

Queen's Investment Funds

**Statement of Investment Policies
and Procedures**

March 2022

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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 Procedures, (hereinafter called the "Statement") with the objective of ensuring continued prudent and effective management of the investment funds described below:

- Queen's Short-Term Fund: consists of day-to-day net cash balances which arise from current operations, including student fee revenues and government grants.
- Queen's Pooled Endowment Fund: consists of funds donated to the University for endowment purposes; normally the capital is not expendable. Payouts from this fund are used to support scholarships, student aid programs, academic chairs and research.
- Queen's Pooled Investment Fund: consists of University equity, restricted expendable funds (research), general reserves, plant and building funds, and working capital.
- Queen's Sinking Fund: consists of cash inflows generated from capital projects, operating funds, and proceeds from the repayment of internal loans provided to University departments and units. These are used for the repayment of the principal of external debt obligations.

In this Statement, "Queen's Investment Funds" shall mean the four funds described above and "Queen's Pooled Funds" shall mean the Queen's Pooled Endowment Fund and the Queen's Pooled Investment Fund.

In special cases of an operational and/or immaterial nature, the Investment Committee Chair or Vice-Chair may authorize the administration to deviate from the Statement if he or she feels it is in the best interests of the Queen's Investment Funds. Any such action will be reported in a timely fashion in between meetings to the Investment Committee.

1.03 Overall Objectives

(a) Queen's Short-Term Fund

- The primary objective of the Short-Term Fund is to preserve capital and minimize liquidity and investment risk in order to meet the cash needs of the University.

- 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 returns subject to the risk tolerance determined by the Board of Trustees (as specified through the Strategic Policy Asset Mix).

(c) Queen’s Pooled Investment Fund

- The objective of the Pooled Investment Fund is to maximize medium-term nominal returns subject to the risk tolerance determined by the Board of Trustees (as specified through the Strategic Policy Asset Mix).

(d) Queen’s Sinking Fund

- 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.

1.04 Investment Philosophy – Queen’s Pooled Funds

In order to achieve their long-term and short-term investment goals, the Queen’s Pooled Funds must invest in assets that have uncertain returns, such as Canadian equities, foreign equities, Canadian government and corporate bonds, and alternative investments. However, the Investment Committee attempts to reduce the overall level of risk by diversifying geographically, across asset classes, and further diversifying within each asset class.

The asset mix policies for the Queen’s Pooled Funds (see Sections 5.03 and 6.03) have been established in an attempt to achieve investment returns which are consistent with their objectives.

In developing the asset mix policies for the Queen’s Pooled Funds, the Investment Committee has considered factors such as the following:

- The nature of the University’s liabilities;
- The University’s requirements for spending;
- The investment horizon, environment, and outlook; and
- Historical and expected capital market returns and risk.

1.05 Investment Beliefs – Queen’s Pooled Funds

The Investment Committee’s Investment Beliefs comprise what we know, or what we think we know, about the way in which returns are generated.

The following outlines the Investment Committee’s current investment beliefs.

(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) The Investment Committee, through Investment Services, will maintain compliance standards consistent with industry practice.
- (iii) The awareness and the effective management of environmental, social, and governance related risks to business activities can improve the long-term financial performance of the companies concerned.

1.06 Policy Review

The Statement is reviewed annually by the Investment Committee and revised as necessary. Any material changes to this Statement require the approval of the Board of Trustees.

Section 2 – Monitoring and Control

2.01 Delegation of Responsibilities

The Board of Trustees is responsible for the appointment of investment managers, custodians, auditors, investment consultants and performance measurement organizations, but may in some instances delegate authority to the Investment Committee as set out in this Statement. Recommendations on, or advice of, these appointments, as may be required pursuant to this Statement, are prepared periodically by the Investment Committee for review and approval, or review, as appropriate, by the Board of Trustees. Investment managers and custodians also have fiduciary responsibilities.

(a) Investment Committee

The Investment Committee reports quarterly to the Board of Trustees. In meeting its responsibilities, the Board of Trustees relies on the Investment Committee to deal with the various investment managers and the custodian to ensure that appropriate investment policies are implemented. The Investment Committee also deals with performance measurement organizations. Two departments of the University, Investment Services and Financial Services, are also involved in the investment process and endowment management.

The Investment Committee recommends the policy asset mix to the Board of Trustees and develops ancillary policies as necessary.

The Investment Committee, through Investment Services, establishes investment mandates (hereinafter called “Mandates”) pursuant to this Statement for each investment manager. As a part of this process, the Investment Committee formally approves the investment guidelines and restrictions associated with each Mandate. These Mandates will be reviewed at least annually by Investment Services and any substantial changes deemed appropriate must be approved by the Investment Committee.

(b) Investment Managers

Each investment manager shall:

- participate in reviews of its Mandate, preferably annually;
- make presentations to the Investment Committee and/or Investment Services, as requested, to review its investment philosophy, responsible investing activities, and strategies in the context of its expected capital markets outlook and performance – both return and risk profile, for the Queen’s Pooled Funds;
- select securities within its asset class so as to meet the objectives set out in its Mandate and this Statement;

- 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 among asset classes according to the policy established by the Investment Committee;
- monitor private equity investments, including ensuring that capital calls are met through appropriate transfers from other assets and that distributions are allocated properly;
- assist the Investment Committee in its review of investment managers and coordinate and lead searches for new managers when required;
- perform research projects as directed by the Investment Committee;
- work with the Chair of the Investment Committee to prepare agendas for quarterly meetings, assist in preparing reports for the Board of Trustees and provide such other services as may be required;
- perform annual reviews and due diligence on third-party providers of contractual services;
- deal with the investments in the Queen's Short-Term Fund in accordance with this Statement;
- deal with the investments in the Queen's Sinking Fund in accordance with the University's Debt Management Policy; and
- maintain the unitized system for the Queen's Pooled Funds.

2.02 Performance Measurement

For purposes of evaluating the performance of the Queen's Pooled Funds, and the investment managers, all rates of returns are measured over a four-year period and the cumulative period since the manager was hired. Return objectives will be reported on a gross of fees and net of fees basis including realized and unrealized capital gains or losses plus income from all sources. Returns from all asset classes are to be expressed in Canadian dollars.

2.03 Compliance Reporting by Investment Manager

Each investment manager is required to complete and deliver a compliance report to Investment Services each quarter. The compliance report will indicate whether the investment manager was in compliance with its Mandate during the quarter. Additionally, Investment Services will monitor investment management activities to ensure compliance.

In the event that an investment manager is not in compliance with its Mandate, the investment manager is required to advise Investment Services immediately, detail the nature of the non-compliance, specify whether any losses arose from non-compliance, and recommend an appropriate course of action to remedy the situation. Investment Services will report any such non-compliance to the Investment Committee.

2.04 Standard of Professional Conduct

The Investment Committee has a preference for investment managers who comply with the CFA Asset Manager Code of Professional Conduct.

Each investment manager will manage the assets with the care, diligence and skill that an investment manager of expert prudence would use in dealing with assets for an endowment or foundation. Each investment manager will also use all relevant knowledge and skill that it possesses or ought to possess as an expert prudent investment manager.

2.05 Monitoring of Investment Managers

Investment Services will monitor and review:

- (a) the assets and net cash flow of the Queen's Pooled Funds;
- (b) each investment manager's financial stability, staff turnover, consistency of style and record of service;
- (c) each investment manager's current economic outlook, investment philosophy, and strategies;
- (d) each investment manager's compliance with its Mandate;
- (e) the investment performance of the assets of the Queen's Pooled Funds in relation to the rate of return and risk expectations outlined in this Statement; and
- (f) each investment manager's responsible investing activities, in accordance with the Responsible Investing Policy.

2.06 Selecting Investment Managers

The Investment Committee has the delegated authority from the Board of Trustees to hire new investment managers to manage investment funds. In the event that a new investment manager must be selected or additional investment manager(s) added to the existing roster of investment managers, the Investment Committee may undertake an investment manager search and may use the assistance of a third-party investment consultant. The criteria used for selecting an investment manager will be consistent with the investment philosophy set out in Section 1.04 (Investment Philosophy – Queen's Pooled Funds).

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

2.07 Dismissal of an Investment Manager

The Investment Committee has the delegated authority from the Board of Trustees to terminate any investment manager. Termination of the services of an investment manager is at the discretion of the Investment Committee and the reasons may include, but are not limited to, the following:

- (a) changes in personnel, firm structure, investment philosophy, or strategy at the investment manager which might adversely affect the potential return and/or risk level of the portfolio;
- (b) performance results which are below the stated performance benchmarks;
- (c) changes in the overall structure of the Queen's Pooled Funds' assets such that the investment manager's services are no longer required; and/or
- (d) failure to adhere to its Mandate.

Decisions to terminate an investment manager shall be communicated to the Board of Trustees at the next meeting of the Board.

2.08 Monitoring of Asset Mix

In order to ensure that the Queen's Pooled Funds operate within the guidelines stated in the Statement, Investment Services shall monitor the asset mix monthly. Rebalancing activities, if any, will occur in accordance with Sections 5.04 and 6.04. Rebalancing will be effected by redirecting the net cash flows to and from the Queen's Pooled Funds and, if necessary, by transfers from one investment manager to another within the Queen's Pooled Funds.

Rebalancing should normally occur if any investment manager and/or asset class exposure breaches a limit set out in this Statement.

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) private placements of bonds (subject to Sections 3.02 and 3.04);
- (v) private fixed income;
- (vi) exchange-traded index participation units or Exchange Traded Funds; and
- (vii) hedge funds.

(c) Real Assets

- (i) infrastructure; and
- (ii) real estate.

(d) Cash and Short Term Investments

- (i) cash on hand and demand deposits;
- (ii) Treasury bills issued by the Government of Canada and provincial governments and their agencies;
- (iii) Treasury bills issued by the U.S. government and/or its agencies;
- (iv) Commercial paper having a minimum rating of “R-1” low or equivalent as rated by a Recognized Bond Rating Agency;
- (v) Asset-backed commercial paper having liquidity support arrangements that are compliant with the Global Liquidity Standard criteria and as updated by Dominion Bond Rating Service from time-to-time; and
- (vi) unitized funds holding only investments described above.

(e) Other Investments

- (i) deposit accounts of the custodian for the purposes of investing surplus cash holdings;
- (ii) currency forward and future contracts; and
- (iii) other investments which the Investment Committee expressly permits the investment manager to employ in fulfilling its Mandate.

(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) Quality Standards

Within the investment restrictions for individual portfolios, all portfolios should hold a prudently diversified exposure to the intended market.

- (i) the minimum quality standard for individual bonds and non-convertible debentures is “BBB” or equivalent as rated by two Recognized Bond Rating Agencies, at the time of purchase. Notwithstanding the foregoing, up to 10% of the bond portfolio (measured in aggregate, not for each bond mandate) may be invested in bonds and non-convertible debentures rated lower than BBB as defined by two ratings agencies.
- (ii) the minimum quality standard for individual short term investments is “R-1 low” or equivalent as rated by two Recognized Bond Rating Agencies.
- (iii) the minimum quality standard for individual preferred shares is “P-1” or equivalent as rated by two Recognized Bond Rating Agencies.
- (iv) for minimum quality standard purposes in (i), (ii) and (iii) above, the lowest rating shall govern in the case of split-rated bonds.
- (v) generally, all public market investments shall be reasonably liquid (i.e. in normal circumstances they should be capable of liquidation within one month).

(b) Rating Agencies

For the purposes of this Statement, the following rating agencies shall each be considered to be a “Recognized Bond Rating Agency”:

- (i) Dominion Bond Rating Service;
- (ii) Standard and Poor’s;
- (iii) Moody’s Investors Services;
- (iv) A.M. Best; and

- (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 relevant Mandates.

Other

The use of derivative securities shall be supported at all times by the explicit allocation of sufficient assets to back the intended derivative strategy. For greater certainty, investment managers are not permitted to leverage the assets of the Queen’s Pooled Funds unless prior consent has been obtained from the Investment Committee. The use of derivative securities is only permitted for the uses described in this Statement.

3.04 Prior Permission Required

The following investments are permitted provided that prior permission for such investments has been obtained from the Investment Committee.

- (a) direct investments in resource properties. In any event, an investment in a resource property shall not have a market value greater than or equal to 2% of the market value of the assets of the Queen’s Pooled Funds. The aggregate market value of all

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;
- (g) investments in bonds of foreign issuers; and
- (h) derivatives other than those otherwise permitted in Section 3.03 above.

3.05 Securities Lending

The investments of the Queen's Pooled Funds and the Queen's Sinking Fund may be loaned, for the purpose of generating revenue for these funds.

Collateral for such loans must be secured by marketable securities including: government bonds, treasury bills and/or letters of credit, discount notes, and banker's acceptances of major Canadian chartered banks. The amount of collateral taken for securities lending should reflect market practices in local markets, but should be at least 102% of the market value of the securities lent. This market value relationship must be calculated at least daily.

The terms and conditions of any securities lending program will be set out in a contract with the securities lending agent. The securities lending agent shall, at all times, ensure that Investment Services has a current list of those institutions that are approved to borrow the securities in the Queen's Pooled Funds and the Queen's Sinking Fund. If the securities are in a pooled fund, securities lending will be governed by the terms and conditions set out in the pooled fund contract.

As the University does not wish to assume any counterparty risk, such risk will be assumed by the securities lending agent and the revenue sharing will be adjusted accordingly.

3.06 Responsible Investing

The Queen's Investment Funds will be managed in accordance with the Responsible Investing Policy as approved by the Board of Trustees.

Investment Services will ensure all investment managers are aware of the Responsible Investing Policy as a part of its ongoing compliance monitoring activities. Further, Investment Services will review each manager's environmental, social, and governance

(“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 CO₂e per million dollars invested) of the Pooled Endowment Fund and Pooled Investment Fund, with the objective to sustain, by the end of calendar 2030, a public equity portfolio (also including private equity and real assets where data are available) with at least 25% lower carbon emissions than the equities benchmark, using Scope 1 and Scope 2 CO₂e emissions.

Investment Services will provide an annual update report on its webpage, beginning in 2023.

Queen’s Climate Action Allocation

The Investment Committee has established a Queen’s Climate Action Allocation (QCAA) within the Pooled Endowment Fund, which includes investments that are expected to outperform with the transition to a lower carbon economy. These investments will have significantly lower carbon emissions than the equities benchmark and/or have a credible plan for achieving net zero emissions in accordance with timelines set out by the Canadian government.

These investments may be found in any asset class and may include, but are not limited to:

- a) renewable energy;
- b) low carbon funds;
- c) carbon capture and other sustainability-driven technologies; and
- d) sustainable real estate.

The QCAA will be targeted to comprise at least 15% of the Pooled Endowment Fund by the end of 2030. As these investments may be found in any asset class, this target does not affect the higher-level Strategic Policy Asset Mix allocation outlined in Section 5.

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

Section 4 – Short-Term Fund

4.01 Description

The Short-Term Fund of Queen’s University consists of money market and fixed income investments with average terms to maturity of 36 months or less.

In pursuing its mission, the University accumulates excess cash balances that are not required for short-term operating or capital purposes. In addition, the University raises funds on capital markets for capital projects and other purposes. The cash surpluses are invested in securities approved under this policy to earn interest income above the amount that would be earned if left in corporate bank accounts.

These excess cash balances consist of the day-to-day receipts of the University, which arise from all sources, including student fee revenue, government grants, research contracts, donations and receipts from capital markets. Some of these cash balances are required within a three-year time period and are not suitable for long-term investment. Such funds are invested under the terms of this policy, and are collectively referred to as the Queen’s University Short-Term Fund. The remaining balance may be invested in the Pooled Investment Fund.

4.02 Investment Objectives

- 1) The primary objective of the Short-Term Fund is to preserve capital and minimize liquidity and investment risk in order to meet the cash needs of the University.
- 2) A secondary objective is to obtain a reasonable level of return commensurate with a low-risk, highly liquid portfolio.

4.03 Investment Guidelines and Restrictions

Investing activities should be reviewed on a regular basis as actual, revised and forecasted operating and capital plans are completed. Subject to Investment Committee guidance, investment maturity dates should generally be staggered so that related cash inflows and outflows are matched to forecasted cash requirements. Investment maturity dates should not exceed 36 months, unless authorized in writing by the Vice-Principal (Finance and Administration) or the Associate Vice-Principal (Finance).

Only investment products approved by the Investment Committee of the Board of Trustees can be purchased. Section 4.03 (a) of this policy outlines the approved investment products and limits. These investment products must be purchased from financial institutions as detailed in Section 4.03 (a). Any one-time exceptions to the list of eligible investments may be approved by the Chair of the Investment Committee of the Board of Trustees. If the Chair is unavailable to grant such approval, the Vice-Chair is permitted to grant authority to these one-time exceptions.

On a quarterly basis, a report will be prepared and submitted for review to the Investment Committee. The report will provide details of investment balances and month-to-date and year-to-date investment income.

The results of investing activities will be compared to average returns available for similar investment products.

(a) Approved Short-Term Fund Investments
Approved Investment Products

- (i) Fiera Cash in Action Fund – *unlimited*;
- (ii) Fiera Short Term Bond Fund – *unlimited*;
- (iii) TD Emerald Canadian Treasury Management Fund – *unlimited*;
- (iv) TD Emerald Canadian Short Term Investment Fund – *unlimited*;
- (v) Demand Deposit accounts or term deposits / Guaranteed Investment Certificates issued or guaranteed by any of the five major Schedule I Canadian banks including Bank of Montreal, Bank of Nova Scotia, CIBC, Royal Bank of Canada, or TD Canada Trust – *limited to C\$60 million per institution, except in the case of the University's principal bank of record (currently BMO Bank of Montreal), which is limited to C\$100 million. Further, it is understood that, from time to time, deposits with the University's principal bank of record (currently BMO Bank of Montreal) may exceed the C\$100 million limit, in which cases the University administration will take prudent and reasonable steps to return deposits to or below this level as soon as reasonably possible. All events where a limit is exceeded will be reported quarterly to the Investment Committee; and*
- (vi) Any other accounts or funds that the Investment Committee may approve from time to time.

Approved Financial Institutions / Investment Managers

- (i) TD Asset Management;
- (ii) Fiera Capital Corporation;
- (iii) Bank of Montreal;
- (iv) Bank of Nova Scotia;
- (v) CIBC;

- (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 Description

This fund consists of endowment funds donated to the University and held for specific purposes. Normally, the capital of these funds is not expendable. Payouts from the Pooled Endowment Fund (see Section 5.07) are used to support scholarships, student aid programs, chairs and research.

5.02 Investment Objectives

The objective of the Pooled Endowment Fund is to maximize long-term real returns subject to the risk tolerance determined by the Board of Trustees (as specified through the Strategic Policy Asset Mix). To meet this objective, the Pooled Endowment Fund will aim to:

- 1) Achieve an annualized real return for the fund of at least 4.0% over a rolling ten year period, after payment of investment manager fees and other expenses;
- 2) Achieve overall investment performance on a 4-year rolling annualized basis which exceeds the policy benchmark as set out in Section 5.03 below. (The individual investment managers' benchmarks and investment objectives are contained in the relevant Mandates for those accounts managed on a segregated account basis).

5.03 Policy Asset Mix

In order to meet the objectives outlined in Section 5.02 above, the following Strategic Policy Asset Mix has been approved:

Asset Class	<u>Strategic Policy Asset Mix</u>	<u>Strategic Policy Asset Mix Ranges</u>
Equities (including Private Equity)	65.0%	45.0% to 75.0%
Fixed Income and Absolute Return Strategies	13.0%	0.0% to 40.0%
Real Assets	20.0%	0% to 30.0%
Cash and Short Term Investments	2.0%	0.0% to 20.0%

The Strategic Policy Asset Mix represents the long-term policy asset mix and is a reflection of the average, long-term (i.e. 10+ years) risk appetite of the Board of Trustees. However, based on its assessment of valuations and market conditions, the committee will employ a

Target Asset Mix that falls within the Strategic Asset Mix Ranges. The Target Asset Mix must be formally approved by the Investment Committee.

For rebalancing purposes, as outlined in Section 5.04, 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 Endowment Fund's total asset value.

Performance for the Pooled Endowment Fund will be compared against a blended benchmark that reflects the Strategic Policy Asset Mix and currency hedging strategy. Performance will be further compared against a benchmark calculated as the weighted average of each investment manager's respective benchmark, weighted by each investment manager's target weight within the overall fund.

5.04 Rebalancing Policy

In addition to routine rebalancing as a result of cash flow activity, rebalancing of the portfolio will occur quarterly, and also when the actual weight of Equities or Fixed Income and Absolute Return Strategies is outside of its Allowable Range, as defined in Section 5.03. Assets shall be rebalanced to the target weight for each Asset Class.

Investment Services will execute the rebalancing policy and will report on any material rebalancing allocations undertaken at the regular quarterly meetings of the Investment Committee.

5.05 Management Structure

The Pooled Endowment Fund may employ a mix of active and passive styles. Currently, active management has been adopted for a portion of the assets as it provides the opportunity to outperform market indices over the long term. Passive management has also been adopted for a portion of the assets, as it minimizes the risk of underperformance relative to a benchmark index and is less expensive than active management. Specialist managers are typically used in each asset class.

5.06 Currency Hedging Strategy

The Investment Committee may implement a foreign exchange hedge policy in order to mitigate return volatility relative to its liabilities and associated with the currency mix of assets in the Pooled Endowment Fund.

For equities and real assets, the policy benchmark is to hedge 50% of each currency exposure that represents greater than 2% of Pooled Endowment Fund assets back to Canadian dollars. If a hedged currency subsequently falls below the 2% threshold, Investment Services will continue to hedge the exposure until such a time as the level remains below the 2% threshold for two consecutive quarters. For foreign bonds, the policy benchmark is to hedge 100% of the same currencies back to Canadian dollars. The actual hedge policy in place at any time may deviate from the policy benchmark as a result of a decision made by the Investment Committee.

Between meetings, Investment Services is authorized to rebalance the foreign exchange exposure in the Pooled Endowment Fund, subject to the guidelines of the Investment Committee.

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.

5.07 Spending Policy

The current policy has been approved by the Board of Trustees. The objective of the spending policy is to release substantial income while preserving the purchasing power of assets for future generations.

The spending rule for Queen's attempts to achieve these objectives by using a long-term spending rate of 4.0% per annum combined with a smoothing rule that adjusts spending gradually to changes in endowment market value. The amount released under the spending rule is based on a 70% weight applied to the prior year's spending adjusted for inflation and a 30% weight applied to the amount that would have been spent using 4.0% per annum of current endowment market value. The spending formula includes a spending cap at 4.5% and a spending floor at 3.5%.

As a consequence of the smoothing rule, the spending payout has a lower volatility than that of the overall fund.

The Spending Policy will be reviewed annually by the Investment Committee.

Section 6 – Pooled Investment Fund

6.01 Description

This is the investment vehicle which primarily contains restricted and unrestricted fund balances from research projects, trust accounts and operating carry-forwards. The capital of this fund is expendable (with some exceptions). Payouts from the Pooled Investment Fund (see Section 6.07) are normally used by the University to support current operations.

6.02 Investment Objectives

The objective of the Pooled Investment Fund is to maximize medium-term nominal returns subject to the risk tolerance determined by the Board of Trustees (as specified through the Strategic Policy Asset Mix). To meet this objective, the Pooled Investment Fund will aim to:

- 1) Meet the liquidity needs of the University as determined from time to time, subject to any restrictions on the capital;
- 2) Achieve overall investment performance on a 4-year rolling annualized basis which exceeds the policy benchmark as discussed in Section 6.03 below. (The individual investment managers' benchmarks and investment objectives are contained in the relevant Mandates).

6.03 Policy Asset Mix

In order to meet the objectives outlined in Section 6.02 above, the following Strategic Policy Asset Mix has been approved:

Asset Class	<u>Strategic Policy Asset Mix</u>	<u>Strategic Policy Asset Mix Ranges</u>
Equities	65.0%	40.0% to 70.0%
Fixed Income and Absolute Return Strategies	35.0%	0.0% to 60.0%
Cash and Short Term Investments	0.0%	0.0% to 30.0%

The Strategic Policy Asset Mix represents the long-term policy asset mix and is a reflection of the average, long-term (i.e. 10+ years) risk appetite of the Board of Trustees. However, based on its assessment of valuations and market conditions, the committee will employ a Target Asset Mix that falls within the Strategic Asset Mix Ranges. The Target Asset Mix must be formally approved by the Investment Committee.

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.

Performance for the Pooled Investment Fund will be compared against a blended benchmark that reflects the Strategic Policy Asset Mix and currency hedging strategy. Performance will be further compared against a benchmark calculated as the weighted average of each investment manager's respective benchmark, weighted by each investment manager's target weight within the overall fund.

6.04 Rebalancing Policy

In addition to routine rebalancing as a result of cash flow activity, rebalancing of the portfolio will occur quarterly, and also when the actual weight of Equities or Fixed Income and Absolute Return Strategies is outside of its Allowable Range, as defined in Section 6.03. Assets shall be rebalanced to the target weight for each Asset Class.

Investment Services will execute the rebalancing policy and will report on any material rebalancing activities undertaken at the regular quarterly meetings of the Investment Committee.

6.05 Management Structure

The Pooled Investment Fund may employ a mix of active and passive styles. Currently, active management has been adopted for a portion of the assets as it provides the opportunity to outperform market indices over the long term. Passive management has also been adopted for a portion of the assets as it minimizes the risk of underperformance relative to a benchmark index and is less expensive than active management. Specialist managers are typically used in each asset class.

6.06 Currency Hedging Policy

The Investment Committee may implement a foreign exchange hedge policy in order to mitigate return volatility relative to its liabilities and associated with the currency mix of assets in the Pooled Investment Fund.

For equities and real assets, the policy benchmark is to hedge 50% of each currency exposure that represents greater than 2% of Pooled Investment Fund assets back to Canadian dollars. If a hedged currency subsequently falls below the 2% threshold, Investment Services will continue to hedge the exposure until such a time as the level remains below the 2% threshold for two consecutive quarters. For foreign bonds, the policy benchmark is to hedge 100% of the same currencies back to Canadian dollars. The actual hedge policy in place at any time may deviate from the policy benchmark as a result of a decision made by the Investment Committee.

Between meetings, Investment Services is authorized to rebalance foreign exchange exposure in the Pooled Investment Fund, subject to the guidelines of the Investment Committee.

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 Investment Committee is that non-routine voting should be done in such a way as to enhance shareholder value while being supportive of the University's views on Responsible Investing as set out in Section 3.06 of this Statement.

Each investment manager will provide an annual report which details its proxy voting record, and also sets out any changes in its proxy voting policy.

Section 9 – Conflict of Interest Guidelines

9.01 Queen’s University Guidelines

Members of the Investment Committee are required to confirm in writing that they have read, understood, and agree to abide by the Queen’s University Board of Trustees Code of Conduct.

Committees of the Board of Trustees, with approval of the Board of Trustees, may adopt more specific standards and procedures as to conflicts as may be pertinent to their activities provided that such standards and procedures are consistent with the Board of Trustees’ policies cited above.

The following additional standards and procedures are applicable to members of the Investment Committee as well as to agents of the Committee who assist the Committee in the execution of its responsibilities. An “agent” is defined to mean an employee of the University who provides support to the Investment Committee in the performance of its duties. The inclusion of agents in this policy recognizes their role in giving advice and recommendations to the Investment Committee.

9.02 Duty of Care - to Act Honestly and in Good Faith

Members of the Investment Committee and its agents, in exercising their powers and discharging their duties, must act honestly and in good faith with a view to the best interests of Queen’s Investment Funds, and must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

It follows that the Investment Committee is entitled to full disclosure from its members and its agents of all facts which might affect Investment Committee decisions or the impartiality of a member or agent participating in the discussion or decision. Personal interests must not be brought into conflict with duties as an Investment Committee member or agent. Further, it is expected that no Investment Committee member or agent shall make any personal financial gain (direct or indirect) because of his or her position. This does not apply to compensation paid to University employees or reimbursement of duly authorized expenses to members of the Investment Committee.

No Investment Committee member or agent shall accept a gift or gratuity or other personal favour, other than one of nominal value (i.e. no greater than a value of \$100 and not consisting of cash or securities), from a person with whom that Investment Committee member or agent deals in the course of performing his or her duties with respect to Queen’s Investment Funds.

Business entertainment for the purpose of networking, education, or relationship development is acceptable if good judgement is exercised, the business contact is present,

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 member's and agent's fiduciary duty and ensuring impartial consideration of a transaction or contract and (ii) pursuant to this Statement, matters affecting the management of Queen's Investment Funds may embody or be viewed as embodying a conflict of interest requiring disclosure and, in some instances, non-participation in discussion and/or voting.

Investment Committee members and agents should be guided by the general rule which is as follows:

If a member or agent finds himself or herself in a conflict of interest or a situation where he or she believes that others might think that he or she has one, he or she must immediately advise the Investment Committee, so that action can be taken to resolve the situation.

More specifically:

9.04 Contracts and Transactions

- 1) An Investment Committee member or agent or his or her spouse or minor child who
 - (a) is a party to a material contract or material transaction (Note 1) or a proposed material contract or material transaction with respect to Queen's Investment Funds,
 - (b) is a director or an officer of any entity that is a party to a material contract or material transaction or proposed material contract or material transaction with Queen's Investment Funds, or
 - (c) has a material interest (Note 2) in any person (Note 3) who is a party to a material contract or material transaction or proposed material contract or material transaction with the Queen's Investment Funds,

must disclose in writing to the Investment Committee or request to have entered in the minutes of a meeting of the Investment Committee the nature and extent of that interest.

- 2) A member of the Investment Committee or agent must make any required personal, or spousal or minor child disclosure:

- (a) forthwith after the member becomes aware that the proposed contract or transaction is to be considered, or a contract or transaction has been considered, whether at a meeting of the Investment Committee or otherwise;
 - (b) if the member or his or her spouse or minor child becomes interested after a contract is made or a transaction is undertaken, forthwith after the member or his or her spouse or minor child becomes so interested; or
 - (c) if a person who is interested in a contract or transaction or whose spouse or minor child is interested in a contract or transaction later becomes a member, forthwith after the person becomes a member.
- 3) A general notice to the Investment Committee by a member or agent declaring that the member or agent or his or her spouse or minor child is a director or officer of any entity or has a material interest in a person, and is to be regarded as interested in any contract made or transaction undertaken with that entity or person, is a sufficient declaration of interest in relation to any contract so made or transaction undertaken.

Note 1: “Material contract” is undefined but will include any contract in respect of investment counselling, custody, performance measurement, audit or any other services provided in respect to the supervision, management, safekeeping, accounting, reporting, investment or trading of the Queen’s Investment Funds. “Material transaction” means any specific transaction or series of transactions, including asset sales or purchases (other than sales or purchases of publicly traded securities), brought before the Investment Committee in order for the Investment Committee to make a recommendation or take a decision.

Note 2: “Material interest” is also not defined, but would include ownership (directly and indirectly) of 10 % or more of the voting shares or 25% or more of the equity of an entity. Any lesser ownership or other circumstances which actually constitute a controlling role (alone or jointly with others) would also be a material interest in an entity. Other circumstances may be viewed as appropriate to disclose such as family and personal relationships with a party to a material contract with Queen’s Investment Funds or a material transaction.

Note 3: A “person” is a natural person, personal representative, a corporation, unincorporated body or organization, a trust, partnership, fund, or governmental body.

- 4) Where a member or agent holds such position/interest, the member or agent may not participate in any consideration or decision making with respect to such material contracts or material transactions.

9.05 Personal Investments

- 1) It is recognized that Investment Committee members and agents may personally, from time to time, have a beneficial interest in investments. In light of the Investment Committee’s role as described in paragraph 2, this should not, in itself, present any conflict of interest.

- 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 respect to Queen's Investment Funds, a related party is:
 - (a) a member or agent of the Investment Committee;
 - (b) a member of the Board of Trustees;
 - (c) an employee of the University;
 - (d) a spouse or minor child of any of the persons identified in (a), (b) or (c);
 - (e) a corporation or business organization controlled by any of the persons identified in (a), (b) or (c);
- 2) Queen's University, on behalf of the Queen's Investment Funds, may not enter into a contract or transaction with a related party unless the contract or transaction is both required for the operation and/or administration of the Queen's Investment Funds and the terms of the transaction are not less favourable to Queen's than market terms and conditions.

Section 10 – Valuation of Investments Not Regularly Traded

With the exception of private placements, real estate, resource, and venture capital investments and derivative securities, it is expected that all the securities held by the Queen's Pooled Funds will have an active market and therefore valuation of the securities held by the funds will be based on their market values, or best practices.

The following principles will apply for the valuation of investments that are not traded regularly:

- (a) For limited partnership investments or similar private investment vehicles, the custodian will use fair values supplied by the investment managers. The investment managers use a valuation methodology that is based upon the best available information that may incorporate management assumptions and best estimates after considering a variety of internal and external factors. Valuation methodologies that include externally-based and audited appraisals are preferred.
- (b) For non-exchange traded derivative securities and other investments not regularly traded, the custodian will use a value which it deems to be reasonable in light of current market conditions.
- (c) If the Investment Committee decides that a security has no value, then the custodian shall be instructed to write the market value of the asset down to zero.