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University Funds Investment Policy

Office of Accountability:	Vice President (University Services and Finance)
Office of Administrative Responsibility:	Finance, Procurement and Planning – Investments and Treasury
Approver:	Board of Governors
Scope:	Compliance with this University policy extends to all academic, support and excluded staff, postdoctoral fellows, and academic colleagues as outlined and defined in the Recruitment Policy (Appendix A and Appendix B: Definitions and Categories).

Purpose

The *Post-Secondary Learning Act*, Statutes of Alberta, (2003), Sections 75 and 76, provides The Governors of the University of Alberta with broad investment powers, the authority to pool funds and the authority to distribute income, subject to the terms of a trust on which it may be held. The purpose of this investment policy is to establish distinct asset allocation and risk tolerances for each of the University funds according to the individual fund’s spending obligations, objectives, and liquidity requirements.

Policy

1.0 DESCRIPTION OF UNIVERSITY FUNDS AND GOVERNANCE

The Board of Governors has delegated investment oversight to the Board Investment Committee as documented in the Board Investment Committee's Terms of Reference. The Board of Governors has retained responsibility for the following matters (as outlined in this document):

- The University Funds Investment Policy, which shall include the establishment of broad risk tolerances, strategic asset allocation, and responsible investment.
- The investment objectives and the University Endowment Pool Spending Policy of the University.

The University Funds Investment Policy is subject to annual review by the Board Investment Committee and any recommended changes require approval by the Board of Governors. Management's investment decisions are subject to the overall direction of the Board Investment Committee as reflected in this policy.

The Board Investment Committee's role is to approve the Strategic Role Investment Guidelines (SRIGs). Management has responsibility to select, retain, monitor and dismiss investment managers in accordance with the approved Strategic Role Investment Guidelines. Funds are allocated to external managers or, when determined to be advantageous, may be managed internally.

Each investment manager shall adhere to this policy and must exercise the care, skill, diligence and judgment that a prudent investor would exercise in making investments. This includes the assessment of environmental, social and governance (ESG) risks and opportunities. Investment managers are expected to be in compliance with all applicable laws and regulations as well as the Code of Ethics and Standards of Professional Conduct established by the CFA Institute.

1.1 University Endowment Pool (UEP)

The UEP consists of the University's endowed trust funds or other funds of a permanent or long-term nature.

1.2 Other Endowments

Other endowments consist of endowed trust funds, including those managed by students as part of an academic program, which cannot be pooled for investment purposes because of constraints or conditions attached to the funds.

1.3 Non-Endowed Investment Pool (NEIP)

The NEIP consists of expendable funds, which are pooled for investment purposes.

1.4 Other Non-Endowed Funds

Other non-endowed funds include those funds earmarked for the Supplementary Retirement Plans and restricted non-endowed donations, which cannot be pooled for investment purposes because of constraints or conditions, including those supporting investments recommended by The University of Alberta Innovation Fund Ltd. (UAIF).

2.0 UNIVERSITY ENDOWMENT POOL (UEP)

2.1 Purpose

The UEP represents the pooling of invested assets accumulated by or donated to the University for endowed purposes. The UEP's purpose is to foster an environment of academic excellence where superior teaching, learning, and research can be continuously pursued to benefit all generations equally over time.

2.2 Nature of UEP Liabilities (Spending Policy)

The UEP provides funding to the faculties and departments of the University to be used in accordance with the terms of each endowment. The objective is an appropriate and stable spending allocation that maintains its purchasing power over time, as outlined in the University Endowment Pool Spending Policy. This policy may be amended from time to time by the Board of Governors to ensure that the real value of the endowments (i.e., net of inflation) is maintained.

3.0 INVESTMENT OBJECTIVES OF THE UEP

3.1 Return and Risk

The principal investment objective of the UEP is to earn a long-term real rate of return that meets or exceeds total endowment spending as outlined in the UEP Spending Policy.

At the core of this approach is a focus on intergenerational equity, which requires that the UEP be managed to provide a comparable level of support to future generations as current beneficiaries receive. This means that the value of the UEP should be preserved over time in real dollar terms in order to maintain the future purchasing power of assets. In setting the spending and investment policies for the UEP, the focus should be not just to preserve but to grow the real value of assets over time, as a margin of safety is required to maintain a stable level of support for endowed purposes across varying capital market and economic conditions.

Assets are allocated across four strategic classifications based on their primary role in the portfolio, which includes Growth, Inflation Sensitive, Deflation Hedging, and Diversifiers. In order to achieve its investment objectives, the UEP will have to maintain a majority weighting in Growth assets and less liquid investment strategies. This is based on projected capital market assumptions, which indicate that over long periods of time, these assets can be expected to provide returns that exceed total endowment spending. Deflation Hedging strategies are expected to help provide protection in times of equity market stress and support spending in a prolonged deflationary period. Conversely, Inflation Sensitive assets are expected to protect the UEP from high or unanticipated inflation, while Diversifiers consist of investment strategies that are expected to provide uncorrelated returns to the other three classifications.

There are many types of risk that impact investment performance, including but not limited to capital markets, economic, environmental, governance, interest rates, liquidity, political, and social. Risks will be monitored through the use of quantitative and qualitative indicators and managed where appropriate via asset allocation, active management, derivatives and other strategies.

3.2 Asset Allocation

The strategic asset allocation is determined by the following four factors:

- Objective of a real rate of return that equals or exceeds the total rate of spending
- Expected long-term return, volatility, and correlation expectations for individual asset classes
- Diversification across asset classes and investment strategies
- Projected liquidity requirements of the UEP

The theoretically infinite time horizon of the UEP allows for the adoption of a strategic asset allocation policy with a high allocation to Growth assets along the following parameters:

Strategic Asset Allocation			
	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Growth	50%	60%	70%
Inflation Sensitive	15%	20%	25%
Deflation Hedging	0%	5%	10%
Diversifiers	10%	<u>15%</u>	20%
Total		<u>100%</u>	

To achieve diversification the UEP will invest in the following asset classes:

Growth			
	Minimum	Target	Maximum
Public Equity	30%	40%	55%*
Private Markets	10%	<u>20%</u>	25%
		<u>60%</u>	
Inflation-Sensitive			
Real Estate & Infrastructure	5%	10%	15%
Real Assets	5%	<u>10%</u>	15%
		<u>20%</u>	
Deflation Hedging			
Global Government Bonds	0%	<u>5%</u>	10%
		<u>5%</u>	
Diversifiers			
Absolute Return	10%	15%	20%
Cash	-5%	<u>0%</u>	5%
		<u>15%</u>	

* The higher maximum allocation to Public Equity is required to allow for a transition from the current asset allocation to the strategic asset allocation, after which the maximum allocation will be reduced to 50%.

3.3 Categories of Investments

Strategic Role Investment Guidelines shall be classified in accordance with the following general categories in the context of overall fund objectives and the strategic asset allocation described above.

3.3.1 Growth

Growth assets include marketable equity securities, directional long/short equity hedge funds, and credit based fixed income strategies. Private investments include private debt, private equity, and venture capital.

3.3.2 Inflation Sensitive

Inflation sensitive assets include inflation linked bonds, real estate, infrastructure, timberland, farmland, natural resource public equities, mining and minerals, commodities, and energy and renewable resources.

3.3.3 Deflation Hedging

Deflation hedging assets include high quality sovereign fixed income securities.

3.3.4 Diversifiers

Diversifiers include cash and cash equivalents, active currency management, and liquid alternatives including but not limited to strategies such as relative value, market neutral, event driven, merger arbitrage, trend following, volatility arbitrage, systematic/discretionary global macro, and tail hedging.

3.4 Rate of Return Goals

In order of priority, it is expected that the UEP will achieve over any 4-year rolling period:

- An annualized real return that meets or exceeds total endowment spending.
- An annualized return, in excess of the following benchmark. The current benchmark will be modified towards the target benchmark as the strategic asset allocation is implemented.

UEP Policy Benchmark	Target
MSCI ACWI IMI	50%
MSCI ACWI IMI + 3% (3 month lag)	10%
IPD/Realpac Global Property Index	10%
S&P Global Natural Resources Index	10%
FTSE Canada Federal Bond Index	5%
SOFR + 6%	15%
	100%

4.0 OTHER ENDOWMENTS

Other Endowments are invested with the same goals, restrictions and quality levels as described above, subject to any stipulation required by contractual agreement, or by condition of the estate, or administrative arrangement.

5.0 NON-ENDOWED INVESTMENT POOL (NEIP)

5.1 Purpose

The NEIP consists of expendable funding that is pooled for investment purposes. The two-fold purpose of the NEIP is to provide liquidity for the University’s daily operations and return enhancement to support strategic initiatives. Cash in excess of the University’s short-term obligations may be invested with a longer time horizon and with less than immediate liquidity.

5.2 Return and Risk

The principal investment objective of the NEIP is to generate income for the University across all strategic classifications. Assets are allocated across three strategic classifications based on their primary roles in the portfolio, which includes Liquidity, Yield and Return Seeking. The Liquidity strategy meets the University’s short-term cash flow needs, and has a weighting that takes into account the seasonality of cash balances. In order to enhance returns the Yield strategy takes on additional duration, credit and illiquidity across a highly diversified group of rates based asset classes. The Return Seeking strategy has a long-term focus and is invested in the UEP for compounded growth. The allocations to the Yield and Return Seeking strategies are balanced for risk management and return diversification purposes.

There are many types of risk that impact investment performance, including but not limited to capital markets, economic, environmental, governance, interest rates, liquidity, political, and social. Risks will be monitored through the use of quantitative and qualitative indicators and managed where appropriate via asset allocation, active management, derivatives and other strategies.

5.3 Asset Allocation

The strategic asset allocation is determined by the following factors:

- Cash flow requirements to meet the University’s financial obligations
- Capital preservation
- Diversification to reduce volatility of investment earnings
- Income generation to support budgeted investment income and future strategic initiatives

Given the short and long-term objectives of the NEIP, the strategic asset allocation is aligned into the following time horizons:

	Strategic Asset Allocation		
	Minimum	Target	Maximum
Liquidity	15%	20%	25 %
Yield	35%	40%	45%
Return Seeking	35%	40%	45%

To achieve diversification within the Yield strategy, the NEIP will invest in the following asset groups and classes:

Fixed Income			
	Minimum	Target	Maximum
Global Fixed Income (public)	20%	30%	40%
Private Credit	10%	20%	30%
Internally-managed (Canadian bonds)	0%	0%	10%
	30%	50%	70%
Preferred Shares			
Preferred Shares	0%	10%	20%
	0%	10%	20%
Real Property			
Commercial Mortgages and Mortgage Backed Securities	10%	20%	30%
Real Estate & Infrastructure	0%	0%	10%
	10%	20%	30%
Diversifiers			
Absolute Return Strategies	10%	20%	30%
Insurance Linked Securities	0%	0%	10%
	10%	20%	30%
Internally-managed (loans)			
Internally-managed (loans)	0%	0%	20%
	0%	0%	20%
Total Yield		100%	

5.4 Categories of Investments

Strategic Role Investment Guidelines shall be classified within the following categories:

5.4.1 Liquidity

Assets in the liquidity category include cash, government bills or notes, bank deposits or obligations, and corporate money market securities. All Liquidity investments will have a maturity profile of one year or less.

5.4.2 Yield

The Yield strategy is broken down into the following asset groups:

5.4.2.1 Fixed Income

Fixed income provides greater security of capital than equities, and more stable income flows over the long-term. These assets will include global government, corporate, and securitized fixed income securities, bank loans and private credit.

5.4.2.2 Preferred Shares

Preferred shares have both equity and fixed income characteristics, can provide consistent income and diversification benefits.

5.4.2.3 Real Property

Real property backed investments include asset classes that over longer time horizons can offer stable income streams, and are often structured to provide protection against inflation. Real Property assets includes commercial mortgages, mortgage backed securities, real estate, and infrastructure.

5.4.2.4 Diversifiers

Diversifiers are investment strategies that lower overall portfolio risk. Absolute return strategies include but are not limited to, multi-asset strategies that aim to generate positive returns in all stages of the economic cycle. Insurance linked securities generate returns that are completely uncorrelated to capital markets.

5.4.2.5 Internal Loans

Internal loans include loans to University of Alberta Properties Trust Inc., University faculties, departments and staff. Loans to University of Alberta Properties Trust Inc. will be at prevailing commercial terms and conditions. The Internal Loan Policy approved by the Board of Governors governs internal loans.

5.4.3 Return Seeking

All return seeking funds are invested in the UEP with the objective of earning a higher long-term rate of return, and are managed in accordance with Sections 2 through 4 of this policy.

5.5 Budget Considerations and Risk Management

All realized NEIP Investment Earnings not required for current budget purposes will be reinvested to build an investment income reserve. Appropriations from this investment income reserve can be made in a fiscal year when realized NEIP Investment Earnings are less than budgeted. Appropriations from this investment income reserve to the strategic initiatives fund can only be made when total market value of Yield and Return Seeking exceeds the underlying obligation (investment cost) by a factor of 1.17x.

5.6 Performance Benchmarks

For each component of the NEIP the benchmark is:

	NEIP Policy Benchmark	Target
Liquidity	FTSE Canada 91 Day T-Bill Index	20%
Yield	Canadian Consumer Price Index (CPI) + 3%	40%
Return seeking	Current UEP benchmark (section 3.4)	40%
		100%

6.0 Other Non-Endowed Funds

Investment assets received through donations, bequests, contracts and spin-off companies may be subject to contractual stipulations, constraints, conditions of the estate, or other administrative arrangements. These assets may be held until such constraints are removed or the conditions of the agreements are fulfilled. Assets supporting the Supplementary Retirement Plans shall be invested in accordance with their respective agreements. Investments recommended by UAIF, will be managed by UAIF and subject to the governance oversight established for that subsidiary.

7.0 GENERAL

7.1 Responsible Investment

As a responsible owner, the University will regularly engage and collaborate with its active investment managers on matters related to environmental, social and governance (ESG) risks and opportunities.

Specifically the University will:

- Integrate the consideration of ESG factors into the investment process as an additional criterion in the selection and ongoing monitoring of active investment managers.
- Regularly review and track the engagement of active investment managers with their investee companies and their proxy voting records on ESG related issues.
- Obtain and evaluate annual disclosure from all active investment managers on how ESG factors are incorporated into their investment decision making processes.
- Collaborate with other institutional investors and industry associations on ESG matters where appropriate.
- Report on ESG matters in the Investment Committee's annual report.

7.2 Use of Derivatives

Derivatives offer ways to enhance risk adjusted returns or to protect against unwanted market movements. Where prudent and appropriate, derivatives may be used to gain market exposure, assist with hedging, and/or risk management.

7.3 Leverage

Leverage is an integral component of certain investment strategies. Where leverage is used, investments will be structured to limit potential maximum losses to the amount invested, or notionally collateralized by UEP and NEIP cash balances. The use of leverage will not be undertaken at the portfolio or fund level. The UEP may temporarily have a negative weight to cash for short-term cash flow management purposes.

7.4 Securities Lending and Commission Recapture

The securities may be loaned to investment dealers and banks as part of the custodian's lending program when it is deemed that such lending may add incremental return to the funds at minimal risk. External equity investment managers may be directed to participate in a commission recapture program in order to help mitigate internal investment research related expenses.

7.5 Exercise of Proxies and Voting Rights

Proxy or other voting rights will be exercised in the best interest of the University. The responsibility for voting may be delegated to the investment manager, but the University reserves the right to direct the investment manager on the voting of proxies.

7.6 Valuation of Infrequently Traded Investments

The valuation of infrequently traded investments shall be determined by the general partner, trustee or custodian of the fund. In the case of other direct investments, the valuation shall be based on independent opinions of qualified appraisers as required.

7.7 Conflict of Interest Guidelines and Related Parties Transactions

The University's Conflict of Commitment and Conflict of Interest Policy will govern investment activities (General Faculties Council Policy # 35). Related Party transactions will be at fair market value.

7.8 Custody

To maintain a proper segregation of duties and adequate controls, all marketable securities held shall remain with or be monitored by a third-party custodian.

7.9 Donated Securities

Subject to market conditions, donated securities will generally be sold immediately upon receipt by the University. However, where it is advantageous to do so, and subject to the constraints of this policy, the University may hold these securities as other non-endowed funds.

7.10 Policy Review

This policy shall be reviewed at least annually by the Board Investment Committee, who will either confirm or recommend changes to the Board of Governors. Upon recommendation from the Board Investment Committee, the Board of Governors can approve exceptions to this policy.

7.11 Compliance Notification

If an asset allocation or class in section 3.2 or 5.3 of this policy is outside of its minimum to maximum range, but is able to be rebalanced back into the range within a three-month time frame, the Chair of the Board Investment Committee shall be notified by Management. Should the asset allocation or class be expected to be outside the range for more than three months, then Management will provide the Board Investment Committee with an explanation of the situation and a plan to bring the asset allocation or class back within the minimum to maximum range at its next regularly scheduled meeting.

Definitions

Any definitions listed in the following table apply to this document only with no implied or intended institution-wide use.

Absolute Return	Investments and/or strategies that seek to achieve positive returns regardless of the direction of capital markets, also commonly referred to as hedge funds or liquid alternatives. These include but are not limited to strategies such as long/short equity & credit, market neutral, event driven, merger arbitrage, trend following, volatility arbitrage, systematic/discretionary global macro, and tail hedging.
Asset Allocation	The process of dividing investments into different categories (Growth, Inflation Sensitive, Deflation Hedging, and Diversifiers) based on the role that the underlying category or investment strategy performs towards achieving the return and risk tolerance objectives of the portfolio. Each category comprises a specific group of investments that have similar expected return patterns, similar expected risk profiles, high correlations with other investments in the same category, or have a high sensitivity to inflation.
Consumer Price Index (CPI)	A Statistics Canada index of retail prices for goods and services. Increases in the CPI are also referred to as increases in the cost of living and are directly correlated to increases in inflation.
Custodian	A financial institution, usually a bank or trust company, which holds an investment portfolio's securities and cash in safekeeping.
Deflation Hedging	Any asset class that serves the primary objective of providing protection in times of market stress, and supports spending in a prolonged deflationary period. This consists primarily of high quality government and investment grade fixed income securities.
Derivatives	A financial instrument whose value is dependent on the performance of an underlying instrument or asset typically a commodity, bond or equity. They are also available on currencies, interest rates, and equity indices. Futures and options are examples of derivatives.
Diversifiers	Any asset class or investment strategy that is expected to be uncorrelated with Growth, Inflation Sensitive, and Deflation Hedging assets. This may include cash, active currency management, managed futures, and hedge fund strategies including but not limited to low beta long/short equity, market neutral, event driven, merger arbitrage, and global macro.
Growth	Any asset class or investment strategy which can be expected to provide returns that exceed the inflation adjusted rate of spending over the long-term. This may include marketable equity securities, directional long/short equity hedge funds, and credit based fixed income strategies. Private investments include private debt, private equity, and venture capital.
Inflation Sensitive	Any asset class or investment strategy that is expected to protect the fund from high or unanticipated inflation. This may include inflation linked bonds, real estate, infrastructure, timberland, farmland, natural resource public equities, commodities, and energy and renewable resources.

Investment Earnings	The total of realized and unrealized investment gains and losses on the assets of the UEP and NEIP for any given fiscal year; where realized investment gains and losses are typically made up of interest, dividends, rents and capital gains/losses arising from the sale of investments; unrealized investment gains and losses represent the change in fair value of assets held.
Liquidity	Any asset class or investment strategy which can be expected to preserve capital, mature in one year or less from the date of purchase and be liquidated to cash within three months.
Private Markets	Investments and/or strategies that consist of assets not traded on a public exchange or market. These include but are not limited to private equity, venture capital, and private credit.
Proxy	A written authorization given by a shareholder to another individual, usually the company's management, in order to cast his/her vote at a shareholder meeting or at some other point in time.
Rate of Return	The percentage change in the value of an asset, including interest and dividends, over an evaluation period.
Real	Used in conjunction with asset values and rates of return and restates these nominal amounts for movements in the Consumer Price Index.
Real Assets	Investments and/or strategies that derive their value from physical assets. These include but are not limited to natural resource equities, energy and renewable resources, commodities, agriculture, timber, and farmland.
Responsible Investment	The integration of environmental, social, and governance (ESG) factors into investment and ownership decisions.
Return Seeking	Any asset class or investment strategy which can be expected to be invested without the need for liquidity for at least ten years.
Risk	The possibility of loss and/or the uncertainty of future returns.
Risk Tolerance	An individual's ability to handle temporary and sustained declines in the value of their portfolio.
Strategic Role Investment Guidelines	A statement of objectives that defines the investment rationale, asset class and/or strategy, risk characteristics and performance expectation.
Yield	Any asset class or investment strategy which can be expected to preserve capital and mature between one and ten years.

Related Links

[University Endowment Pool \(UEP\) Spending Policy](#)

[Board Investment Committee Terms of Reference](#)

[Statement of Investment Principles & Beliefs](#)

[Internal Loan Policy](#)

[Interest Procedure – Restricted Special Purpose and Restricted Research Accounts](#)

If any of the links are broken, please contact uappol@ualberta.ca
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