

Medicine Hat College Board Policy

Policy #: **FIN-03 Investments**

Effective Date: May 16, 2023

Next Mandatory Review Date: May 16, 2026

Frequency of Reviews: Every 3 years



1. HIGH LEVEL STATEMENT

The Board of Governors (the Board) is responsible for setting investment objectives (listed in the applicable sections) and for ensuring that they are consistent with Medicine Hat College (MHC) objectives.

The Board recognizes that investment risk may be managed through active investment strategies. It manages this risk by

- establishing guidelines for the Finance and Audit Committee, designated officers, and portfolio managers,
- monitoring the compliance with these guidelines, and
- evaluating investment performance on a regular basis.

2. PURPOSE

This policy ensures that MHC's internally and externally managed funds are managed in accordance with all applicable legal and policy requirements.

3. SCOPE

This policy applies to the internally and externally managed funds of MHC.

4. DEFINITIONS

- **Advisors, Agents:** professionals whose services have been retained by MHC to provide services to or on behalf of the college in relation to the management of investment portfolios.
- **Asset Classes:** categories of potential investments such as Canadian equity, U.S. equity, international equity, or bonds.
- **Benchmark:** the performance of a hypothetical portfolio constructed from the asset class indexes against which the actual performance of the portfolio will be compared.
- **CFA Institute:** the non-profit professional association that provides education within the investment industry and is the body that grants the Chartered Financial Analyst (CFA) designation.

- **Compliance Report:** a report submitted quarterly outlining the parameters and restrictions of this policy and indicating the portfolio's compliance with all restrictions. It is signed by the portfolio manager and by a designated compliance officer of the portfolio management firm.
- **Constructed Benchmark Portfolio:** a simulated portfolio constructed using the relevant indexes for each asset class in the weighting specified by the Target Asset Allocation. The return of each asset class is multiplied by the target weighting of that asset class to determine the benchmark return. The actual return of the portfolio is compared to this benchmark return to assess the performance of the portfolio and the portfolio manager.
- **Custodian:** a trust company licensed to do business in Alberta who provides custody of securities, collection of income from those securities, and portfolio recordkeeping services.
- **Credit Rating:** a measure of the safety or risk of a particular bond that is held in the trust investment portfolio. These ratings are assigned by independent credit rating agencies.
- **Dealer or Underwriter of Securities:** a firm engaged as agent or principal in the buying and selling of securities or in the bringing of new securities to the public markets as the agent for the issuing company or organization.
- **Designated Officer(s):** the President and CEO, or delegates.
- **Endowed Funds:** funds designated as endowed and form a permanent capital base to be invested for the generation of income which will be used to support MHC or for the specific purpose specified in the case of any endowed gift.
- **Externally Managed Fund:** a fund managed by a portfolio manager employed by a firm outside of MHC.
- **Fiduciary:** someone who has undertaken to act for and on behalf of another in a particular matter in circumstances which give rise to a relationship of trust and confidence.
- **Finance and Audit Committee:** the committee of the Board to which the Board has delegated the ongoing oversight of the investment portfolio.
- **Global Industry Sectors:** a classification system developed by Standard and Poors and Morgan Stanley Capital International to classify publicly traded equity securities into industry groups.
- **Internally Managed Fund:** a fund managed by a designated MHC officer or a portfolio manager employed by a firm outside of MHC with the intent to fund the operations of the college.
- **Investment Consultant:** a firm or individual who is not engaged in the sale of investment products and services, either directly or through affiliated departments or companies, but who will provide independent advice on the development of Investment Policy Statements, selection of portfolio managers and evaluation of portfolio performance and whose staff have earned the Chartered Financial Analyst designation

from the Chartered Financial Analyst Institute or its successor.

- **Portfolio Manager:** a firm that is registered with the Alberta Securities Commission in accordance with National Instrument 31-103 paragraph 7.2(1)(a) to manage accounts on a discretionary basis on behalf of clients. Under this registration, the firm is solely engaged in the discretionary management of portfolio and may not act as a dealer or Underwriter of Securities.
- **Target Asset Allocation:** a mix of securities which reflects the long-term risk and reward profile of the college.

5. PRACTICES

5.1 CONFLICT OF INTEREST

- 5.1.1 Board members, Finance and Audit Committee members, MHC employees, agents, advisors, custodians, investment consultants and portfolio managers whose services are retained for the investment of the fund are all fiduciaries and, as such, are subject to 5.1.2 to 5.1.5.
- 5.1.2 Fiduciaries will not knowingly permit their interests to conflict with their duties and powers with respect to the fund.
- 5.1.3 A conflict of interest arises where a fiduciary's personal interest, whether real or perceived, could supersede their dedication to the best interests of MHC. The test of a conflict of interest is not just a case of whether the fiduciary is actually influenced by a personal interest. The pivotal issue is whether the circumstances lend themselves to such a possibility.
- 5.1.4 In accordance with the Code of Conduct (GEA-07) policy, a fiduciary must disclose all actual or perceived conflicts of interest in writing as soon as possible along with all relevant details of the conflict. The person will refrain from participating in the discussion of the issue.
- 5.1.5 Where a conflict of interest is deemed to exist or if its existence is disputed, those named in the conflict will be excluded from the discussion and not be entitled to vote on the issue concerning the conflict or possible conflict.
- 5.1.6 Portfolio managers providing services to the fund are expected to comply with the Code of Ethics and Standards of Professional Conduct adopted by the CFA Institute.
- 5.1.7 All investment transactions will be conducted in accordance with the laws of Canada and the Province of Alberta.

5.2 INTERNALLY MANAGED FUNDS

- 5.2.1 The primary financial objectives of the Internally Managed Fund are
 - preservation of the invested capital amounts,
 - liquidity such that funds are available to support the operations of MHC, and
 - earning a positive return above what could be earned in an operating bank account.
- 5.2.2 Asset Allocation

The Fund's Target Asset Allocation over a rolling three-year period is subject to the following:

 - the Internally Managed Fund will be invested solely in short term securities,

- should the asset allocation fall outside such limits, the Committee will be advised by the designated officer. The designated officer will take action to correct the situation as soon as possible, taking into account the best interest of the fund.

5.2.3 The long term expected return and risk parameters of the targeted asset allocation of the Internally Managed Fund are a real (after inflation as per Statistics Canada for Canada) rate of return of 0.5% over five-year rolling periods.

No negative returns in any rolling 12-month period. These expected returns are based on historical experience over the past 25 years.

5.2.4 Diversification requirements is a tool used to control the risk of the overall portfolio and limits the overall risk of the college or having too much exposure to a single issuer of securities. Therefore, Demand and Term deposits of Alberta Treasury Branch (ATB), fully insured by the Province of Alberta, and Demand and Term deposits that are fully insured by the Alberta Credit Union Deposit Guarantee Corporation are considered to be fully guaranteed and therefore not subject to any limitations.

Investments in Chartered Banks and Trust Companies are not subject to the Deposit Guarantee limit, but the designated officer or portfolio manager should make efforts to engage in competitive bidding and should at all times be aware of the risk of having too much exposure to a single financial institution when the investment is not guaranteed by a government. Investments should be restricted to deposit instruments of financial institutions, which have obtained a minimum credit rating of A Low or its equivalent for their bonds that are issued and trading in bond markets.

5.3 EXTERNALLY MANAGED FUNDS

5.3.1 The primary financial objectives of the Externally Managed Fund are:

- preservation of the invested capital amounts,
- stability and predictability of the returns on invested capital, and
- maximization of return on invested capital within an acceptable level of risk.

5.3.2 The fund's Target Asset Allocation over a rolling five-year period is the following subject to a benchmark of:

A. Externally Managed Fund

	<i>Minimum</i>	<i>Target</i>	<i>Maximum</i>
Cash and Short-Term Securities	2%	5%	20%
Bonds	25%	35%	60%
Total Fixed Income	30%	40%	65%
Canadian Equity	20%	30%	50%
U.S. Equity	5%	15%	35%

International Equity	5%	15%	35%
Total Equity	35%	60%	70%

Should the asset allocation fall outside such limits, the Committee will be advised by the portfolio manager. The portfolio manager will take action to correct the situation as soon as possible, taking into account the best interest of the fund.

When pooled or other co-mingled funds are used to implement the asset allocation, compliance with the policy will be based on the underlying holdings within the funds.

- 5.3.3 Cash and short-term securities include cash and fixed income securities, including deposit instruments, having a maturity of less than one year.
- 5.3.4 Bonds include all fixed-income securities having a maturity of one year or longer.
- 5.3.5 The long-term expected return and risk parameters based on the capital market environment in 2023 of the targeted asset allocation of the Externally Managed Fund are:
 - i. A real (after inflation) rate of return of 2.685% over 5-year rolling periods, with an expected inflation rate of 2%.
 - ii. Potential negative returns in any rolling twelve-month period of -10%, when measured to one standard deviation. [Note: Over the past twenty years this threshold was exceeded in the 12-month ending February 2009 with a 12-month return of -20.71% but the following 2-month period ending in February 2010 saw a return of 24.73%.

The actual historical experience of this portfolio over the past 25 years for five-year rolling periods of returns is shown in the table below.

20 Year Historical Experience	Proposed Asset Allocation	Canadian CPI
Average Return	6.38%	1.86%
Best 5 Year Return	22.58%	1.35%
Worst 5 Year Return	9.24%	3.03%

- 5.3.6 The expected five-year return of the Externally Managed Fund, given the current capital market environment of January 2023 is as follows:

	Expected Return	Weighting	Contribution to Portfolio Return
Cash	1.50%	5%	0.08%
Bonds	4.5%	35%	1.58%
Total Fixed Income		40%	1.65%
Canadian Equity	8%	30%	2.40%
U.S. Equity	8%	15%	1.20%
International Equity	8%	15%	1.20%
Total Equity		60%	4.80%
Total Portfolio			6.45%

- 5.3.7 The Fund is periodically re-balanced in order to compensate for asset allocation shifts arising from differences in rates of return on different asset classes.
- 5.3.8 Diversification is a tool used to control the risk of the overall portfolio and limits the overall risk of the college having too much exposure to a single issuer of Securities. Therefore, diversification will be achieved in part by limiting to 10% or less the percentage of the market value of the equity portfolio invested in a single security, with the exception of an index participation unit, index security or pooled fund. In addition, a minimum of seven Global Industry Sectors must be represented within the equity component. A maximum of 10% of the fixed income portfolio may be invested in any single issue not guaranteed by the Government of Canada or the Province of Alberta.
- 5.3.9 Liquidity will be achieved in part by limiting to 10% or less the percentage of a corporate issuer and limiting to 25% or less the percentage of a single Provincial issuer that can be held by the Externally Managed Fund. A limit of 10% or less the percentage of the Externally Managed Fund may be invested in mortgage or asset backed securities.
- 5.3.10 Quality will be achieved in part by ensuring that short-term instruments and short-term fixed income investments not guaranteed by deposit insurance held in the Externally Managed Fund have a minimum credit rating of R-1* low or A-1** or its equivalent. The Externally Managed Fund Fixed Income Portfolio will have a weighted average credit rating of A. Not more than 10% of the Externally Managed Fund Bond Portfolio may be held in foreign pay bonds unless the foreign currency exposure is fully hedged and not more than 20% may be held in Bonds rated "BBB". No fixed income securities that are unrated or rated below investment grade may be held.

* credit ratings issued by the Dominion Bond Rating Service.

** credit ratings issued by Standard and Poors Bond Rating Service.

When a bond is split rated, the lower rating will apply.

- 5.3.11 The designated officer will inform the portfolio manager on a regular basis as to the Fund's liabilities and cash flow requirements. The portfolio manager will ensure that the Fund is positioned to ensure that cash flow requirements are met and to broadly match the duration of Fund assets and liabilities.

5.4 FUND INVESTMENTS

- 5.4.1 The Internally Managed Fund and Externally Managed Fund may only be invested in the following asset categories, providing that each of the portfolios comply with the restrictions noted in Sections 5.3, 5.4 and 5.5.

- cash,
- demand or term deposits,
- short-term notes,
- treasury bills,
- bankers' acceptances,
- commercial paper,
- bonds and debentures, including coupons and residuals denominated in Canadian and foreign currency,
- mortgage and asset backed securities,
- convertible debentures,
- derivatives within a pooled fund may be used to replicate an indexed security provided the derivatives cannot be used to add leverage to the portfolio, or for currency hedging purposes,
- equity private placements within a pooled fund (expectation is the private placement will be publicly traded within twelve months from the date of purchase and that the value does not exceed 5% of the market value of the pooled fund),
- common and preferred stocks and income trusts and unit, and
- pooled funds invested in any or all of the above asset categories.

- 5.4.2 The Fund does not engage in

- the purchase of securities on margin,
- the direct purchase of derivatives,
- short sales, and
- the direct purchase of equity private placements outside of a pooled fund.

5.5 MONITORING

Internally Managed Fund

- 5.5.1 The designated officer or portfolio manager will provide a quarterly report to the Finance and Audit Committee on the performance of the Internally Managed Fund and the projected cash flow requirements of MHC.

Externally Managed Fund

- 5.5.2 The portfolio manager is required to supply a quarterly compliance report with

the provisions of the Investment Policy Statement (IPS) indicating compliance with the provisions of each as to the asset mix and security selection.

- 5.5.3 The portfolio manager may be issued a mandate containing specific investment objectives and guidelines. The mandate conforms with the provisions of the IPS but is not considered part of the IPS. It can only be issued and amended by the Board.
- 5.5.4 Each quarter, the portfolio manager will issue a written report to the Finance and Audit Committee on the performance of the Externally Managed Fund. The report will include information on the rates of return for the quarter and year to date and such longer periods as are appropriate. The Finance and Audit Committee will evaluate the performance, focusing on Fund objectives and long term expected return and risk parameters.

Performance reports will include a comparison of the funds return to the returns of the appropriate benchmarks as noted below.

Asset Class	Index	Weighting
Cash and Equivalents	DEX 91 Day government of Canada Treasury Bills	5.0%
Bonds	FTSE Canada Universe Bond Index	35.0%
Canadian Equity	S&P / TSX Capped composite Index (TRI)	30.0%
U.S. Equity	S&P 500 Index (C\$ TRI)	15.0%
International Equity	MSCI EAFE (C\$ TRI)	15.0%

- 5.5.5 The portfolio manager will meet with the Board and the Finance and Audit Committee and / or designated officers at least semi-annually to
- provide information concerning new developments affecting the portfolio manager and their services,
 - review the transactions in the latest period and the assets held at the end of the period and explain how they relate to the strategy advocated,
 - explain the latest performances,
 - be apprised of expected cash flow requirements.
 - provide an economic outlook along with a strategy under such circumstances, and
 - any other relevant matters that may arise from time to time.

- 5.5.6 While the primary focus and objective of the Finance and Audit Committee is the long-term investment performance of the Externally Managed Fund, the Committee will evaluate the performance of the portfolio manager over shorter periods. This short-term evaluation will be made with reference to the returns of the appropriate indexes through a constructed benchmark portfolio based on the target asset allocation. The portfolio manager will be expected to report quarterly on the value added (before fees) to the benchmark portfolio over time frames of the current quarter, one year, two years and such longer periods as may be appropriate. Further reference will be made to the median return of a recognized institutional universe, such as the Morningstar Canada, William Mercer, or RBC ITS Pooled Fund Survey. These returns will be provided by the Investment Consultant.
- 5.5.7 If the portfolio manager is in the bottom half of its peer group for six consecutive quarters, they will be notified in writing that they are being placed under review. If the portfolio manager's performance-related issues are not satisfactorily resolved during the subsequent three quarters, the Finance and Audit Committee must decide as to whether the firm should continue as portfolio manager or be replaced.
- 5.5.8 Should concerns arise due to the failure to meet minimum acceptable standards for service and communication, the portfolio manager will be notified, in writing, that they are under review. The Finance and Audit Committee or designated officer will develop a specific plan with the portfolio manager firm to rectify these service deficiencies. If these deficiencies have not been adequately resolved within four quarters, the portfolio manager will be terminated.
- 5.5.9 An independent review of the IPS, the portfolio manager, and investment performance will be undertaken as required. This review will be conducted by an independent investment consultant who meets the qualifications as defined in the "Definitions" section of the IPS.

6. RESPONSIBILITIES

- 6.1 The Board has the authority and the responsibility to approve the IPS pursuant to which the Funds are invested. The IPS will be formally reviewed and updated as necessary and approved at a full board meeting annually.
- 6.2 The responsibility for implementation of the IPS lies with the designated officers of MHC.
- 6.3 An investment consultant will be appointed to provide technical strength and expertise to the governance process.
- 6.4 The Finance and Audit Committee will discuss any changes to the general investment strategy in consultation with the investment consultant and designated officers.
- 6.5 The Board will appoint a portfolio manager or designated officer to manage the Internally Managed Fund.
- 6.6 The Board will appoint agents and advisors to manage the Externally Managed Fund

and to hold the securities. In particular, one or more firms may be appointed to manage the Externally Managed Fund. All firms retained to manage the Externally Managed Fund must meet the definition of portfolio manager as outlined in section 1 “Definitions”.

- 6.7 The Finance and Audit Committee maintains an active role with respect to the following
- formulation of the IPS,
 - monitoring of the investment consultant, portfolio manager, custodians, agents /advisors,
 - evaluation of the Internally and Externally Managed Funds' performance, and
 - communication of the performance of the Internally and Externally Managed Funds to the Board.

7. RELATED INFORMATION

GEA-07 Code of Conduct

Code of Ethics and Standards of Professional Conduct CFA Institute

Securities Law and Policy – Alberta Securities Commission