# Queen’s Investment Funds

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## Section 1 - Introduction

### 1.01 Fiduciary Responsibilities

The University, acting through its Board of Trustees has overall fiduciary responsibility for the management of the investment funds of Queen's University. The Board of Trustees has appointed an Investment Committee to help ensure that its investment responsibilities are met, and this committee also has a fiduciary responsibility.

### 1.02 Purpose of Statement

The Investment Committee has prepared this Statement of Investment Policies and

- A secondary objective is to obtain a reasonable level of return commensurate with a low-risk, highly liquid portfolio.

**(b) Queen's Pooled Endowment Fund**

- The objective of the Pooled Endowment Fund is to maximize long-term real

**(a) Management of Assets**

(i) The Pooled Endowment Fund should be managed with a long-term time horizon, with long-term defined as normally not less than 10 years. The Pooled Investment Fund should be managed with a medium-term horizon of between 5 and 10 years.

(ii) Liability mismatch is the key risk facing the Funds. Liability mismatch risk comprises market risk, credit risk, and liquidity risk. The minimum risk portfolio for the Pooled Endowment Fund is a portfolio comprised of long-term Government of Canada Real Return Bonds which would minimize the mark-to-market mismatch risk between the assets and liabilities of the Pooled Endowment Fund. The minimum risk portfolio for the Pooled Investment Fund is a portfolio comprised of short-term bonds with maturities between 1 and 5 years.

(iii) The primary determinant of risk and return of the Funds is the asset mix.

(iv) Equity investments should outperform government bonds over the long-term. The Investment Committee believes that this equity risk premium is between 2% - 4%.

(v) Diversification across and within asset classes is prudent and decreases portfolio risk.

(vi) The Investment Committee believes that risk is not constant over time and that risk premiums for various assets held by the Queen's Pooled Funds are not constant over time. At different points in time this can result in circumstances where the risk/return characteristics of an investment class can look very risky and unattractive. In order to preserve fund capital it may be prudent to alter the asset mix of the Queen's Pooled Funds from time to time relative to the Strategic Benchmarks (in accordance with Sections 5.03 and 6.03) based on the committee's assessment of risk and return of an asset class.

(vii) Market inefficiencies exist in certain asset classes which provide the opportunity to add value through active management.

(viii) Passive management should be used in asset classes where the prospect of adding value is low due to market efficiency, limited opportunities, or for an interim mandate.

(ix) Investment managers should have "specialist" mandates whereby the manager is allowed to invest only in a specific asset class, rather than "balanced" mandates where managers are allowed to invest in a number of different asset classes.

(x) The Investment Committee believes alternative investments (i.e. non-public equity and debt) provide value added net of costs derived from both earning a liquidity premium and from less efficient markets.

(xi) Investment costs are more predictable than investment risks and returns. Cost optimization is important for the management of the Funds as costs erode returns and have a compounding effect over time. Keeping management fees and transaction costs low will contribute to the achievement of higher returns, all things being equal.

(xii) The Investment Committee believes that due to the underlying nature of the liabilities of the Pooled Investment Fund, it should be comprised of liquid assets (i.e. public equity and public debt).

**(b) Governance**

(i) Pooled Endowment Fund and Pooled Investment Fund performance shall primarily be measured against the return requirements for meeting spending commitments. It will further be measured against a blended benchmark that reflects the Strategic Policy Asset Mix and currency hedging strategy.

(ii)

# Section 2 – Monitoring and Control

## 2.01 Delegation of Responsibilities

- advise Investment Services of any significant changes in the firm or of policies or procedures within the firm; and

- submit a compliance report quarterly, provide details on proxy voting and confirm there were no conflict of interest situations.

**(c) Custodian**

The custodian shall:

- fulfill the regular duties required by law of a custodian including maintaining safe custody over the assets of the Queen's Pooled Funds;

- provide the University with monthly financial statements for the Queen's Pooled Funds;

- fulfill contractual duties which have been agreed to by the Investment Committee (such as Global Securities Lending and foreign exchange forward contracts); and

- monitor aggregate limits which have been placed on the Queen's Pooled Funds and which are set out in this Statement.

**(d) Performance Measurement Organization**

The performance measurement organization, if any, shall:

- measure the performance and risk of the Queen's Pooled Funds;

- provide full quarterly reports on total performance and risk of the Queen's Pooled Funds and for each investment manager; and

- make presentations to the Investment Committee as requested.

**Note:** Comparisons against peer groups may be provided by an external performance measurement organization, or by the custodian of the Queen's Pooled Funds.

**(e) University's Administration**

The University's administration (primarily Investment Services) shall:

- act as the University's main contact with the investment managers, the custodian, investment consultants and other providers of investment consulting and administrative services;

- execute legal agreements with the investment managers;

- provide information on investment returns (actual and benchmark) and risk at the manager level and the total fund level for the Queen's Pooled Funds;

- reconcile performance reported by the investment managers with performance reported by the custodian;

- compare the actual asset mix with the policy asset mix each month and rebalance

Decisions to hire a new investment manager shall be communicated to the Board of Trustees at the next meeting of the Board.

**2.07**

## Section 3 – Investment Guidelines and Restrictions

The investment managers have been informed by the Investment Committee that investments should be made following "prudent portfolio guidelines".

Depending on the circumstances, investment managers may be hired to manage assets directly in separate accounts, or in pooled fund structures such as trusts or limited partnerships. Pooled fund trusts and limited partnerships are subject to the guidelines and restrictions set out in their respective contracts, and it is recognized that full adherence with this Statement may not be possible in each case. In all instances, the Investment Committee will consider the impact of each separate account Mandate (as defined in Section 2.01) or fund, as the case may be, in the context of its expected contribution to the overall risk profile of the Queen's Investment Funds. Further, the portfolio construction will adhere to the general principle that the Queen's Investment Funds will be managed in a manner such that the risk levels are consistent with the Policy Asset Mix restrictions outlined in Sections 5.03 and 6.03.

**3.01 Permitted Investments**

Investment managers are bound by the guidelines and restrictions set out in their Mandate. In general, and subject to the restrictions in this Section 3, investments are permitted only in the following asset classes (and their corresponding derivatives):

**(a) Equities**

(i) common and convertible preferred stock;

(ii) debentures convertible into common or convertible preferred stock;

(iii) rights, warrants and special warrants for common or convertible preferred stock;

(iv) installment receipts, American Depository Receipts and Global Depository Receipts;

(v) exchange traded index participation units or Exchange Traded Funds;

(vi) income/royalty trusts/REITs;

(vii) private placements of equities (subject to Section 3.04); and

(viii) private equity.

**(b) Fixed Income and Absolute Return Strategies**

(i) investment grade and high yield bonds, debentures, notes, non-convertible preferred stock and other evidence of indebtedness of Canadian or foreign issuers whether denominated and payable in Canadian dollars or a foreign currency;

(ii) mortgage-backed and asset-backed securities;

(iii) term deposits and guaranteed investment certificates;

(iv)

**(f) Pooled Funds**

Investments in pooled fund structures such as trusts and limited partnerships are permissible subject to the prior approval of the Investment Committee. As a part of its ongoing compliance activities, Investment Services will monitor the degree to which the guidelines and restrictions of approved pooled fund investments conflict with this Statement, if at all, and ensure any such exceptions do not cause a potential conflict with the Policy Asset Mix restrictions outlined in Sections 5.03 and 6.03. Investment Services will provide a summary of these exceptions, if any, each quarter to the Investment Committee.

**3.02 Minimum Quality Requirements**

**(a)**

(v) Fitch Ratings, Ltd.

In order for a credit ratings organization to be considered a "Recognized Bond Rating Agency", it must be designated as a Nationally Recognized Statistical Rating Organization (or "NRSRO"). A NRSRO issues credit ratings that the U.S. Securities Exchange Commission ("SEC") permits other financial firms to use for certain regulatory purposes.

**(c) Private Placement Bonds**

Private Placement bonds are permitted subject to all of the following conditions:

(i) the issues acquired must be at least "BBB" or equivalent rated;

(ii) the total investment in such issues must not exceed 12% of the market value of the investment manager's bond portfolio;

(iii) no one bond private placement shall represent more than 3% of a manager's bond portfolio;

(iv) the investment manager's portfolio may not hold more than 5% of the market value of any one private placement; and,

(v) the investment manager must be satisfied that there is sufficient liquidity to ensure sale at a reasonable price.

**3.03 Maximum Quantity Restrictions**

**(a) Total Fund Level**

No aggregate exposure in any corporate entity shall represent more than 5% of the total market value of the assets in each of the Queen's Pooled Funds.

**(b) Individual Investment Manager Level**

Restrictions are set out in the -15 -0o ( )TJ-0.004 (n)u0.00orEMC /P ⁋P ⁋P ⁋P ⁋P 21-15 -0o ( )i6 (r)5 (e)

investments in resource properties shall not exceed 10% of the market value of the assets of the Queen's Pooled Funds;

(b) direct investments in mortgages;

(c) direct investments in real estate;

(d) investments in private placement equities and debt;

(e) direct investments in venture capital financing;

(f) investments in a pooled fund that conflicts with this Statement;

("ESG") activities annually and prepare a summary report for the Investment Committee. Investment Services will provide manager ESG information on its webpage, including each manager's response to Queen's annual ESG questionnaire, subject to receiving their permission.

Investment Services, in consultation with the University Secretariat, will be responsible for ensuring that any responsible investing recommendations adopted by the Board of Trustees are implemented.

*Carbon Measurement and Targeting*

As a founding signatory to the June 2020 report entitled *Investing to Address Climate Change: A Charter for Canadian Universities*, Queen's has committed to measuring the carbon footprint of the Pooled Endowment Fund and Pooled Investment Fund, setting meaningful carbon reduction targets, and reporting regularly on progress.

As such, Queen's will measure and reduce the carbon footprint (tons (ng t (u)-4 (r)-1 (e )]TJ0 Tc 0

Investment Services will provide information on the QCAA on its webpage.

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(vi) Royal Bank of Canada;

(vii) TD Canada Trust; and

(viii) Any other financial institutions or investment managers that the Investment Committee may approve from time to time.

**4.04 Income Distribution Policy**

All income is available to the University to supplement current operating and capital requirements.

## Section 5 – Pooled Endowment Fund

**5.01**

Target Asset Mix that falls within the Strategic Asset Mix Ranges. The Target Asset Mix

For rebalancing purposes, as outlined in Section 6.04, Allowable Ranges for Equities and for Fixed Income and Absolute Return Strategies are defined as the Target Asset Mix weight plus-or-minus 3% of the Pooled Investment Fund's total asset value.

Investment Services will execute the currency hedging strategy using currency derivative contracts and will report on any such transactions undertaken at the regular quarterly meetings of the Investment Committee. At least annually, Investment Services will report on the overall performance of the currency hedging strategy.

**6.07 Spending Policy**

Annually, the University administration informs the Investment Committee of the dollar amount which the University wishes to spend from the Pooled Investment Fund.

## Section 7 – Queen's Sinking Fund

### 7.01 Description

The Queen's Sinking Fund is a voluntary, internally administered investment fund established to accumulate sufficient funds over time in order to fully repay the principal amount outstanding on the University's external debt at maturity.

Cash inflows for the Queen's Sinking Fund are generated from capital projects, operating funds, and proceeds from the repayment of internal loans provided to University departments and units.

### 7.02 Investment Objective

The objective of the Queen's Sinking Fund is to accumulate sufficient funds to repay the principal amounts of the University's external debt at maturity, while abiding by the guidelines specified in the University's Debt Management Policy.

### 7.03 Investment Guidelines

Investment guidelines are contained in the University's Debt Management Policy as approved by the Board of Trustees.

## Section 8 – Delegation of Voting Rights

The investment managers vote the proxies, and each manager's proxy voting policy is attached to its Mandate. The general guideline from the E ( )-10 -10 (E ( )-10 -10I (-a-10 ( g)2(M)Tjtm2

and full disclosure is provided to the committee Chair in the event that the value of the entertainment is greater than $100.

Investment Committee members and agents shall keep Investment Committee matters confidential and disclose information regarding its affairs only in the necessary course of business or as authorized.

**9.03 Conflicts of Interest**

As between its members or agents and the Investment Committee, (i) in the context of the

(a) forthwith after the member becomes aware that the proposed contract or transaction is to be considered, or a contract or transaction has been

2) The selection of specific investments for purchase or sale with respect to Queen's Investment Funds is not the role of the Investment Committee which delegates such specific decisions to its investment managers.

3) In the event that the Investment Committee decides to give specific direction with respect to the purchase or sale of a specific non-publicly traded security or specific publicly but thinly traded security, a member or agent must declare a conflict if they have a direct or indirect beneficial (including a spouse's or minor child's) interest in the same investment.

4) Where a member declares such a conflict, the individual may participate in the discussion and vote on the matter, only with the unanimous approval of all other members with voting rights.

**9.06 Outside Employment, Directorships or Other Relationships**

1) It is recognized that by virtue of his or her outside employment, outside directorships or other relationships, Investment Committee members or agents may from time to time be in possession of confidential or inside information with respect to third parties and/or issuers.

2) In the event that the Investment Committee decides to discuss, review or give specific direction with respect to the purchase or sale of a specific investment, a member or agent who possesses Confidential or Inside Information, may elect not to discuss, review or vote on the matter, without giving reasons.

**9.07 Related Party Transactions**

1) With

**Section 10 –**