



# **York University Endowment Fund**

## **STATEMENT OF INVESTMENT POLICIES AND PROCEDURES**

**December 6, 2022**



## **SECTION I – Introduction and Overview of the Endowment Fund**

- 1.1 The York University Endowment Fund (“Fund”) is a commingled pool of individual endowments that have been gifted by donors. The donations to the University form the corpus of invested assets of the Fund.
- 1.2 Endowed accounts are established for designated purposes that include academic chairs, scholarships and bursaries. The donations, gifts, and bequests that have been received together with any matching funds from external or University programs, have been designated to specific purposes as agreed to between each donor and the University.
- 1.3 The purpose of the Fund is to, in perpetuity, preserve the endowed capital in real terms and provide annual distributions to endowment beneficiaries for spending. The Fund assets are invested to protect the corpus in real terms and produce returns sufficient to provide a steady amount of annual distribution toward spending for the beneficiary purposes.
- 1.4 The investment objective for the Fund is to earn a real return from long-term investments that protects endowment capital and provides stable inflation-adjusted annual distributions for endowed account beneficiaries.
- 1.5 Distributions from the Fund for beneficiary spending are subject to the University policies and procedures governing Endowment Fund distributions as well as any restrictions that may apply to individual endowed accounts.
- 1.6 The purpose of the Statement of Investment Policies and Procedures (“Policy”, “SIPP”) is to detail the terms that apply to the investment of the Fund.

## **SECTION II – Governance and Administration**

### **Board of Governors**

- 2.1 The University through its Board of Governors has responsibility for the Endowment Fund and for approval of the Statement of Investment Policies and Procedures, as may be amended from time to time.
- 2.2 The Board of Governors has appointed an Investment Committee (“Committee”) to oversee the assets and investment of the Fund.

- 2.3 The Board of Governors has appointed a Finance and Audit Committee and delegated the responsibility for approving the amount of annual distribution to endowment accounts.
- 2.4 The Board of Governors through its Investment Committee may rely on independent experts for certain aspects of the Fund's operations where expert knowledge is required or where a perceived or actual conflict of interest exists.
- 2.5 The Board of Governors has delegated to the Investment Committee the responsibility for selecting and appointing the Investment Managers, Custodian, Recordkeeper and various agents as may be required for the care and administration of the Fund.
- 2.6 Neither the Governors, the Committee, nor the staff of the University representing Administration, shall select securities on behalf of the Fund.

### **Investment Committee**

- 2.7 The Investment Committee shall develop this Policy and recommend its adoption to the Board of Governors.
- 2.8 The Investment Committee shall provide periodic reports including advice of any changes to Investment Managers or service providers and deliver an annual report on the assets and performance of the Fund to the Board of Governors.
- 2.9 The Investment Committee shall select and retain one or more competent external professional Investment Managers of Pooled Funds, Segregated Portfolios, or short-term deposits for the Fund.

The terms of each Investment Manager appointment shall be contained in an Investment Mandate approved by the Committee. The Committee shall alter its selection of Managers and amend the Mandates from time to time as it deems to be in the best interest of the Fund.

The Committee shall ensure at all times that there are no conflict of interest issues in connection with such appointments.

- 2.10 To the extent the Fund invests in Pooled Funds, each Investment Manager shall provide a copy of its investment policy for a specific Pooled Fund and notification of amendments to the investment policies of the Pooled Funds, as made from time to time, and these shall be deemed to be incorporated in the respective Manager Mandate.

- 2.11 The Investment Committee shall meet as required with each Investment Manager to review its firm, investment strategy, portfolio and performance as well as any other significant issues.
- 2.12 The Investment Committee shall appoint one or more Custodians for all or part of the Fund assets. Any appointed Custodian shall be a trust company registered in Canada. All investments and assets of the Fund shall be held by a Custodian. The Committee shall further retain the services of any independent experts and various agents as may be required for the care and administration of the Fund.

### **Administration**

- 2.13 The Administration of the University is responsible for directing the allocation of Fund assets including contributions to and distributions from the Fund.
- 2.14 Administration shall deliver monthly reports on Fund assets and performance of the Fund and its Investment Managers to the Committee.
- 2.15 Administration shall conduct Investment Manager searches, due diligence studies and oversight meetings with Managers as required and provide recommendations to the Committee
- 2.16 Administration shall develop the Investment Mandates in accordance with the Fund's investment strategy and any relevant changes in the external environment or best practices and recommend approval to the Committee.
- 2.17 Administration shall communicate general guidelines for voting to each Investment Manager of an actively managed Segregated Portfolio of equities.
- 2.18 Administration shall review the compliance of each Manager to the Investment Mandate and report any issues to the Committee.
- 2.19 Administration shall ensure that the Fund is managed in accordance with the Policy and compliant with applicable legislation and regulatory requirements.
- 2.20 Administration shall ensure that all investments in the Fund are recorded in the financial records as subject to the annual audit by the University's independent auditors.

### **SECTION III – Investment Strategy**

- 3.1 The investment strategy expressed in the Asset Mix Policy takes into consideration certain investment factors and principles, described in this section, with the goal of generating a target return and level of risk that support the Fund's ability to meet its obligations.

### **Diversification**

- 3.2 Diversification of investment exposures increases long-term risk-adjusted return potential. The characteristics of different asset classes combined in target proportions increase the probability of achieving target return and risk suitable to the Fund obligations.
- 3.3 Diversification reduces exposure to specific investment risks, among these: equity risk, interest rate risk, credit risk, inflation risk, liquidity risk, single issuer risk, and manager risk.
- 3.4 Equity returns are expected to exceed fixed income returns over the long term. Return objectives are tempered for risk, however, as excessive volatility of equity returns can negatively impact the Fund's ability to match obligations.
- 3.5 Fixed income provides term and credit diversification, reduces Fund volatility and enhances Fund liquidity.
- 3.6 Real Assets provide diversification in respect of Equities and Fixed Income and a hedge against inflation.
- 3.7 Using skilled active management can provide superior returns or decrease the risk of the Fund, or both, relative to a market-oriented benchmark.

### **Liquidity**

- 3.8 Liquidity is required to enable the Fund to meet its obligation of annual distributions to endowed accounts adjusted for inflation. The Fund is managed to permit sufficient liquidity to generate cash for distribution, contain costs, and periodically realign asset class weights to Policy weights within the current context of the Fund's net annual outflows.
- 3.9 Liquidity requirements in a long-term strategy are sustained by diversified holdings in publicly traded securities. Illiquid strategies and securities tend to constrain access to liquidity and add to the opportunity and transaction costs associated with raising cash.

### **Sustainable Investing**

## **Statement of Beliefs for Sustainable Investing**

- 3.10 The University has a fiduciary responsibility to manage the long-term sustainability of its investments in such a manner as to provide predictable funding to students and researchers, consistent with donor intent;
- 3.11 To sustain such long-term returns, relevant risks must be appropriately managed and assessed;
- 3.12 York University is committed to a sustainable investment strategy which integrates environmental, social and governance (ESG) factors in the overall management of its endowment portfolio. York University believes these factors can affect risks and returns, and that organizations that effectively manage environmental, social and governance factors are more likely to endure and create sustainable value over the long term. The University's approach to sustainable investing is evolving, recognizing that it is not a static concept, but one which changes and adapts, as the linkage between ESG factors and risk and returns becomes better understood over time.
- 3.13 Better returns are more likely to be achieved when the University selects and monitors Investment Managers who actively integrate ESG factors in their investment evaluation processes;
- 3.14 The consideration of ESG factors is an important element of risk which Managers must assess and manage;
- 3.15 The University believes active engagement through its Investment Managers is an effective approach in assessing ESG factors;
- 3.16 The University believes engagement through its Investment Managers will generate better and sustainable returns relative to a negative screening process, which would arbitrarily exclude certain investments

## **Implementing Sustainable Investing**

- 3.17 The consideration and integration of ESG risk factors in the investment selection and evaluation processes are consistent with the investment objectives of the Fund of providing beneficiaries with a sustainable payout over the short and long terms.
- 3.18 The Investment Committee will integrate ESG-related criteria in its Manager selection process and hires Managers who demonstrate transparent processes

incorporating material ESG consideration in their research and investment decision-making process. The University will ensure through Investment Management Agreements and Mandates that Investment Managers actively consider ESG factors.

- 3.19 The University will monitor Investment Manager ESG integration and engagement on a regular basis. Such monitoring will include an annual reporting process to the University on incorporation of ESG factors by Investment Managers.
- 3.20 The University will report annually to the University community, as part of its overall reporting of investment performance, on how Managers incorporate ESG factors in their evaluation process.
- 3.21 The University will collaborate with like-minded investors and associations to help raise awareness of the benefits of ESG factors in investment decision making.

## SECTION IV – Asset Mix Policy

### Asset-Liability Studies

- 4.1 The target asset mix is developed in asset-liability studies that take into consideration the Fund's long-term investment horizon, annual obligations to beneficiaries, ability to manage risk, liquidity constraints and administrative capacity.

### Introduction of Real Assets

- 4.2 The Real Assets was approved by the Board of Governors in April 2014. A phase-in period for developing the target Real Assets exposures is normal for the characteristics of this class.

### Target Asset Mix Policy

- 4.3 The long-term Target Asset Mix Policy effective as of December 31, 2019 is shown in the table below.

<b>ASSET CLASS</b>	<b>MIN. Weight</b>	<b>TARGET</b>	<b>MAX. Weight</b>
<b>Global Equities, All Countries</b>	45%	50%	55%
<b>TOTAL EQUITIES</b>	45%	<b>50%</b>	55%
<b>Cash and Equivalents</b>	0%	0%	10%
<b>TOTAL FIXED INCOME</b>	25%	<b>30%</b>	35%
<b>TOTAL REAL ASSETS</b>	15%	<b>20%</b>	25%
<b>TOTAL FUND</b>		<b>100%</b>	

## Asset Class Ranges

- 4.4 Ranges are approved for normal degrees of variance from Target of asset class weights. The range that each asset class weight is permitted to vary within is +/- 5% of its Target Weight.
- 4.5 Global Equities encompasses developed and emerging markets. Allocation weights in emerging markets as a sub-category of Global Equity shall be generally aligned to the market capitalization weight as expressed in the index. Limits on emerging markets exposures in the portfolios are expressed within the individual manager mandates.
- 4.6 Real Assets, due to a necessary phase-in, will cause aggregate weights in the Equities classes to vary above Target Weight. The approved temporary variance above Target for aggregated equity classes is to a maximum of 15% during the phase-in period.
- 4.7 Cash and Equivalents are held at low levels in the Fund. Cash levels held in portfolios are at the discretion of each Investment Manager and in accordance with each Manager Mandate. For the purpose of monitoring and measuring, cash in portfolios is deemed to be included in that Manager's asset class.
- 4.8 Rebalancing of Fund asset weights will be conducted periodically in response to cashflows, or when actual asset mix weights deviate outside the normal ranges. Reallocation among portfolios will be conducted to bring the asset class weights back within Policy ranges.

## Currency Hedging

- 4.9 The impact on returns and risk due to currency exchange rate volatility can provide diversification or negatively accentuate risk depending on each type of asset class holding the foreign-denominated exposures. To manage desirable and undesirable currency risk, the following Policy parameters for currency hedging to the Canadian dollar shall be applied to foreign-denominated exposures, on a passive basis:

<b>Asset Class</b>	<b>Passive Hedge Ratio</b>
<b>Equities</b>	0%
<b>Real Assets</b>	50%
<b>Fixed Income</b>	50%



## **SECTION V – Portfolio Diversification and Constraints**

- 5.1 The Fund assets shall at all times be prudently invested in a diversified manner in accordance with the Policy. The Committee shall ensure that the diversification requirements in the Policy and each of the Manager Mandates, in combination with the amount of assets allocated to each Manager of a Segregated Portfolio or Pooled Fund, are consistent with the limits in this section.
- 5.2 In no case shall the Fund own more than 10% of any class of the securities of a corporation.
- 5.3 In no case shall the Fund have more than 10% of its total investments invested in the securities of any one corporation, government, or trust, other than in the governments of G7 nations.
- 5.4 In respect of the Equities held for the Fund:
- (a) All holdings shall be listed on a public exchange or be convertible or exchangeable into such securities.
  - (b) Holdings shall be diversified by company, region, industry, currency and country; however, consideration may be given to the relative sizes of economic activity and stock markets capitalization.
- 5.5 In respect of the Fixed Income held for the Fund:
- (a) All holdings in corporate Fixed Income shall be diversified by company, region, industry and country; however, consideration may be given to the relative size of the opportunity set in different countries.
- 5.6 In respect of the Real Assets held for the Fund:
- (a) No direct holdings in real assets are permitted.
  - (b) All holdings in Real Assets shall be diversified by industry, company, region and country; however, due to the illiquid nature of these assets, time may be required to develop diversification.
- 5.7 In respect of Cash and Equivalents held for the Fund:
- (a) All Cash and Equivalents holdings shall be in accordance with the Policy and any

Pooled Fund policy that has been specifically considered and approved for inclusion in a Manager Mandate.

- (b) Cash and Equivalents and deposits with banks or trust companies must be rated “A”, or better, or be held with institutions that have a long-term rating of “A”, or better.

#### 5.8 In respect of Derivatives employed for the Fund:

- (a) All use of Derivatives shall be in accordance with the Policy and any Pooled Fund policy that has been specifically considered and approved for inclusion in a Manager Mandate.
- (b) Derivatives may be used only to:
  1. Create an asset mix position within ranges and among the asset classes set out in the Policy;
  2. Replicate the investment performance of a recognized capital market index or the impact of changes in interest rates;
  3. Create an exposure to securities that are otherwise permitted under this Policy;
  4. Manage the currency exposure of foreign-denominated holdings; or
  5. Reduce risk as part of a hedging strategy.

5.9 The Fund may lend its securities through the Custodian, subject to applicable legislation and providing that minimum collateral of 105% of the market value of the loaned securities, marked to market daily, is maintained at all times in cash or high quality, liquid securities.

5.10 Any endowed gifts to the University of securities will be sold as soon as practicable upon receipt.

## **SECTION VI – Return Expectations**

### **Performance Objective**

6.1 The Fund performance objective is to produce a moving four-year annualized rate of return, net of investment fees, that meets or exceeds the four-year annualized rate of return of the Fund Benchmark for the same period.

### **Fund Benchmark**

6.2 The Fund Benchmark is a composite of market indices. Each market index shall be

chosen for being the most effective broad representation of its Policy asset class, as gauged by its investable universe, return characteristics and risk profile.

- 6.3 The composite Fund Benchmark excludes the impact of currency hedging. For the purpose of reporting and measuring relative performance of the Fund including the effects of currency hedging, the monthly return from passive hedges held for the Fund shall be additive both to total Fund performance and to total Benchmark performance.
- 6.4 The following Benchmarks are effective as from October 31, 2022. The Benchmark returns shall be calculated to assume monthly rebalancing and is expressed in Canadian dollar terms. Infrastructure benchmarks have been added following the funding of infrastructure assets.

<b>Asset Class</b>	<b>Index</b>	<b>Current Weight</b>	<b>Target Weight</b>
Global Equity	MSCI ACWI (for all global equity managers)	57%	50%
Unconstrained fixed income	Bloomberg Barclays Multiverse Index (C\$ Hedged) (for Manulife) {75% Bloomberg Barclays Global Aggregate Corporate (C\$ Hedged) + 25% FTSE Canada Short Term Overall Bond Index} (for PH&N)	21%	20%
Global High Yield Bonds	Citigroup High Yield Market Capped (for Stone Harbor)	10%	10%
Real Assets	Real Estate Benchmark CDN CPI + 4% Infrastructure Benchmark CDN CPI + 6%	10%	20%
			<b>100%</b>

- 6.5 The market indices prescribed for the Fund Benchmarks above are chosen for their representative characteristics. The Benchmark indices established in each approved Manager Mandate may vary. The indices above may be amended by the Committee from time to time, as necessary; such amendments will be reflected in the next revision of the Policy.

- 6.6 During the phase-in period for the Real Assets asset class, the current Benchmark weight will be held at 10% until the exposure has been fully developed to at or near 20%, at which time the 20% Benchmark weight shall apply. The offset weight during the phase-in period will be applied to equity classes.
- 6.7 The Fund's historical record of performance shall be reported and compared to a linked series of distinct composite benchmarks as specified in successive Board of Governors approved versions of the Policy and as verifiable to the documents and minutes of the meetings of the Investment Committee.

## **SECTION VII – Valuation of Investments**

- 7.1 Investments in marketable securities held in Segregated Portfolios shall be valued by the Custodian no less frequently than daily at their local and base market value at that time.
- 7.2 Investments in Pooled Funds holding publicly-traded securities shall be valued according to the unit values published by the Managers. The Custodian shall be responsible for requesting and recording the unit values on a timely basis.
- 7.3 If a market valuation of any investment is not readily available, an estimate of fair value shall be supplied by the Investment Manager to the Custodian no less frequently than quarterly. Such fair value may be determined by reference to the most recent independent appraisal or by other means such as discounted cash flow or comparison with similar assets which are publicly traded. In all cases, the methodology shall be applied consistently over time.

## **SECTION VIII – Voting Rights**

- 8.1 The responsibility of exercising and directing voting rights acquired through the Fund's holdings in securities shall normally be delegated to the Investment Manager, who shall be required at all times to act prudently and in the best interest of the Fund.
- 8.2 The Investment Managers shall maintain a record of how the Fund's voting rights were exercised and provide a copy of such record to Administration at least annually.
- 8.3 The Committee reserves the right to direct the voting decision of an Investment Manager if in its view such action is in the best interests of the Fund.

- 8.4 The above constraints and voting rights may not be directly enforceable to the extent that Fund assets are held in Pooled Funds. Nonetheless, the Investment Manager of a Pooled Fund shall be required to act prudently and in the interests of its investors and shall be required to provide a copy of the Pooled Fund's voting rights policy to Administration.

## **SECTION IX – Monitoring**

### **Investment Managers Monitoring**

- 9.1 For monitoring and assessing the case for retention of each Investment Manager, the Committee shall consider:
- (a) Each Investment Manager's performance in terms of returns and volatility;
  - (b) Changes in each Investment Manager's organizational structure;
  - (c) Changes in key personnel in the relevant investment team of each Investment Manager;
  - (d) Consistency of each Investment Manager's investment strategy and style;
  - (e) Regulatory issues that may affect each Investment Manager;
  - (f) Compliance of each Investment Manager to the Policy and respective Manager Mandate;
  - (g) Quality of service provided by each Investment Manager;
  - (h) Success of each Investment Manager toward achieving the value added and risk objectives of each Investment Mandate; and
  - (i) Suitability of each Investment Manager toward meeting the objectives of the Fund and the respective Investment Mandate.

### **Fund Performance Monitoring**

- 9.2 The Committee shall, at least annually, review an analysis of Fund and asset class performance, to include comparison of Fund return and risk metrics to:
- (a) Performance of the Fund composite Benchmark; and
  - (b) Relevant measures of risk.

### **Policy Implementation Monitoring**

- 9.3 The implementation of the Policy shall be reviewed over the normal course of the four-year measurement period in line with the performance objective. Such review

shall consider inputs from the Fund's investment consultant, including advice, asset-liability studies and ongoing manager monitoring, as well as the evidence from similar funds of results and best practices. The following are subject to assessment by the Committee, in the context of Fund obligations, risk tolerance and liquidity requirements:

- (a) Effectiveness of the implementation of the Investment Strategy and Asset Mix Policy;
- (b) Appropriateness of the Fund Benchmark;
- (c) Appropriateness of currency hedging given the Fund's foreign-denominated holdings and asset class exposures;
- (d) Suitability of the Investment Manager structure; and
- (e) Cost-effectiveness of the implementation.

## **SECTION X – Policy Review**

The Policy shall be reviewed and affirmed or amended at least annually.

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Approved by the Investment Committee:

December 6, 2022

Approved by the Board of Governors:

February 28, 2023