ALBERTA COLLEGE OF ART + DESIGN

ACAD

INVESTMENT PROCEDURE

PROCEDURE #:	**200.02.01.01**
SECTION:	200. Finance
RELATED POLICY:	200. Financial Management
ORIGINAL APPROVAL DATE:	November 1, 2011 (as procedure 200.31.02)
LATEST APPROVAL DATE:	**September 27 2018**
APPROVING AUTHORITY:	Original signed by the President + CEO

Purpose

In the normal course of operating, the Alberta College of Art and Design (ACAD) is regularly in a position to have excess cash funds and endowments which require prudent management to generate income and growth in capital value while meeting the cash flow needs of the institution. The purpose of this procedure is to document the financial principles and guidelines to invest endowment funds, as well as non-endowment institution funds not required for current operations.

Scope

This Procedure applies to the investment of all cash resources of the institution that are not held as cash and cash equivalents in the institution's general banking accounts for the ongoing settlement of all current indebtedness and payroll obligations. Excess cash includes cash available for investing from endowments and other donations, research, trust, and other general operating and capital funds, including both internally restricted and externally restricted funds. This procedure is intended to govern the asset mix, diversification, exposure limits, credit quality, and performance management of the institution's investments.

Definitions

Endowments:	The externally restricted donations, gifts and bequests received by the institution and the internal allocations by the institution's Board of Governors to support student scholarships and awards, or other donor specified purposes, the principal of which is required to be maintained intact in perpetuity.

Equity Investments:	Investments that involve ownership of qualifying corporation's common or preferred shares.
Fixed Income Investments:	Investments which have a predetermined rate of return. Examples include bonds, Government Treasury Bills, and mortgages.
Investment ratings:	The ratings issued by Dominion Bond Rating Services (DBRS), Standard & Poor's (S & P), or Moody's (.MY).
Industry Group:	A grouping of individual industries with similar characteristics e.g. the Banking Industry Group. A consortium of similar industry groups is called a sector e.g.: the Financial Services Sector is comprised of the following industry groups: Banking, Insurance, Real Estate, and Diversified Financials.
Balanced Investment Portfolio:	The portion of the institution's portfolio that is comprised of investments held that are not required to be liquidated for working capital within three years. This would include endowment funds and other internally restricted operating or capital funds available for investing beyond three years.
Fixed Income Investment Portfolio:	The portion of the institution's portfolio that is comprised of readily liquid securities such as short term bonds or money market investments with the intention of holding them for a term of up to three years. Funds will be invested in a manner that matches the term of the investment to the time required for the use of the invested funds. Funds invested would include operating or capital funds that will not be required for meeting the immediate ongoing cash obligations of the institution.
Short Term Operating Investment Portfolio:	The portion of the institution's portfolio that is comprised of investments in cash or cash equivalents which allow for retrieval for meeting day to day needs of the institution. Funds invested would be the current operating funds that are available for short term and overnight investment.
Realized Return:	The return on the invested capital received by the institution in a given investment period, including the net realized gains on disposal of the securities underlying the investment.
Unrealized Gains or Losses:	The accrued market value gains or losses on the invested capital compared to the cost of the investment that have not yet been realized through disposition of the underlying securities.
Risk:	A measure of the possibility of a gain or loss. It consists of market risk, credit risk, liquidity risk, foreign exchange risk and interest rate risk.
Market Risk:	The risk of the market price of the investment changing before maturity.
Credit Risk:	The risk that the investment will not be repaid by a debtor when due.

Liquidity Risk:	The risk of not being able to sell the investment quickly or at a price close to market value. Investing in tradable investments such as treasury bills or government bonds, instead of bank instruments such as term deposits or GI C's, preserves liquidity since the former may be sold before maturity.
Foreign Exchange Risk:	The risk due to fluctuations in foreign exchange rates.
Interest Rate Risk:	The risk that a fixed rate investment will change in value due to a change in interest rates.
Financial Instruments:	Contractual rights to the payment or disbursement of money. Financial instruments with complex characteristics, in particular derivatives, present particular risk management, reporting and control issues.

Procedure

1 General Principles

1.1 The Board of Governors, the Finance and Audit Committee, institution management and their appointed advisors shall exercise the degree of care, diligence and skill that persons of ordinary prudence would exercise in dealing with the property of another person.

1.2 Endowment funds and institution funds not required for current operations will be invested within a prudent risk management framework and as permitted under the Post-secondary Learning Act of Alberta (PSLA). Under s. 76 of the PSLA, the Board of Governors has the authority to alter the terms and conditions of pooled trust funds to enable:

1.2.1 Income earned by an endowment to be withheld from distribution to avoid fluctuations in the amounts distributed and generally to regulate the distribution of income earned by the endowment.

1.3 Encroachment on the capital of an endowment to avoid fluctuations in the amounts distributed and generally to regulate the distribution of income earned by the endowment if, in the opinion of the Board of Governors, the encroachment benefits the institution and does not impair the long-term value of the fund.

1.4 The primary objectives of the investment of excess funds and endowments are to generate income and to preserve the purchasing power of the donated capital, and to generate growth in the capital value of the institution's invested excess funds.

1.5 When there is excess cash on hand, it should be invested to generate the highest possible return within two strict constraints: very low risk of loss, and subject to being convertible back to cash when the funds are required with minimal penalty. Under s. 75 of the PSLA, the Board of Governors must by resolution approve policies and procedures that a reasonable and prudent person would apply in respect to a portfolio of investments to avoid undue risk of loss and to obtain a reasonable return.

1.6 Short and long term investment reporting will reflect both cost and market value with unrealized gains or losses recorded in deferred contributions and net assets for financial reporting purposes. Market value will be based upon quoted price of the securities underlying the investments.

1.7 Donations, in the form of endowments, must be subject to capital preservation and inflation protection. The investment horizon for endowments will be in perpetuity and accordingly it is anticipated that realized returns and earning streams will over time be sufficient to meet the purposes specified by the donor.

1.8 Investment income earned on endowments must be used in strict accordance to the various purposes established by donors (Codicils) or the Board of Governors. The economic value of the endowments must be protected by limiting the amount of income that may be expended and reinvesting unexpended income.

1.9 Management must ensure that the risks involved in acquiring, selling and holding financial instruments are monitored, measured correctly, and managed. Speculative positions in financial instruments are not permitted.

1.10 The Finance and Audit Committee of the Board of Governors will monitor investment management performance and risks as delegated to the Committee pursuant to the Board's Financial Oversight Policy. This monitoring will be done as a minimum on a quarterly basis within each fiscal year.

2 Investment Management

2.1 The Vice President, Administration, and the Financial Services department, are responsible for ensuring compliance to this Procedure and shall ensure internal processes and procedures are in place that demonstrate compliance to this Procedure. These processes and procedures shall be reviewed annually to ensure compliance with applicable Provincial legislation and regulatory requirements.

2.2 The Vice President, Administration, may recommend to the President the contracting of external investment counsel to invest all or a portion of the institution's cash resources in accordance with the investment guidelines and objectives outlined in this Procedure. The performance of the contracted counsel will be monitored and assessed against objective benchmarks as established by this procedure.

2.3 The Financial Services department is responsible for the allocation of fund assets between the investment portfolios (short and long term) including the direction of contribution into and out of the respective portfolios.

2.4 The portfolios will be rebalanced to be compliant with the investment guidelines contained in this procedure. If an existing investment falls outside any of the asset allocation, investment quality or risk management guidelines, appropriate corrective action must be taken within 30 days unless an extension is approved by the Vice-President, Administration. This extension shall not exceed 90 days from the date of the reported non-compliance.

2.5 The External Investment Manager shall invest assets of the institution's portfolios in accordance with the Guidelines contained in this procedure.

2.6 Periodic performance evaluations, no less than annually, will be conducted by the Financial Services department to ensure compliance with this Procedure. The results of this evaluation will be provided to the Finance and Audit Committee of the Board of Governors for their ongoing oversight monitoring.

2.7 Portfolio transactions will be monitored monthly by the Financial Services department. Investment returns for the quarter, fiscal year-to-date and the previous twelve month time frame will be compared to appropriate benchmarks and reported quarterly to the Finance and Audit Committee of the Board of Governors for monitoring purposes.

3 Balanced Investment Portfolio Investment Objectives

3.1 The portfolio will preserve the Endowment and non-endowed fund capital in real terms. This means that over the long run, the long term portfolio impacting endowments will be invested to earn a rate of return, net of all expenses and transaction costs arising from active portfolio management, at least equal to the distribution rate plus inflation as benchmarked to the Alberta CPI. The targeted distribution rate for endowment funds will be reviewed annually and based on the past four year average market value.

3.2 The portfolio will provide returns sufficient to provide a sustainable flow of income to endowment beneficiaries in perpetuity that is stable and predictable. The portfolio's performance should be in line with market benchmarks for similar investment asset mix targets.

3.3 The portfolio will generate returns for distribution to preserve the intergenerational equity over the life of the endowments. The distribution rate will be reviewed annually and may be adjusted from time to time in periods of high inflation, market volatility or to preserve the purchasing value of the distribution to intended beneficiaries. Returns in excess of the distribution rate plus inflation shall be reinvested in the portfolio over the investment period.

3.4 The portfolio asset mix and allocation guidelines will be constructed with a view to generate a performance that is consistent with investments of a moderate risk framework.

3.5 This portfolio should invest only in marketable securities that are sufficiently liquid to deal with the distribution and operational needs of the institution. Investments should be either *held to maturity* or *available for sale* taking into consideration the liquidity needs of the institution. It is expected that most investments will be classified as *available for sale* to meet the objectives of minimizing the liquidity risk of the institution.

3.6 The institution will include investments in sectors, and companies within those sectors, that reasonably hedge the impact of inflation on the operating costs of the institution (eg: Utilities). This hedge will be reflected in the additional returns from the associated underlying sector or industry investments.

4 Fixed Income Investment Portfolio Investment Objectives

4.1 The portfolio is to be constructed with a view to maximizing returns within a low risk framework, while preserving capital.

4.2 Investments will be managed with the expectation that most of the income generated each year will be available for withdrawal, as required, for operating purposes.

4.3 Investments should provide a significant level of liquidity to meet actual, forecast, and potential needs for settlement of the institution's financial obligations within a three year maximum time frame. The term of the investments will be selected based on the date when the funds will be required to be used.

5 Short Term Operating Investment Portfolio Investment Objectives

5.1 The portfolio is to be constructed so as to enable the institution to meet its ongoing obligations for the timely settlement of its operational indebtedness.

5.2 The portfolio will be constructed to preserve liquidity while maximizing returns within a very low risk framework.

5.3 Investments must provide a significant level of liquidity to meet actual and forecast current operating needs of the institution.

6 Balanced Investment Portfolio

6.1 The portfolio will be invested in money market securities, longer term fixed income securities, and equities, or in a pooled fund of such investments in accordance with the following guidelines:

Asset Class	Normal Target Asset Mix	Asset Mix Allowable Range	Benchmark
Cash and Cash Equivalents	5%	0-20%	DEX 91 day T- Bills Index
Fixed Income (over one year)	40%	20-60%	Scotia McLeod Short Bonds Index or DEX Universe Bond Index
Equities – Canadian	20%	10-30%	S&P/TSX Composite Index
Equities – International	17.5%	10-25%	MSCI World (ex- Canada) Index or Europe, Australia & Far East (EAFE) Index
Equities – U.S.A.	17.5%	10-25%	S&P 500 (C$) Index

6.2 The normal target asset mix is the asset mix anticipated for the balanced investment portfolio under normal circumstances. This would typically be considered as a midpoint through market cycles. The allowable range is a guideline to provide temporary flexibility for the investment manager to reposition investment holdings throughout the market cycles. Benchmarks shall be used as a reference point for the determination of acceptable returns.

6.3 Any cash contained within equity or fixed income portfolios will be considered as part of that portfolio for purposes of monitoring the portfolio asset allocation guideline.

7 Fixed Income Investment Portfolio

7.1 Investments in this portfolio will be entirely in money market securities or short term obligations issued by or guaranteed by the Government of Canada or a Province of Canada, Schedule 1 Canadian chartered banks or corporations with debt rated R-1 by DBRS, or in a pooled fund of such investments. Includes securities such as bonds, debentures, Guaranteed Investment Certificates, or term deposits.

8 Short Term Operating Investment Portfolio

8.1 Investments in this portfolio will be entirely cash and cash equivalents to allow for maximum liquidity for meeting operational needs.

9 Identification of Excess Funds

9.1 Quarterly the Financial Services department shall forecast the non-recurring receipts and disbursements including, donations, capital expenditures and other one- time distributions as well as uses or sources of cash from operating, investing and financing activities.

9.2 Quarterly the Financial Services department shall identify the level of surplus funds not required for day-to-day operations by:

9.2.1 Reviewing historical cash levels

9.2.2 Updating the cash flow forecast quarterly

9.2.3 Taking account of the institution's recurring and non-recurring cash flow needs

9.2.4 Taking into account needs arising from the institution strategic plan (and/or Academic Plan)

Investment Quality and Risk Management Guidelines

10 Balanced Investment Portfolio

10.1 All short term securities with a maturity date not exceeding one (1) year must carry a minimum credit rating of "R1" or "A1". Longer term debt securities, including corporate and provincial bonds, must have an average rating of" \A" or better. The Attachment to this Procedure is an example of investment ratings used by one firm.

10.2 Investment in any single corporate fixed income security cannot exceed 10% of the value of all corporate fixed income security holdings. All corporate and government bonds will carry a minimum equivalent BBB rating by a recognized bond rating service.

10.3 In no case shall the portfolio have more than 5% of its total equity and fixed income portfolio invested in the securities of any one corporation.

10.4 Investment in any single fixed income security cannot exceed 10% of the value of all investment funds other than investments in issuers with a minimum BBB rating as defined by a recognized bond rating agency or those guaranteed or issued by the Government of Canada or a province of Canada with an "AA" rating or higher. With these conditions, the maximum investment may be extended to 20% of the total portfolio.

10.5 Equity investments will be limited to a 20% maximum of the total equity portfolio, at market, for any single industry or sector investment, as defined by the Global Industry Classification Standard (GICS) and a 10% maximum of the total equity portfolio, at market, in any one corporation. In no case shall the portfolio own more than 5% of any class of the securities of a corporation.

10.6 No equity investment will be made in any company with a market value capitalization of less than $50 million. Investment in small cap funds (capitalization of less than $500 million) will be limited to up to 10% of the Canadian equity asset allocation only.

10.7 A minimum of twenty-five percent (25%) of the investment income earned on endowments will be re-invested to support the required inflation proofing of the endowment principal. The remaining amount of investment income, not exceeding seventy-five percent (75%), will be available to support the institution's needs for scholarships and awards. This provision may be adjusted from time to time to meet the institution's targeted minimal distribution rate.

10.8 Any gifts of marketable securities shall be sold as soon as practicable upon receipt, unless such securities in the underlying corporation or entity are already held within the investment portfolio and can be actively managed by investment counsel.

10.9 Investments may be made in Asset Classes held within the Balanced Investment Portfolio either directly in the underlying assets or by holding units of pooled funds.

11 Fixed Income Investment Portfolio

11.1 All money market securities must be rated "R-1" or equivalent by the Canadian Bond Rating Services or an equivalent recognized bond rating agency.

11.2 Cash equivalent returns will be measured against the historical Treasury Bill rate over a four year rolling average.

11.3 All securities shall be readily marketable.

11.4 Not more than 10% of the market value of the short term portfolio shall be invested in any one issuer except for securities of, or guaranteed by the Government of Canada, a Province in Canada having at least a "AA" DBRS or equivalent rating and whose short term investments are rated R-1, or equivalent.

11.5 For corporate debt obligations, the cumulative investment in any one industry group will not exceed 50% of the total short-term investment market value at the time the investment is made.

12 Short Term Operating Investment Portfolio

12.1 Short term investments shall be readily liquid securities maturing within one year or earlier, or in cash.

12.2 Short term paper shall be investment grade bonds or" R-1" rated by DBRS or “A1” rated by S&P money market instruments.

12.3 All securities shall be readily marketable.

12.4 Cash equivalent returns will be measured against the historical Treasury Bill rate over a four year rolling average.

13 Investment Reporting

13.1 The external investment counsel shall deliver reports on portfolio holdings and performance on a monthly basis for review and monitoring by the Financial Services department and the Vice President, Administration.

13.2 The Financial Services department will provide a quarterly report on the institution's investment portfolio performance for review by the Vice President, Administration. The report shall include:

13.2.1 Investments held at the end of the quarter including performance, cost, accrued interest, market value, and gains or losses.

13.2.2 Interest income and any other income, including realized and unrealized gains earned for the quarter and year-to-date.

13.2.3 Calculation of effective yields and comments on performance against established benchmarks and investment objectives.

13.2.4 Information on any rebalancing activity for the quarter or changes to investment strategies.

13.2.5 Any positions or exposures m excess of amounts authorized will be identified and explained.

13.2.6 Any other issues and developments relative to the management of the institution's investment portfolio.

13.3 The quarterly investment report shall be reviewed by the President, and submitted for information and monitoring to the Finance and Audit Committee of the Board of Governors in compliance with Board of Governors policies.

14 Accounting and Reporting

14.1 The Financial Services department shall ensure that all investments are recorded in the financial records in accordance with generally accepted accounting principles associated with each category of investment.

14.2 Held to maturity investments, purchased with the intention of holding the investment to maturity, are accounted for at the original cost, and any premium, discount or foreign exchange gains or losses must be amortized over the remaining period until maturity.

14.3 Any held to maturity investment that suffers a loss in value that is other than temporary must be written down to fair value.

14.4 Available for sale investments, purchased with the intent of selling before they reach maturity, or selling if market conditions or institution needs are such that disposition is deemed appropriate or required, are accounted for at original cost, and any premium, discount or foreign exchange gains or losses must be amortized over the remaining period until maturity. Any change in fair market value must be recorded for monthly and quarterly reporting of the unrealized gains or losses in the institution's deferred revenues.

14.5 A unitized accounting system will be used for the long-term endowment investment pool. This system accounts for a donor's interest in the investment pool on the basis of units or shares. New units are issued based on the unit value of the existing units at the time an addition is made. Funds withdrawn are redeemed based on the unit value at the time the withdrawal is made. The distribution of income is based on the number of units held by the endowment and the market value of those units. Unit market values are calculated quarterly at the end of each quarter.

Reference/Related Documents

Post-secondary Learning Act (PSLA)

100. Board of Governors: Code of Conduct

100. Board of Governors: Finance and Audit Committee Terms of Reference

200. Finance: Financial Management Policy

200. Finance: Endowment Management Procedure

500. Executive Administration: Risk Management Policy

900. Advancement: Gift Acceptance Policy