversification than the main fund.

3. Communications Plan

UBC Development & Alumni Engagement have developed the public-facing communications requirements for the SFF in consultation with UBC Office of the University Counsel and UBC Treasury. These requirements will be used to develop all donor communication.

DRAFT FOR DISCUSSION

[NAME OF FUND] ENDOWMENT TRUST AGREEMENT

1. Name of Fund

The gift of [**\$ amount of gift received**] (the “**Gift**”) from [**name of donor - *Note: where more than one donor, see Instructions**] (the “**Donor**”) will be used to establish the [**name of Fund**] Endowment Fund (the “**Fund**”).

2. Purpose of the Fund

The purpose of the Fund is to support [**describe specific purpose of the Fund**] at the University [**and can add: as set out in greater detail in Schedule A to this Endowment Trust Agreement**] (the “**Purpose**”).

The University of British Columbia (the “**University**”) will hold the Fund in trust, use the Fund to support the Purpose and manage the Fund in accordance with the University’s policies, including the Endowment Management Policy and its associated procedures, as amended from time to time (the “**Policies**”). Without limiting the generality of the foregoing, the University will:

- (a) make an annual allocation based on the spending rate established under the Endowment Management Policy and credit the annual allocation to the Fund’s spending account; and
- (b) use the funds in the spending account to support the Purpose.

3. The Endowment Pools

[Main Endowment] The University manages a large number of endowment funds in its main endowment pool (the “**Endowment Pool**”), of which the Fund will be one. All of the endowment funds that make up the Endowment Pool are governed by the Policies.

[Delete and replace above paragraph with the following paragraph if using the Sustainable Future Pool; also delete the descriptor at the beginning of the paragraph:]

[Sustainable Future Pool] The University manages a large number of endowment funds in its endowment pools (each an “**Endowment Pool**”), of which the Fund will be one. All of the endowment funds that make up the Endowment Pools are governed by the Policies.

The Donor acknowledges that the Endowment Pool known as the “**Sustainable Future Pool**” is invested on the basis of non-financial criteria under an investment policy that incorporates values such as sustainability or other values which the Board of Governors identifies from time to time to be in the best interests of the University (the “**Non-financial Criteria**”). The Non-financial Criteria may result in differing financial performance (including potentially higher volatility) between the Sustainable Future Pool and other Endowment Pools at the University.

The Donor directs the University to invest the Fund as part of the Sustainable Future Pool and authorizes, but does not require, the University to consider Non-Financial Criteria.

The University may from time to time, with the approval of the Board of Governors, make decisions regarding the investment, management and administration of the Sustainable Future Pool which the Board of Governors considers to be in the best interest of the University, including but not limited to altering the Non-financial Criteria, transferring the Fund from the Sustainable Future Pool to another Endowment Pool at the University and discontinuing the Sustainable Future Pool.

4. Investment of the Fund

The University may:

- (a) invest and reinvest the Fund in such investments as the University decides and in making those investments the University is not limited to the investments authorized by the *Trustee Act* of British Columbia or any other law relating to trust funds; and
- (b) invest and maintain the Fund as part of an Endowment Pool.

5. Additional Contributions

The University may accept or make further contributions to the Fund, from any source, whether by gift, Will or otherwise, provided that any further contributions will be governed by the trust terms established in this Endowment Trust Agreement.

6. Encroachment on the Fund

Although very uncommon, circumstances may arise where it is advisable for the University to encroach on the Fund. The University may encroach on the Fund in such circumstances but only if that encroachment is recommended by the President to the Board of Governors and is approved by the Board of Governors.

7. University Policy

[Standard] Decisions, financial and otherwise, on any matters relating to the investment, management, use or administration of the Fund will be made in accordance with the Policies.

[Delete and replace above paragraph with one of the following paragraphs as relevant; also delete the descriptor at the beginning of the relevant paragraph:]

[Student award] Decisions, financial and otherwise, with respect to any award arising from the Fund, including the continuing eligibility of a person to hold an award or to obtain a renewal thereof, as well as any matters relating to the investment, management, use or administration of the Fund will be made in accordance with the Policies.

[Professorship] Decisions, financial and otherwise, with respect to the selection of the holder of the Professorship and his or her continuing relationship with the University as well

as any matters relating to the investment, management, use or administration of the Fund will be made in accordance with the Policies.

[Chair] Decisions, financial and otherwise, with respect to the selection of the holder of the Chair and his or her continuing relationship with the University as well as any matters relating to the investment, management, use or administration of the Fund will be made in accordance with the Policies.

If, as a result of the Donor's wishes or other circumstances, the Board of Governors is of the opinion that it would be advisable to vary one or more terms of this Endowment Trust Agreement, keeping in mind the spirit of the original Purpose, the Board of Governors may vary the term[s].

8. **General**

- (a) **Headings.** The use of headings is for convenient reference only and will not affect how this Endowment Trust Agreement is interpreted.
- (b) **Counterparts.** This Endowment Trust Agreement may be signed by original or by facsimile and executed in any number of counterparts, and each counterpart will be considered to be an original. All executed counterparts taken together will constitute one agreement.

- (c) **Entire Agreement.** This Agreement constitutes the entire agreement between the parties with respect to the matters set out herein and the Donor acknowledges that there are no terms or conditions governing the University's use of the Fund other than as expressly set out in this Agreement.

TO EVIDENCE THEIR AGREEMENT the Donor and the University have executed this Endowment Trust Agreement on the dates appearing below.

SIGNED by the Donor in the presence of:)

_____)
(Signature)

_____)
(Print Name)

_____)
(Address)

_____)
(Occupation)

_____)
Date

[name of donor; where the donor is a legal entity, insert the name and title of the authorized signatory.]

The University of British Columbia
by its Authorized Signatory:

Martha Piper
President and Vice-Chancellor

Date: _____

Approved as to form by the Office of the University Counsel:

Date: _____