

SUBJECT	UBC LIQUIDITY FUND STATEMENT OF INVESTMENT POLICIES AND PROCEDURES
MEETING DATE	DECEMBER 5, 2017

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 proposed amendment to the Statement of Investment Policies and Procedures for the Liquidity Fund.</i>
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Report Date	October 20, 2017
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Presented By Andrew Simpson, Vice-President Finance & Operations
 Peter Smailes, Treasurer

EXECUTIVE SUMMARY

The Liquidity Fund is a \$100 million Canadian dollar cash and investment pool managed by Treasury for University operating needs. The principal mandates of Liquidity Fund management are preservation of capital and maintenance of liquidity, to ensure availability of funds for operating disbursements. A periodic review of the Liquidity Fund *Statement of Investment Policies and Procedures* (SIPP) includes recommended changes that will increase flexibility and choice, and formalize management targets. The revision has also provided opportunity to ensure alignment with the format of the Working Capital SIPP approved in September 2017.

INSTITUTIONAL STRATEGIC PRIORITIES SUPPORTED

- Learning
 Research
 Innovation
 Engagement
 International
 (Internal / External)
- or Operational

DESCRIPTION & RATIONALE The Liquidity Fund represents \$100 million of the University’s working capital held to meet short to medium term (0-6 month) operating requirements. The Liquidity Fund has been managed by Treasury since its establishment in 2009. The remaining portion of the University’s working capital is managed by IMANT and governed by the Working Capital Fund SIPP. In late 2011, the Liquidity Fund was increased to CAD \$100 million (from CAD \$50 million). This enabled less frequent transfers between the Funds leading to more efficient investment of the Working Capital Fund.

The SIPPs that govern the management of the two Funds require annual review. The Liquidity Fund SIPP was last updated in September 2014.

The principal requirement for management of the Liquidity Fund is preservation of capital and short term access to funds (T+2 or earlier settlement). For that reason, the Liquidity Fund SIPP was established to focus on investments in secure Money Market investments, deposits with Government, Provincial Paper and Schedule 1 bank Banker's Acceptances.

At certain times of year it is a challenge to find good quality investment product. The primary purpose of the changes is to provide alternative investment choices in a tight money market environment and expand the opportunity to invest in the Provincial Central Deposit Program while still focussing on the preservation of capital. The changes will increase investment choice and flexibility without a significant increase in risk, reduction in liquidity or reduction in operational efficiency. Specifically the changes will:

- a) permit the Liquidity Fund to hold investment products issued by Schedule 2 banks;
- b) expand investment types to include Bank Term Deposits and Guaranteed Investment Certificates ("GICs");
- c) permit a greater proportion of holdings in British Columbia Provincial investments. At 'prime less 1.5%' the Provincial CDP program generally provides a higher return than other products eligible under the SIPP and is normally available to UBC without limit.

All investment products continue to be limited by a minimum required credit rating and maximum term.

In addition to the changes above, the SIPP revision has provided the opportunity to align the Liquidity Fund SIPP with the Working Capital SIPP in terms of format and structure. Therefore the revised Liquidity Fund SIPP:

- a) now includes a 'benchmark return', being the return on a 30-day Canadian Federal Government Treasury Bill for a given 30 day period. Whilst the return objective is not a primary focus of Liquidity Fund management, it is advisable to set at least a minimum level;
- b) more clearly defines its scope, being the University's Canadian dollar balances with the University's principal bank. Therefore foreign currency balances, both in Canada and with overseas subsidiaries and cash balances held as 'floats' with other banks for operational reasons are outside the scope of the Liquidity Fund;
- c) formalizes Treasury's operating target to limit the average Canadian dollar funds on deposit with the University's principal bank to CAD \$20 million.

In summary, the revised SIPP provides greater choice in selecting investment product, and greater flexibility in determining the appropriate share of the Fund invested with the Province of BC. All investments are guaranteed by the issuing bank or Province.

Treasury will continue to make investment decisions on the basis of best available information to ensure liquidity risks are appropriately managed and disbursement needs are understood.

The Vice-President Finance & Operations is responsible for regular monitoring of compliance with this SIPP and the University Treasurer provides day to day oversight.

<p>BENEFITS Learning, Research, Financial, Sustainability & Reputational</p>	<p>The University will have greater choice for short to medium-term investments and greater flexibility to increase holdings in Provincial investments, currently available without limit from the Province of BC. The support of the Provincial CDP reduces the Province’s borrowing costs and enhances the University’s relationship with the Province.</p>
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<p>RISKS Financial, Operational & Reputational</p>	<p>The changes could result in slightly higher credit risk by permitting greater concentration in Provincially backed investments. This risk will be managed in Treasury by investing in a broader range of investment counterparties and greater diversity of investment alternatives. Overall the potential change in credit risk is not significant.</p>
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<p>COSTS Capital & Lifecycle Operating</p>	<p>No additional cost is expected as a result of the changes.</p>
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<p>FINANCIAL Funding Sources, Impact on Liquidity</p>	<p>This amended SIPP could marginally increase average investment returns by about \$60K per annum.</p>
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<p>SCHEDULE Implementation Timeline</p>	<p>The amended SIPP could be implemented immediately once approved.</p>
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<p>CONSULTATION Relevant Units, Internal & External Constituencies</p>	<p>UBC Treasury has consulted with the Office of the University Counsel and IMANT.</p>
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Previous Report Date	September 2014
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Decision	Revision of the Liquidity Fund SIPP to include the CDP
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Action / Follow Up	None
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