

APPENDIX B

**The University of British Columbia
(UBC)**

Liquidity Fund

**Statement of Investment Policies
and Procedures**

September 30, 2014

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SECTION 1 – PURPOSE

- 1.1 This document constitutes the Statement of Investment Policies and Procedures (the “Policy”) applicable to the assets of the Liquidity Fund (the “Fund”) established by the University of British Columbia (the “University”).
- 1.2 The purpose of this Policy is to define the governance structure for the Fund and to formulate investment principles, guidelines and monitoring procedures to manage the assets of the Fund.
- 1.3 Any fiduciary providing services in connection with the management and investment of the Fund shall accept and comply with this Policy.

SECTION 2 – FUND GOVERNANCE

- 2.1 The University through its Board of Governors (the “Board”) is responsible for the overall management of the Fund. The Board has established a governance structure and has delegated some of its responsibility and powers for investing the Fund to the Vice President, Finance, Resources and Operations of The University of British Columbia (“VP FRO”).
- 2.2 Responsibilities related to the day-to-day management, administration and investment of the Fund are set out below.

Board

- 2.3 The Board shall:
 - (a) Establish, adopt and maintain this Policy;
 - (b) Establish, approve and maintain the Fund and risk tolerance levels; and
 - (c) Delegate specific responsibilities to the VP FRO to assist with the investment of the Fund. Notwithstanding this delegation of authority, the Board shall ensure oversight of the VP FRO’s compliance with this Policy.

VP FRO

- 2.4 The VP FRO, under the direction of the Board, shall:
- (a) Recommend the investment policy for the Fund;
 - (b) Delegate specific responsibilities to the Treasurer to manage the investment of the Fund. Notwithstanding this delegation of authority, the VP FRO shall ensure oversight of the Treasurer's compliance with this Policy;
 - (c) Review investment performance against investment objectives and report on an as requested basis; and
 - (d) Monitor and evaluate performance and cost effectiveness of investment policies and strategies and report on an as requested basis.

Treasurer

- 2.5 The Treasurer, under the direction of the VP FRO, shall:
- (a) Manage the day-to-day investment activities and administration of the Fund in accordance with this Policy;
 - (b) Select and recommend appointment and/or termination of the Custodian of the Fund's assets (the "Custodian");
 - (c) Select and appoint and/or terminate consultants, lawyers and other service providers as required;
 - (d) Execute agreements and mandates with service providers and agents;
 - (e) Evaluate, monitor and report the Fund's investment performance; and
 - (f) Prepare reports for the Board on an as requested basis on the management and investment activities of the Fund.

SECTION 3 – FUND OVERVIEW

- 3.1 The Fund's assets consist of a liquid, working capital pool of monies referred to as the Liquidity Fund.

- 3.2 Prior to February 2008, the University's entire working capital was managed by Treasury. In February 2008, the Board directed that the majority of the working capital funds be transferred to a Core Working Capital Fund to be managed by UBC Investment Management Trust ("IMANT").
- 3.3 At the time of set up, the Board, by way of Board resolution, established a policy with the following criteria:
 - (a) Funds may be invested only in short-term government securities or bankers' acceptances or remain with the University's principal bank in an interest-bearing account; and
 - (b) \$50M will remain under Treasury management to meet the day-to-day cash liquidity requirements of the University.
- 3.4 In late 2011 and in consultation with IMANT, Treasury undertook a thorough review of the University's cash management process. The results of this review were used to recommend the establishment of a discrete Statement of Investment Policies and Procedures for the Liquidity Fund and to increase the funds under Treasury management to \$100 million.
- 3.5 With the funds under Treasury management of \$100 million, it is expected that the University will only draw on or contribute to the Core Working Capital Fund three to five times a year.

SECTION 4 – INVESTMENT PRINCIPLES AND BELIEFS

- 4.1 The following are a set of investment principles and beliefs that form the basis for the development of this Policy and the manner in which the Fund shall be invested:
 - (a) The Fund shall be managed with the prudence and standard of care that requires all fiduciaries to use the same care and diligence that they would use in managing their own assets and to apply all relevant knowledge that they possess or by reason of their profession ought to possess; and

- (b) Investment risk shall be managed with the same degree of prudence and care used in managing fixed income investment assets and returns. Treasury shall manage investment risk primarily through security diversification, credit analysis, and transparent reporting.

SECTION 5 – OBJECTIVES, RETURN AND RISK EXPECTATIONS, ASSET MIX

Fund Objectives

- 5.1 Investment decisions shall be made with the principle objectives being the preservation of capital and the timing of investment maturities to meet future disbursement requirements.

Return and Risk Expectation

- 5.2 The Fund will maximize returns within reasonable, unambiguous and prudent levels of risk and sufficient levels of investment diversification.

Asset Allocation

- 5.3 In identifying the Asset Mix that would best meet the above Fund objectives, consideration has been given to:
- (a) the factors outlined in the Fund Overview;
 - (b) the timing of the liabilities;
 - (c) the return expectations and the risks associated with available investment instruments, as well as the relationships of their returns with each other and interest rates;
 - (d) diversification benefits obtained by the inclusion of various fixed income securities; and
 - (e) practical considerations.

SECTION 6 – PERMITTED INVESTMENTS, PORTFOLIO CONSTRAINTS, CREDIT QUALITY, DIVERSIFICATION AND LIQUIDITY

- 6.1 The Fund is permitted to retain funds on deposit with the University's principal bank and the Province of British Columbia Central Deposit Program, to invest in securities of the Government of Canada and Provinces of Canada, invest in Canadian banker's acceptances of Schedule 1 banks and invest in fully guaranteed securities of the Provincial agencies, subject to the restrictions listed below (ref.6.3 to 6.9).
- 6.2 Unless otherwise indicated, all percentages used in this Section shall be calculated using market values at the time of investment.
- 6.3 Funds on deposit with the University's principal bank shall not be limited.
- 6.4 Investments in the securities of the Government of Canada shall not be limited.
- 6.5 Investments in the securities of the Provinces, in the aggregate, shall be limited to no more than 80% of the assets of the Fund's investment portfolio.
- 6.6 Investments in the securities of any Province individually shall be limited to no more than 50% of the total assets of the Fund's investment portfolio. For this purpose, investments in the Province of British Columbia shall be combined with monies on deposit with the Province of British Columbia Central Deposit Program..
- 6.7 Investments in the fully guaranteed securities of Provincial agencies shall be limited to no more than 20% of the assets of the Fund's investment portfolio.
- 6.8 Investments in Canadian bankers' acceptances shall be limited to Schedule I banks, shall be readily marketable or redeemable and shall be limited to no more than 60% of the total assets of the Fund's investment portfolio.
- 6.9 All underlying investments must have a short-term credit rating of at least R-1(middle) or a long-term credit rating of at least "A" from Dominion Bond Rating Service, or equivalent credit rating as rated by another nationally recognized rating organization.

Investment Holdings in Foreign Currencies

- 6.10 The Fund shall not invest in securities that are not denominated in Canadian dollars.
- 6.11 Notwithstanding the limitation in 6.10, foreign currency funds on deposit with the University's principal bank shall be permitted.

Maturities of the Securities

- 6.12 The maturities of securities shall be limited to no more than 180 days.

Prohibited Investments and Trading Activities

- 6.13 The Manager undertakes not to engage or invest the Fund's assets in the following:
- (a) Equities or shares issued by any corporation;
 - (b) Hedge funds or funds of hedge funds;
 - (c) Municipal bonds;
 - (d) Corporate bonds;
 - (e) Fixed income instruments with credit spread durations longer than the duration of the underlying instrument;
 - (f) A security whose legal maturity is longer than 180 days;
 - (g) Asset-backed securities;
 - (h) Fixed income instruments with leverage in excess of that contained in the underlying asset structure backing the instrument;
 - (i) Derivatives or any instruments that have derivative holdings or features;
 - (j) Non-marketable securities;
 - (k) Commodities;
 - (l) Repurchase agreements against securities which are not permitted to be held in the portfolio; and
 - (m) Margin transactions or any form of leveraging.

SECTION 7 – LIQUIDITY

- 7.1 Treasury shall maintain sufficient liquidity in the Fund to meet current operating disbursements and to avoid untimely disposal of securities. Liquidity needs will be met through active cash management, the redemption of individual securities and

SECTION 8 – CUSTODIAN

- 8.1 The Custodian shall be a trust company or life insurance company registered in Canada. All public investments and assets of the Fund shall be held by the Custodian and registered:
- (a) in a name that clearly indicates that the investment is held in trust for the Fund and, where the investment is capable of being registered, registered in that name; or
 - (b) in the name of the Canadian Depository for Securities Limited, the Custodian or a nominee thereof, in accordance with an agreement with the Custodian that clearly indicates that the investment is held for the Fund and provides that:
 - (i) the investment constitutes part of the Fund;
 - (ii) the investment shall not at any time constitute an asset of the Custodian or nominee; and
 - (iii) records shall be maintained by the Custodian that are sufficient to allow the ownership of any investment be traced to the Fund at any time.

SECTION 9 – VALUATION OF INVESTMENTS

- 9.1 All securities shall be valued by the Custodian no less frequently than monthly at their market value.
- 9.2 The Custodian shall be responsible for requesting and recording the unit values on a monthly basis.

SECTION 10 – RELATED PARTY TRANSACTIONS

- 10.1 For the purposes of this Policy, “Related Party” has the meaning given in the University Act of British Columbia, but for greater certainty includes:
- (a) the University, an affiliate of the University, or a member of the Board of Governors of the University; or
 - (b) an officer or employee of the University.

10.2 The Fund may enter into a transaction with a related party only if it is contemplated in the normal course of University business (e.g. faculty housing assistance loans).

Conflicts of Interest

10.3 The University's Policy # 97, Conflict of Interest and Conflict of Commitment, shall apply.

SECTION 11 – MONITORING

11.1 The VP FRO shall review on a regular basis, as needed, and at least once a year:

- (a) the assets and net cash flow of the Fund;
- (b) the current asset mix of the Fund;
- (c) investment performance of the Fund relative to the objectives of the Policy;
- (d) portfolio holdings; and
- (e) compliance with this Policy.

SECTION 12 – POLICY REVIEW

12.1 This Policy shall be reviewed at least annually by the VP FRO in order to determine whether any modifications are necessary or desirable. Such review shall include but not be limited to:

- (a) changes in the design of the Fund by the University;
- (b) changes in the net cash flows of the Fund;
- (c) shortcomings of the Policy that emerge in its practical operation;
- (d) changes in applicable legislation; or
- (e) recommendations by the Treasurer.

All changes are to be approved by the Board.