

2015

Investment Governance

University of
Lethbridge



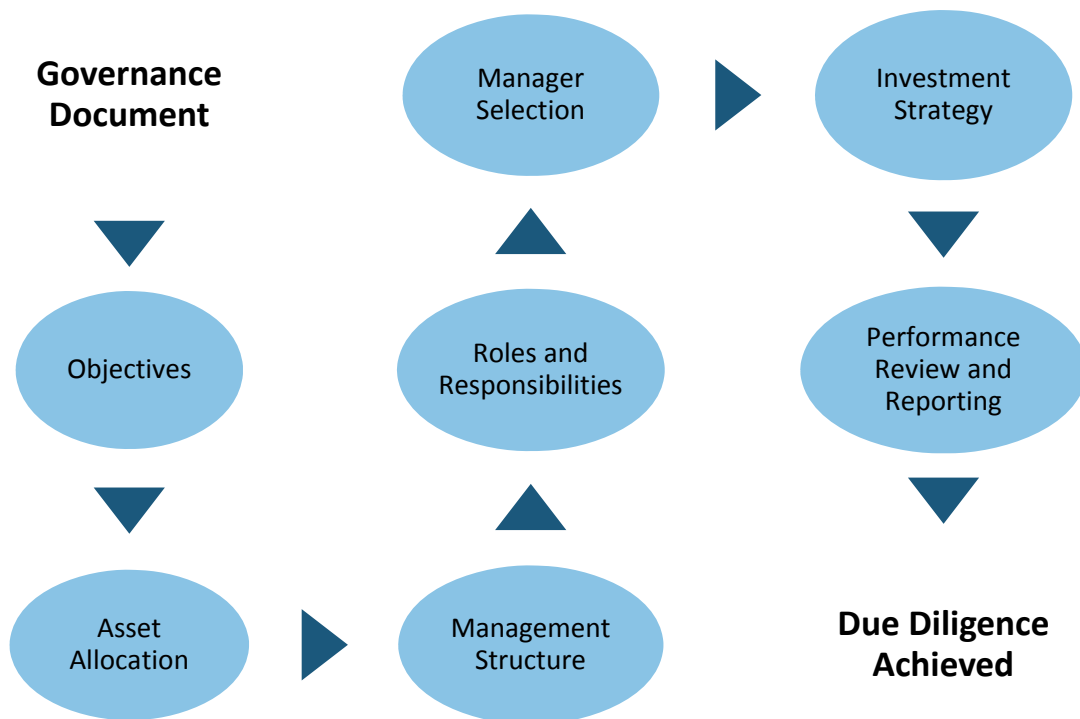
Board of Governors

University of Lethbridge

April 28, 2015

Investment Governance Structure

The Board of Governors of the University of Lethbridge (the “University”) use this document to outline the process involved in carrying out its fiduciary responsibilities with respect to investments, including restricted and operating funds.



Each Board member is committed to:

- Acting prudently
- Being loyal to university’s best interest
- Not allowing personal conflict of interest to hinder their fiduciary duty
- Ensuring they do not profit from their fiduciary position
- Exercise care and diligence
- Appoint and oversee agents
- Complying with the University’s code of conduct and ethics for the Board of Governors
- Ensure the Post Secondary Learning Act investment and banking guidelines are being followed
- Ensure the University of Lethbridge Investment Management Policy Is being followed

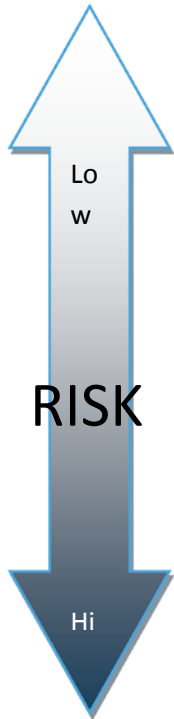
Objectives

Goal	Measure	Policy
1. Endowment principal preserved and inflation protection added	Endowment values increase by inflation protection	Endowment Management Policy Investment Management Policy
2. Endowment earnings meet annual spending allocations	Investments generate earnings to meet annual spending allocations	Investment Management Policy Endowment Management Policy
3. Other investment principal preserved (internally restricted, unrestricted surplus, other short term)	Investment values increase over long term	Investment Management Policy
4. Follow Post Secondary Learning Act guidelines on investing	Guidelines are in compliance	Investment Management Policy Endowment Management Policy
5. Ensure funds can be retrieved to meet expenditure requirements as needed	Meets cash flow needs	Investment Management Policy
6. Assess the market and environmental changes to ensure policies are appropriate for the circumstances	Annual Review and changes made to the investment structure and asset mix	Investment Governance Document Investment Management Policy
7. Investment Manager strategy meets our policy objectives	3-5 year review of performance, strategy and future prospective	Investment Governance Document Investment Management Policy Endowment Management Policy
8. Investment consultant provides appropriate reporting and advice	3-5 year review of reports and recommendations assisted in decision making	Investment Governance Document Investment Management Policy Endowment Management Policy

Asset Allocation

Risk is defined as the potential that an investment will lose value or the potential for fluctuations in the value of an investment.

The University has investigated the following markets as potential investments:



Investment Category	Returns	Examples
Money Markets	Derived from interest bearing investments	Bankers Acceptance, T-Bills, bank notes, commercial paper, cash
Fixed Income Markets	Derived from interest bearing investments and capital gains from fixed income securities	Government and corporate bonds, mortgage backed securities
Equity Markets	Derived from capital gains on equity investments, currency exchange on foreign currency denominated equity investments, capital gains and dividends	Common and preferred shares in domestic and foreign equity markets
Alternative Investments	Derived from rental income, capital gains	Private equity, real estate, infrastructure, and distressed credit

The Finance Committee is able to request information or changes at any time.

The University's current approved asset mix, including responsibilities:

Asset Type	Review responsibilities	How changes are made
Money Markets	<p>Administration - reviews cash on hand and cash flow projections to determine amount to invest.</p> <p>Investment opportunities identified by the University's banking institution. No Request for Proposal (RFP) issued for vendor of choice, but a Request for Information (RFI) will be issued in the future for these short term services.</p>	<p>Administration has been delegated the authority to manage these investments and makes changes without Board approval.</p>
Fixed Income Markets	<p>Board – approves mandate to be followed for fixed income markets by the investment manager</p> <p>Finance Committee – review, propose to the Board</p> <p>Investment Custodian– consolidates data monthly.</p> <p>Investment Consultant - recalculates final balances and returns, and compares to manager's reports. Investigates anomalies and misclassifications with Investment Custodian and Investment Manager.</p> <ul style="list-style-type: none"> - reviews compliance with investment management policy - compares performance to the index - assesses Investment Manager personnel changes 	<p>Board – administration and Investment Consultant recommend changes to the asset mix and sets markets / products to exclude as deemed necessary.</p> <p>Finance Committee – review recommend changes and propose to the Board</p> <p>Investment Manager – has been delegated the authority by the Board to invest in whichever fixed income markets they see fit within their index fund, except as the board has excluded</p>
Equity Markets	<p>Board – approves mandate to be followed for equity or Canadian Global</p> <p>Finance Committee – review, propose to the Board</p> <p>Investment Custodian – consolidates data monthly.</p> <p>Investment Consultant - recalculates final balances and returns, and compares to manager's reports. Investigates anomalies and misclassifications with Investment Custodian and Investment Manager.</p> <ul style="list-style-type: none"> - reviews compliance with investment management policy - compares performance to the index assesses Investment Manager personnel changes 	<p>Board – administration and Investment Consultant recommend changes to the asset mix and sets markets / products to exclude</p> <p>Finance Committee – review recommend changes and propose to the Board</p> <p>Investment Manager – has been delegated the authority by the Board to invest in whichever equities they see fit, except as the board has excluded</p>
Alternative Investments	<p>Board – approves mandate to be followed for alternative investments</p> <p>Finance Committee – review, propose to the Board</p>	<p>Board – administration and Investment Consultant recommend changes to the asset mix and sets markets / products to exclude</p> <p>Finance Committee – review recommend changes and propose to the Board</p>

Management Structure

The University has set up the following investment management structure:



Investment management

Monthly reconciliations and accounting, managing correspondence, and issue resolution functions are completed by Administration.

The process of investigating investment opportunities, purchasing and/or selling investments have been contracted to three specialty investment managers (since 1995) in an effort to diversify the University portfolio, utilize the managers expertise in certain areas to capture higher returns, reduce value-added volatility by diversifying across manager styles, and to efficiently mandate the asset allocations for the entire portfolio. To streamline the reporting process to Administration, the Board has approved the use of an Investment Custodian to consolidate the transactions of each manager and report monthly to the University. The Board recognizes the Administration does not employ the expertise in-house to manage the investment mandates internally.

The University considers leakage when making changes to managers. Leakage arises from poor decision making such as reacting to short-term performance, flaws in managers structure and hiring/firing managers.

Investment performance review

The University has elected to hire independent, external expertise to review the performance of the investment managers in terms of their returns, comparisons to benchmarks, and meeting their mandates as determined in the University's Investment Management Policy. Morneau-Shepell has been hired for the position of Investment Consultant to act on the University's behalf in these matters and to recommend changes to the Investment Management Policy and asset mix as the market conditions change, and also to review the investment custodian and investment manager reports for accuracy. It is important to understand that Morneau-Shepell is an independent company that only assesses and makes

recommendations about investment managers and investment management policies but does not perform any investment management services. This independence is important to ensure no conflicts of interest exist regarding assessments and investment management. The Board recognizes the Administration does not employ the expertise in-house to manage the investment mandates internally.

History

Prior to 1997, University administration acted as the custodian of investments and completed the roles of researching, purchasing and selling of investments in low risk markets. The University employed an advisor to assist with the investment manager tender and the selection of the manager. The decision to hire an external manager resulted from administration and the Finance Committee feeling they did not have the expertise in house to manage the investments, as well as because the investment balance was getting high enough to warrant the costs associated with having a manager. Beginning in 1994, one manager was hired, Genus Management, as it was determined we did not have sufficient investment balances to warrant having more than one manager. The investment management company, Jarislowski Fraser, was contracted in 1997 to take over the University's investment portfolio from Genus Management. Over the years, as the investment balances grew, it became prudent to add additional managers and further diversify the portfolio.

The investment management structure has been the decision of the Board of Governors, through recommendation of the Finance committee. When hiring investment managers, interviews are conducted with companies that ranked high in a market assessment of returns. Over time the University has decided to split certain asset classes by manager to take advantage of those managers who are excelling in certain fields.

Prior to the market losses in 2008, the structure used for investment managers was reviewed based on short and long term returns and through recommendation from API based on their market analysis, assessments, and changes in front runners in the industry.

Effective January 2013, the investment consultant was changed from API Asset Performance Inc. to Morneau-Shepell.

Roles and Responsibilities

	Decides	Oversees, reviews or Recommends	Operational and provides input
Board of Governors	Investment Management Policy	Performance Reports	
Finance Committee	Asset Mix Rebalancing	Investment Management Policy	
		Endowment Management Policy	
		Rebalancing	
		Mix, Managers and Structure	
		Performance	
Administration		Investment Manager selection approval	
		Investment Management Policy	Investment Management Policy
		Rebalancing	
		Mix, Managers and Structure	Performance Reports
Investment Consultant		Rebalancing	Investment Management Policy
		Mix, Managers and Structure	Performance Reports
Investment Managers	Portfolio and Security selection	Portfolio Holdings (compliance)	Investment Management Policy
			Mix

Manager Selection

Prior to contracting investment services from a manager, the Finance Committee completes a review of:

- Qualified investment management firms that service the institutional sector and have demonstrated the ability to provide consistent and quality service to this market.
- The market for companies specializing in the asset types in question.
- The historical returns of these companies.
- The staff profiles of the decision makers behind the company name.
- How the companies are organized, and if they have a clear articulated investment thesis with a well defined investment process that has performed to expectations over various time periods in the relevant asset class.
- Their demonstrated ability to add value to benchmarks and against peers over longer time periods net of investment management fees.
- Costs associated with their services in respect to the University's needs.
- The expertise of our investment consultant to evaluate qualified firms.
- Companies philosophies to determine if they have sound direction that supports our goals.

Investment performance history

The University has utilized the services of API Asset Performance Inc. until 2012 and is now using the services of Morneau Shepell, and has worked with a few different consultants. The University has a service agreement that is ongoing with no end date. The University can at any time give notice to end these services and enter into a service agreement with another investment consultant company. The Finance Committee has discussed and made recommendations for alternative companies and alternative investments as of 2015 based on the recommendations from Morneau Shepell. The Finance Committee or administration can recommend at any time to research alternatives.

Investment manager history

The University's agreements with the investment managers are ongoing with no end date. The University can at any time give notice to end these services and enter into a service agreement with another investment manager. The most recent change in April 2015 was to change the global manager from Letko Brosseau to Setanta Global Equity Fund and to change the Canadian manager from Jarisklowsky Fraser Ltd. To Mawer Investment Ltd. The previous changes to investment managers were in the second quarter of 2006 where Letko Brosseau was hired to manage the foreign equity component, previously held by Jarislowsky Fraser and State Street Global was hired to manage the bond portfolio in the fourth quarter of 2007. The Finance Committee, administration or Morneau Shepell can recommend at any time to research alternatives.

Investment Strategy

Risk

- evaluated at the asset mix level
- diversification of securities used to reduce risk
- asset mix set to reduce risk
- invest in varied risk to safeguard principal and try to realize higher returns
- conservative approach taken
- manager diversification

Passive Management

- strategy to invest in the index because superior managers may not always be superior and history is not guaranteed
- currently used for a portion of the portfolio through State Street Global's bond index purchases - conservative approach

Active Management

- strategy to invest by selecting securities to earn a return that exceed the index and utilize timing to your benefit
- currently this style is used to maximize opportunities to add value and returns through Letko Brosseau and Jarislowski Fraser

Asset mix strategy

- balanced fund where an asset mix of equities, bonds and short term investments in Canadian, US and other foreign markets are used
- fixed income invested in short term and long term bonds
- short term invested in cash and equivalents

Performance Review and Reporting

Investment Management Policy Compliance Review

	Current Analysis (12 months or less)	Long term Analysis (2-5 years)	Future Projection
Purpose	<ul style="list-style-type: none"> To confirm our Investment Management Policy and the manager's mandates are being followed 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> To determine if issues will arise in the future with our policy, mandates or the manager's ability to meet our requirements.
Questions asked	<ul style="list-style-type: none"> Are assets managed in accordance with policies and procedures? Are agents in compliance with their mandates? 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> Have we received any information about the investment management company or their direction that could affect compliance with our policy into the future?
Evaluation	<ul style="list-style-type: none"> checklist for asset class, approved mix, investment categories, minimum diversification, proxy voting, conflict of interest, asset valuation (Investment Consultant) Independent spot checks (Investment Consultant) 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> NA
Annual Reporting	<ul style="list-style-type: none"> Presentations by investment managers Signed compliance reports from each investment manager Asset Performance Report (Administration) Asset Allocation Analysis and 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> Presentations by investment managers and Investment Consultant Letters from investment managers about compliance issues.

Investment Manager Evaluation

	Current Analysis (12 months or less)	Long term Analysis (2-5 years)	Future Projection
Purpose	<ul style="list-style-type: none"> • Determine if annual spending allocations have been earned, preserves capital 	<ul style="list-style-type: none"> • Determine if long term returns are reasonable based on industry benchmarks 	<ul style="list-style-type: none"> • NA
Questions asked	<ul style="list-style-type: none"> • Has performance affected security of the principal? • Have assets been cost-effectively managed? 	<ul style="list-style-type: none"> • Are the 4-10 year returns by manager performing well compared to other industry results? • Are changes to our mix or managers needed 	<ul style="list-style-type: none"> • Are we satisfied with the long term performance of the manager or asset type?
Evaluation	<ul style="list-style-type: none"> • Returns after fees • Compare performance by quarter, by asset type, by manager and total against the industry • Review changes in manager's staff 	<ul style="list-style-type: none"> • Compare performance over a number of years, by asset type, by manager and total against the industry 	<ul style="list-style-type: none"> • NA
Annual Reporting (including comparisons)	<ul style="list-style-type: none"> • Presentations by investment managers and investment consultant • Administration: • Fund Performance • CAUBO comparisons • Investment Consultant: • Attribution Summary • Executive Summary • Rate of Return and Rank Summary • Bond Universe • Short term Universe • Canadian Equities Universe 	<ul style="list-style-type: none"> • Presentations by investment managers • Administration: • Attribution Summary • Investment Consultant: • Executive Summary • Rate of Return and Rank Summary • Bond Universe • Short term Universe • Canadian Equities Universe • Global Equities Universe 	<ul style="list-style-type: none"> • Presentations by investment managers

- Global Equities Universe

Fundamentals Review

	Current Analysis (12 months or less)	Long term Analysis (2-5 years)	Future Projection
Purpose	<ul style="list-style-type: none"> • Determine if the policy is effective in the current market 	<ul style="list-style-type: none"> • Determine if the policy has been effective in the long term 	<ul style="list-style-type: none"> • Determine if the predicted environment is best served by our current policy, or if changes are needed
Questions asked	<ul style="list-style-type: none"> • Are there current market conditions in the asset mix that we need to consider • Has administration recommended appropriate actions and executed the Board’s direction effectively? 	<ul style="list-style-type: none"> • How well is our asset mix performing? • Under the current asset mix, can we meet our needs? • Do we have too great a percentage of investments in one market? 	<ul style="list-style-type: none"> • Are there trends or shifts in the markets that we should be addressing in our asset mix? • Is there potential in another asset type that we need to consider?
Evaluation	<ul style="list-style-type: none"> • Market Assessment (Investment Consultant and investment managers) 	<ul style="list-style-type: none"> • Review rankings • Review CAUBO asset mixes used by others in our industry 	<ul style="list-style-type: none"> • Are there other options for higher returns while maintaining a low risk portfolio that should be considered?
Annual Reporting (including comparisons)	<ul style="list-style-type: none"> • Presentations by investment managers • CAUBO comparisons (Administration) 	<ul style="list-style-type: none"> • Presentations by investment managers • Asset Mix (Administration) • Attribution Summary (Administration, Investment Consultant) • Sector Attribution Reports (Investment Consultant) 	<ul style="list-style-type: none"> • Presentations by investment managers

Evaluation and Reporting – 5 years

- **Long term review to reduce volatility and allow the investment managers philosophies time to show how they perform**

1. Review Investment Governance document to assess the overall philosophy of the investment program at the University. This process requires administration to update the Investment Governance document to reflect any changes that have occurred.
2. Administration to provide an evaluation of each manager and the investment consultant based on indicators agreed to by the Finance Committee. The evaluation of each manager includes a briefing on their investing philosophy, management structure, fees, history and list of top performers. The evaluation of the performance custodian includes a brief description of the services provided, fees, value added services and a list of alternative companies with rankings, if available.
3. Administration to provide an evaluation of the audit environment and possible future direction that may be expected related to investments.
4. Investment consultant to provide recommendations on the overall philosophy including the market assessment to support the changes.
5. Administration and investment consultant to analyze the current asset mix, assessing the current and anticipated risk and returns associated, a market analysis, trends and evaluate alternative asset classes. Consideration including a cost/benefit analysis should be made to see if an asset/liability study is needed to assess if the current asset mix is meeting the responsibilities of the money held in investments, or if an alternative mix would better serve our needs.
6. Administration to provide a summary of investment reports to evaluate if they are meeting the Finance Committee and Boards needs.