



Statement of Investment Policies and Guidelines for Restricted Internal Funds

Category: Financial;

Jurisdiction: Vice-President, Administration and Finance; Board Finance & Operations Committee;

Approval Authority: Board of Governors;

Established on: October 2015;

Amendments: April 26, 2018; October 3, 2019; September 29, 2022

A. Introduction

This Statement of Investment Policies and Goals (the "Statement") serves as the investment policy of the restricted internal funds (the "Funds") of Lakehead University (the "University") that fall outside the scope of the Statement of Investment Policies and Goals of the Trust & Endowment Funds. This policy statement is issued for the guidance of Fund fiduciaries, and investment managers. It is intended to be consistent with all federal and provincial legislation applicable to investments of these Funds.

The purpose of this policy statement is to provide guidelines for the segregation of funds held in certain accounts outlined in Section B and for the investment, monitoring and reporting on the management of these funds.

The responsibilities of the Finance and Operations Committee (the "Committee") relating to the investment of Fund assets are included in the "Administrative Guidelines for the Finance and Operations Committee of the Lakehead University Trust and Endowment Funds" which is set forth in Appendix I.

This Statement will be reviewed annually and may be revised to reflect changes in objectives, Fund risk characteristics, and business and financial market conditions.

This Statement was created as part of an exercise reviewing the overall asset mix of the Funds.

B. Identification of Fund Type and Liabilities

The Funds of Lakehead University covered under the scope of this Statement comprise the following five funds which are described below:

Excess Borrowings:

Excess borrowings resulting from the issue of bonds in Fall 2005 and invested for the purpose of financing certain capital projects. These funds can be used for purposes described in the University's 'Use of Excess Borrowings Policy'.

LU Endowment Trust:

Funds set aside for either the Finnish Chair which is an externally restricted endowment or a Board Internally Restricted Endowment. A portion of the annual return of the Funds set aside for the Finnish Chair is required for annual spending and a portion of the return is added to the endowment.

Sinking Fund:

Funds set aside by the University to pay down principal and interest payments of certain capital projects that run past their original life. The Sinking Fund is mandatory and imposed by the Board of Governors.

Research Chairs:

Funds set aside and invested for the purpose of financing the ground-breaking research grants of the Lakehead University Research Chairs.

Residence Reserve:

Funds set aside and earmarked for the purpose of financing emergency spending with respect to the University’s residences.

C. Risk Tolerance

The University’s tolerance for risk with respect to the Funds varies by entity. The LU Endowment Trust Sinking Fund and Research Chairs can be defined as ‘slightly below average’, where average is defined as a typical 60% equity / 40% fixed income portfolio. A permanent loss of capital is the most important risk to be managed. These entities will be invested according to Asset Mix A. The Excess Borrowings and Residence Reserve can each be defined as ‘below average’. Short-term volatility should be taken into consideration in the management of these entities. These entities will be invested according to Asset Mix B.

D. Objectives

The Committee acknowledges that each of the entities serves its own unique purpose. However, the Funds’ shared objective is to maintain purchasing power after spending, inflation, and applicable fees. Emphasis should be placed on downside protection in the management of the Funds. With the exception of the Sinking Fund, the entities will be managed on a going concern basis. The investment horizon of the Funds varies by entity and can be summarized by the following table:

	Excess Borrowings	LU Endowment Trust	Sinking Fund	Research Chairs	Residence Reserve
Investment Horizon	Long-term	Uncertain	Term of non-amortized debt. 10+ years	Long-term	Long-term

Success of the investment program is to be measured in both terms of relative performance versus appropriate benchmarks and absolute performance. Specific performance goals are outlined in Section F.

D. Liquidity

The liquidity requirements of the Funds vary by entity and can be summarized by the table below. The entities require a level of liquidity necessary to meet any spending requirements which can also be summarized by the table below and may change from time-to-time.

	Excess Borrowings	LU Endowment Trust	Sinking Fund	Research Chairs	Residence Reserve
Liquidity Requirements	High need for liquidity due to uncertainty in spending levels	Low	Specific upcoming obligations (principal repayment)	Low	Emergency Funding
Spending Requirements	Ad hoc and significant in magnitude	Spending in relation to Finnish Chair	Future principal repayments	\$300,000 Annually	Ad hoc and small in magnitude relative to account size

E. Asset Allocation and Rebalancing

Asset allocation or mix refers to the allocation assets of the Funds among the major asset classes, including, but not limited to, Canadian and global equities, Canadian bonds and cash. The Funds are currently invested in a balanced portfolio comprised of underlying pooled funds. Asset classes, asset allocation targets and permissible ranges for the Fund are set forth below as determined by the Committee with help from the investment consultant.

Asset Mix A

Asset Class	Target*	Permissible Ranges*
Canadian Equities	15%	5 - 25%
Global Equities	40%	30 - 50%
Bonds	45%	35 - 55%
Cash Equivalents	0%	0 - 15%

Asset Mix B

Asset Class	Target*	Permissible Ranges*
Canadian Equities	5%	0 - 10%
Global Equities	15%	5 - 25%
Bonds	75%	65 - 85%
Cash Equivalents	5%	0 - 20%

* As a percentage of the Total Fund

In instances where the Funds are invested in a balanced pooled fund, the investment manager is responsible for rebalancing the pooled fund as necessary to ensure the minimum and maximum thresholds are not breached. In cases where pooled funds of multiple managers are invested in to create a balanced portfolio, rebalancing will be performed by the custodian with the assistance of the investment consultant.

F. Performance Goals

The absolute return objective of the Funds is to achieve a rate of return equal to or greater than the level of inflation (defined as the Canadian Consumer Price Index or ‘CPI’) after disbursements and expenses.

The benchmark relative return objective of the entities invested in accordance with Asset Mix A is to exceed by 0.50% the rate of return that would have been earned by the passive management of the Policy Benchmark:

Asset Class	Policy Mix	Asset Class Benchmark
Canadian Equity	15%	S&P/TSX Composite Index
Global Equity	40%	MSCI ACWI Index (net dividend withholding tax) in \$C
Canadian Bonds	45%	FTSE Canada Universe Bond Index
Cash	0%	FTSE Canada 91 Day T-Bill Index
Total Benchmark	100%	Blended Return

The benchmark relative return objective of the entities invested in accordance with Asset Mix B is to exceed by 0.25% the rate of return that would have been earned by the passive management of the Policy Benchmark:

Asset Class	Policy Mix	Asset Class Benchmark
Canadian Equity	5%	S&P/TSX Composite Index
Global Equity	15%	MSCI ACWI Index (net dividend withholding tax) \$C
Canadian Bonds	75%	FTSE Canada Universe Bond Index
Cash	5%	FTSE Canada 91 Day T-Bill Index
Total Benchmark	100%	Blended Return

The underlying asset class components/funds should match or exceed the rate of return achieved by the identified Asset Class Benchmark and the median investment manager in a universe of comparable peers (where such a universe is available).

G. Investment Guidelines

Allowable investments include all permitted securities outlined in the policy statements of the pooled funds that the University is invested in. Investment managers must comply with, and attest to compliance with, the policy statements of the pooled funds invested in by the Funds.

H. Derivatives Guidelines

The Committee is willing to accept the policies of the pooled funds which the Funds are invested in including any guidelines related to the use of derivatives.

The manager’s equity strategies may selectively enhance yield with derivatives strategies such as covered calls, call spreads or put spreads, or hedge up to 100% of their foreign currency exposure.

I. Performance Monitoring and Review

The Committee will monitor the performance of the Funds, relative to the objectives and performance goals specified in the Statement no less than quarterly. The risk profile will also be monitored as measured by the standard deviation of monthly returns as well as risk-adjusted returns as measured by the Sharpe Ratio.

If an investment manager fails to achieve the performance goal over six consecutive quarters, the Committee will place the investment manager 'on watch' and consider if a review is required. The Committee will also monitor the investment manager's performance in each underlying asset class and may put the manager 'on watch' if an underlying component fails to meet the above criteria.

The Committee will also consider reviewing an investment manager when one or more of the following circumstances prevail:

- the investment manager's short-term underperformance is found to be a result of a change in the investment manager's investment style, process or discipline or a change in the key investment personnel;
- there is a significant change in the risk profile of the investment manager;
- the investment manager's investment style is no longer appropriate given the Funds' requirements;
- the investment manager's reporting and client service are unsatisfactory; or
- the Committee has concerns regarding the investment manager's ethics.

Notwithstanding the above, the Committee may recommend to the Board of Governors that a manager be terminated for any reason that the Committee deems appropriate. The Board of Governors may terminate a manager for any reason in the Board's sole discretion.

A formal review triggered by any of the above criteria will be conducted by the Committee, or a delegated party, and the process will include the following:

- i. A qualitative review of the manager will be prepared addressing the following criteria;
 - Organizational structure / changes
 - Personnel changes
 - Investment style / process
 - Risk controls
- ii. A quantitative report will be prepared considering risk and return performance relative to any appropriate benchmarks and peer universes;
- iii. The Committee will consider whether the benchmark objective(s) continue to be appropriate;
- iv. The Committee will decide whether there has been a fundamental change at the investment manager's operation which renders them no longer appropriate for the Fund's mandate; and
- v. If required, the Committee will conduct an investment manager search for a replacement investment manager, or a replacement investment manager for the identified asset class(es).

J. Responsible Investing

Effective November 24, 2016 the Board of Governors adopted a Responsible Investment Policy. The purpose of the Lakehead University Responsible Investment Policy is to ensure the University exercises its fiduciary duty in achieving the best Return on Investments (ROI) within a tolerable risk profile, in its Restricted Internal Funds and Trust and Endowment Funds; with a view to the impact of governance, environmental and social responsibility factors on the macro political economy, the investment market, and the public interest.

To that end, Lakehead University incorporates environmental, social, and governance (ESG) factors, as defined in the UNPRI, into the investment of all Restricted Internal Funds and Trust and Endowment Funds. The Responsible Investment Policy should be reviewed in conjunction with this Statement.

K. Securities Lending

A Securities Lending Program may be permitted, subject to review of the procedures and processes of the Custodian and the investment manager(s).

L. Conflict of Interest

The assets of the Funds shall not be used for the purpose of making loans, including loans to officers or employees of the Employer or their family members.

The Trustees have responsibility to oversee, disclose and correct any actual or perceived conflicts of interest on the part of all parties associated with the Fund or the investment of the assets of the Fund.

The Administrator and any of its officers and employees engaged in the administration of the Funds, or any Trustee or agent appointed by the Administrator or by the Trustees, shall not knowingly permit his or her interest to conflict with his or her duties or powers relating to the Funds or the investment of the assets of the Funds. Any actual or perceived conflict of interest shall be reported to the Trustees immediately and the Trustees shall be the sole arbiter in determining whether the conflict of interest exists and, if so, shall take the necessary measures to remedy the situation.

M. Adoption

Subsequent to a recommendation from the Finance and Operations Committee, the foregoing Investment Policy was adopted by the Board of Governors at its meeting held on April 26, 2018.

Appendix 1

Administrative Guidelines for the Finance and Operations Committee of the Lakehead University Trust and Endowment Funds

The Finance and Operations Committee is responsible to the Board of Governors of Lakehead University. The Committee's purpose is to oversee the investment management and related administration of the Trust and Endowment Fund of Lakehead University as well as the other entities within the scope of this Statement.

The functions and responsibilities of the Committee with respect to the Trust and Endowment Fund are to:

- Identify providers of investment management, custody, and/or fund record-keeping. Such services may be provided by a single organization or by multiple vendors, and after due consideration the Committee shall select and recommend to the Board of Governors the most appropriate offerings for the Plan.
- Identify investment vehicles, whether segregated or pooled or mutual funds, that will satisfy the requirements of the Fund given investment preferences and tolerances for risk.
- Recommend to the Board of Governors the appointment of an investment performance measurement service to monitor the performance of the managers on a periodic basis.
- Recommend to the Board of Governors the replacement of investment managers or vehicles if managers have not performed satisfactorily or are not able to address the needs of beneficiaries or requirements of the Committee.
- The Committee is to periodically review various alternatives for more cost effectively or efficiently managing and administering the Fund's investments.
- Recommend to the Board of Governors, one or more investment management consultants to assist in any of the foregoing or other related functions and approve the fees.

- Review this Statement on an annual basis and recommend to the Board of Governors, any appropriate changes.

These administrative guidelines are intended to provide direction to the Committee but may be varied or changed from time to time by the Committee. The Statement should be reviewed annually by the Committee.

Investment Manager Communication and Reporting

The investment manager(s) is expected to meet at least annually or upon request of the Committee. Additionally, the investment manager(s) are expected to provide:

- 1) INITIALLY, a written statement acknowledging acceptance of the Statement of Investment Policy and Guidelines and the performance standards therein stated;
- 2) statements to be provided that include:
 - A. the monthly cost and market value of fund shares, the number of shares owned and all principal and income cash transactions for the various funds.
 - B. On a quarterly basis, in addition to the monthly report, the investment manager(s) will supply a statement showing for each fund offering:
 1. the fund holdings broken out, minimally, by equity, fixed income, cash equivalents and uninvested cash balances and
 2. fund positions, by individually-named securities
- 3) QUARTERLY, a report, within 30 days after the end of each calendar quarter, in the following format:
 - A. Review of Organizational Structure**
 - 1) Organizational changes of investment managers (i.e. ownership, staff, clients)
 - 2) Assets and accounts under management for those firms in total and by product
 - 3) Product asset growth, for product(s) utilized by the University, for each of the last three years
 - B. Summary of Investment Guidelines**
 - 1) Summarize guidelines and objectives
 - 2) Discuss adherence to guidelines

- 3) Provide any comments and suggestions regarding policy constraints, guidelines, etc.

C. Review of Investment Process and Evaluation of Portfolio Management

Process for Investment Manager(s)

- 1) Brief review of investment process
- 2) Discussion of any changes to the investment process
- 3) Investment strategy used over the past year and underlying rationale
- 4) Evaluation of current strategy's success/ disappointments
- 5) Current investment strategy and underlying rationale

D. Performance Review

- 1) Present total fund and asset class returns for last quarter, year-to-date, last year, last four years and since inception versus benchmarks designated in the investment manager guidelines
- 2) Discuss performance relative to benchmarks
- 3) Provide portfolio characteristics relative to benchmarks

E. Listing of Portfolio Holdings

- 1) Present book value and current market value
- 2) List individual securities by sector

F. Other Business

Includes any other comments or information

4) ANNUAL REPORTING

Following the calendar year end, the investment managers will provide Lakehead University's Administration with the investment portfolios' carbon intensity using industry standard reporting metrics.

5) UPON WRITTEN OR ORAL REQUEST

- A. Copies of all documentation in support of any investment activity.
- B. Evidence of suitable insurance coverage of the investment manager'(s) fiduciary responsibilities.

Review Period: 3 years;

Next Review Period: 2024-2025;

Related Policies and Procedures: Responsible Investment Policy; Statement of Investment Policies and Guidelines for Trust and Endowment;

Policy Superseded by this Policy: None

The University Secretariat manages the development of policies through an impartial, fair governance process, and in accordance with the Policy Governance Framework. Please contact the University Secretariat for additional information on University policies and procedures and/or if you require this information in another format:

Open: Monday through Friday from 8:30am to 4:30pm;

Location: University Centre, Thunder Bay Campus, Room UC2002;

Phone: 807-343-8010 Ext. 7929 or Email: univsec@lakeheadu.ca.