

Policy Name:	Investment Policy		
Policy No:	4.8	Approval Authority:	Board of Governors
Volume	4. Office of Finance and Administration	Responsible Party:	Vice President, Finance and Administration
Chapter	8. Investment Policy	Responsible Office:	Office of the Vice President, Finance and Administration
Originally issued:	September, 2009	Revisions:	August, 2015

Policy Statement

NSCAD University’s objective is to ensure that all endowment funds entrusted to the University are managed prudently. Given this, it is assumed that all endowment funds will have permanency and that this investment policy will be followed which protects the principal of the endowment funds while producing maximum total return, assuming a reasonable level of risk.

Reason for Policy

Subject to conservative risk criteria, this policy provides guidance in investing so as to achieve maximum return based on the combination of income (interest and dividends) and capital appreciation. The objective is to provide a predictable source of funds for the annual scholarships which will grow as the fund value increases (net of annual scholarship payouts).

Policy Applies to

- NSCAD Office of the President, Office of Finance and Administration, Office of University Relations, and Finance and Physical Resources Committee and the NSCAD Board of Governors.

Who Should Read this Policy

- Members of the Finance and Physical Resources Committee
- Members of the Audit and Risk Oversight Committee
- Office of Finance and Administration
- Office of University Relations
- Office of the President
- Chair of the Board of Governors

Contacts

Office of the Finance and Administration

The Policy

1. Investment Philosophy

- 1.1 The investment objectives call for a disciplined, conservative management philosophy that accommodates the occurrence of all those events which might be considered reasonable and probable. They do not call for a philosophy which represents extreme or opportunistic styles that would place the fund in a position of high risk.
- 1.2 The investment portfolio shall be diversified both as to fixed income and equity holdings. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate or significant impact on the total portfolio.
- 1.3 The purpose of fixed income investments is to provide a highly predictable and dependable source of income, to reduce the volatility of the total portfolio market value and, when appropriate, to provide a source of funds for alternative investments.
- 1.4 The purpose of equity investments is to provide current income, growth of income and appreciation of principal with the recognition that this requires the assumption of greater market volatility and risk of loss.
- 1.5 The University shall refrain from investing in firms which are involved in unethical or socially unacceptable endeavors. See Appendix A - Ethical Investment Practices and Policy.

2. Spending Guidance

- 2.1 Pay out in any given year shall be limited to three (3) year rolling average Total Return* as at March 31 after making allowance for inflation and hence preserving the real capital value of the fund.
- 2.2 A dollar objective shall be set for each fiscal year based on consultation between the Administration and the Investment Committee, taking into consideration the advice and projections of the Investment Manager and based on projected income. This objective will become one of the bases for the scholarship budget and as such will be subject to review and approval by the Board.
- 2.3 In the event that income (interest plus dividends) exceeds the dollar objective for pay out to the scholarship budget, the surplus shall remain in the scholarship fund.
- 2.4 NSCAD must maintain a market volatility buffer of 10% to protect capital for periods when actual investment returns fall below the three year rolling average adjusted for CPI.

***Total Return is defined as investment income including all distributions, unrealized and realized gains and losses, and is net of investment fees.**

3. Portfolio Composition and Risk

- 3.1 The general range of the fixed income component of the portfolio will be as follows:
 - General endowment fund –in the range of 40%-100% of the current market value

- General Scholarship endowment fund --in the range of 40%-100% of the current market value
- Creative Innovators of Tomorrow Endowment Fund --in the range of 40% -100% of the current market value

3.2 The general range of the equity component of the portfolio will be as follows:

- General endowment fund –in the range of 0%-60% of the current market value
- General Scholarship endowment fund --in the range of 0%-60% of the current market value
- Creative Innovators of Tomorrow Endowment Fund --in the range of 0%-60% of the current market value

3.3 The allocation of assets (within the permissible limits) between fixed income securities and equities shall be based primarily on relative attractiveness of the investment/economic outlook consistent with regular scholarship cash flow needs of the University.

4. Fixed Income Securities

4.1 Investments shall be limited to government, municipal and corporate securities with a minimum of Triple "B" ratings and a strong preference for "A" rated securities. Bonds which are not rated, but which in the opinion of the Investment Committee are of at least comparable quality to Triple "A" ratings, may be purchased.

and

investment in Guaranteed Income Certificates where the amount invested does not exceed the amount insured by Government for that investment with the exception of the largest six domestic banks: Royal Bank of Canada; Bank of Nova Scotia; Toronto Dominion Bank; Bank of Montreal; Canadian Imperial Bank of Commerce; and the National Bank of Canada.

4.2 Investment in medium and long-term maturities shall be made primarily to provide stability of current and future income. Shorter-term maturities shall be held primarily as a buying reserve. All short-term securities should be readily marketable.

5. Short Term Investments

5.1 No single instrument, except a Federal or Provincial Government Bonds and savings and money market funds offered by the largest six domestic banks, shall exceed \$100,000 and further limitations may be made from time to time.

6. Equity Investments – Common Stocks

6.1 Corporate investments shall be based upon demonstrable analysis of prospects for above average return over a three to five year period. Emphasis should be placed upon balance sheet quality, growth of earnings, cash flows and dividend payout. Balance sheets should show an excellent current position with substantial cash equivalents; debt service coverage

and debt to total capital ratio should be at acceptable levels. These criteria apply specifically to companies other than utilities, banks, and financial type industries.

- 6.2 Equity investments should be dividend/income paying with the expectation of dividend growth over time. They should also have capital appreciation potential.
 - 6.3 Equity investments should offer some diversification within the various market sectors.
 - 6.4 Equities should be put on Dividend Re investment Plans (DRIPs) when it does not create conflict with the portfolio composition thresholds.
 - 6.5 Investment shall be primarily in well-seasoned, quality companies whose securities enjoy marketability adequate for this portfolio. Quality is not synonymous with size or recognition.
 - 6.6 Convertible securities represent an appropriate medium for the equity portfolio when they offer a better risk/return ratio than the equity in the same company. Policies regarding these securities are essentially the same as those for common stocks.
7. General
- 7.1. With no tax implications, selling securities at a gain or loss is not a consideration in investment decisions.
 - 7.2 As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best net price.
 - 7.3 The accounting treatment of realized gains or losses should not affect investment decisions.

APPENDIX A

Revised February 2013

Ethical Investment Practices and Policy

The University expects its investment managers, as part of their normal investment research and analysis process, to take account of social, environmental and ethical considerations in the selection, retention and realization of investments. The University will strive to invest in companies where the activities of the company are, on ethical grounds, consistent with the educational and/or research objectives of the University.

The University will not knowingly invest in companies whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the University.

In the unlikely event that funds are found to have been invested (through misinformation or misstatement of fact) in a firm employing unethical practices, it is agreed that NSCAD shall divest itself of such investments.

NSCAD (through its investment manager) has in place, investment practices and procedures that render the possibility of unethical investments extremely unlikely.

The more important of which are as follows:

1. As a matter of policy, the investment manager only invests in high quality investments (by definition the underlying firms should be of high quality).
2. The University invests sixty percent of its funds in debentures and bonds (largely provincial or federal government securities).
3. Without exception, investments will be in countries, industries, and geographic locations that are highly regulated (Canada and USA).
4. Firms employing unethical practices present an unacceptably high level of business risk measured against the risk/return objectives that have been established by NSCAD.
5. The investment manager by virtue of its other existing university clients, has developed an investment philosophy consistent with the high standards expected of public institutions such as NSCAD University.