



TITLE: Investment Policy Statement – Designated and Endowment Funds	SPONSOR: VP, Administration & CFO
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Distribution: All	Issuing Authority: Chair, Board of Trustees

PREAMBLE/BACKGROUND

The Investment Policy Statement outlines the Foundation’s financial objective, asset mix, permitted investments and management principles to the investment firm(s) as it applies to our Designated and Endowment Funds.

1. DESIGNATED FUND POLICY

Contributions to the QEII Foundation’s designated fund represents money that is available for spending at any time to meet the needs of the QEII Health Sciences Centre and beneficiaries, according to specific pre-approved terms of reference and must be invested accordingly. All disbursements must meet the requirements outlined in the Designated Fund Disbursement Policy.

1.1 DESIGNATED FUND GUIDING PRINCIPLES AND VALUES

Prudence:

Purchase of securities shall be made for investment and not for speculation. The Investment Committee shall act responsibly and prudently in order to maintain the safety of the investments. The portfolio Manager(s) will ensure the portfolio is managed in conformity with this statement exercising the care, skill, due diligence and judgement that a prudent investor would exercise.

Financial Objective:

- The primary objective of the fund is preservation of capital, while generating a stable stream of income.
- The investment returns from designated funds (non-endowed) will accrue to the Foundation as undesignated revenue.
- Liquidity is important to ensure that funds are readily available when requested for any designated charitable purpose.

- The above objective shall be achieved by adopting the “Total Return Approach”

$$\text{Total Return} = \text{earnings (interest \& dividends)} + \text{capital appreciation}$$

Under this approach, the funds may use capital gains as well as current income to meet the ongoing commitments of the funds.

Asset Mix:

The above noted fund has a mid - long term investment horizon (5 – 10 Years). Given the importance of liquidity and preservation of capital, the investment manager shall observe the following guidelines as an appropriate asset mix for this fund:

<u>ASSETCLASS</u>	<u>MINIMUM</u>	<u>BENCHMARK/TARGET</u>	<u>MAXIMUM</u>
Cash Equivalents	0%	10%	20%
Bonds	45%	55%	65%
Canadian Equities	10%	20%	30%
Foreign Equities	5%	15%	25%

2. ENDOWMENT FUND POLICY

The purpose of the Endowment Fund is to generate income to support specific programs in perpetuity. It consists of restricted gifts where the Foundation must protect capital. The fund should generate income and have sufficient liquidity to support an annual spending amount.

2.2 ENDOWMENT FUND GUIDING PRINCIPLES AND VALUES

Prudence:

Purchase of securities shall be made for investment and not for speculation. The Investment Committee shall act responsibly and prudently in order to maintain the safety of the investments. The portfolio Manager(s) will ensure the portfolio is managed in conformity with this statement exercising the care, skill, due diligence and judgement that a prudent investor would exercise.

Financial Objectives:

- The primary objective of the fund is to protect the long term purchasing power of the endowment fund’s assets, while providing a growing stream of income.
- To maximize risk-adjusted returns to the Foundation endowment funds.
- The above objective shall be achieved by adopting the “Total Return Approach”;

$$\text{Total Return} = \text{earnings (interest \& dividends)} + \text{capital appreciation}$$

Under this approach, the funds may use capital gains as well as current income to meet the payout requirements.

Asset Mix:

The perpetual nature of the funds requires that a long term investment horizon be taken, but with a view to protect the purchasing power of the funds' income and the safety of their capital. The investment manager shall observe the following guidelines as an appropriate asset mix for the portfolios:

<u>ASSETCLASS</u>	<u>MINIMUM</u>	<u>BENCHMARK/TARGET</u>	<u>MAXIMUM</u>
Cash Equivalents	0%	0%	20%
Bonds	25%	35%	45%
Canadian Equities	20%	30%	40%
Foreign Equities	25%	35%	45%

Investment Quality Guidelines:

1. Cash

Cash is defined as any investment promising repayment of a fixed amount that matures within one year. Investments in cash would include Government of Canada Treasury Bills, Provincial Treasury Bills, Commercial Paper and Bankers Acceptances. These investments should be rated no lower than R-1 Low with no more than 10% of the cash component of the portfolio invested in the paper of a single issuer. The exception would be high quality Sovereign debt. Bonds maturing in less than one year can also form part of the cash allocation. These investments are subject to the quality restrictions noted below for fixed income investments – no bond rated below BBB by the Dominion Bond Rating Service (DBRS) with a maximum of 20% invested in fixed income securities of this grade.

2. Fixed Income

Fixed income instruments represent investments in the debt or preferred shares of governments and their agencies or corporations maturing in greater than one year. All investments in the fixed income portion of the portfolio must be in investment grade instruments – those rated BBB or above by the DBRS – and no more than 20% of the fixed income investments in the portfolio can be the lowest grade allowed and no more than 10% in a single issuer. An exception of the bond quality restriction is made for obligations of the Provinces of Canada, although investments in non-investment grade Provincial debt and DBRS BBB debt are restricted, as previously stated, to a maximum of 20% of the fixed income components of the portfolio.

3. Equity

Equity investments represent an investment in the publicly traded common shares of a company.

Individually Managed Accounts (IMA's):

Equity investments in a company whose market capitalization is less than \$500,000,000 at the time of purchase is prohibited.

Pooled Funds:

Equity investments can be made by the Pooled Fund in a company whose market capitalization is \$500,000,000 or below, at the time of purchase, to a maximum of 5% of the market value of the manager's mandate.

4. Concentration

Individually Managed Accounts (IMA's):

At no time can shares in a single company represent more than 5% of the investment manager's mandate at the time of purchase. Further if the value of any single equity holding is 10% of the market value of the investment manager's mandate, that position should be reduced below 10% of the market value, and the manager will notify the Investment Committee of such a change, as soon as is possible.

Pooled Funds:

Shares in a single company are limited to a maximum weight of 10% of the market value of the individual pooled fund. If the investment manager determines that the portfolio has exposure to 10% or more of a single company, based on the aggregate holdings of pooled funds with the manager, the manager will notify the Investment Committee immediately.

5. Derivatives

The Foundation is prohibited from engaging directly in the use of derivatives. If the manager suggests a strategy that employs derivatives, that manager will require the prior written authorization of the Investment Committee.

6. Securities Lending

The Foundation is prohibited from entering directly into securities lending arrangements. The manager or custodian will require the prior written authorization of the Investment Committee before engaging in such activity.

Management Principles:

1. The decision on asset mix is made based on projected cash flow requirements of beneficiaries and historical records of fund deposits and disbursements.
2. Investments are not to be made in the securities of any corporation whose primary business is the manufacture, or sale of tobacco products, or has a significant investment in the tobacco industry. Significant investment is defined as having 10% or more of total capital invested in tobacco or tobacco related products.

For pooled funds, no more than 5% of total assets may be invested in the tobacco or tobacco related products industry.

3. Monthly reports will be provided by the investment manager to the QEII Foundation.
4. The investment manager will provide a quarterly statement attesting to their compliance of this policy.

5. The investment manager will provide economic and performance forecasts semi-annually to the Investment and Finance Committees to assist in cash flow projections and fund management. To assist the investment manager in the management of the portfolio, the Foundation will provide the investment manager with projected cash flow requirements.
6. The Finance Committee, in conjunction with the Investment Committee, Nova Scotia Health Authority (NSHA) Financial Services and Foundation staff will provide as much notice as possible regarding cash requirements or additional funds for investment. This information may not always be known in advance and so consideration of this factor will be taken in assessing investment performance.
7. For those annual cash requirements that can be accurately anticipated, it is expected that the investment manager will be able to structure the portfolio so to as provide liquidity without adversely affecting the performance of the fund.

Conflict of Interest:

These guidelines shall apply to the Foundation, the Committee, the manager and custodian including any employee or agent of the aforementioned. Any person listed above must disclose any direct or indirect material interest or involvement that would result in any actual, potential or perceived conflict of interest with regard to the investment of the portfolio. Such conflict must be disclosed in writing at the earliest possible time after becoming aware of the conflict. If such disclosure occurs at a meeting, written notification shall be evidenced in the minutes of the meeting. The party disclosing the conflict must excuse themselves from any participation on the issues creating the conflict except with the approval of the Board of Trustees.

For the purposes of this policy, a conflict of interest shall be any situation in which personal, occupational or financial considerations may appear to affect the objectivity of a Committee member. A conflict of interest may be real, potential or perceived in nature.

The committee shall rely on the current Board approved Conflict of Interest Policy at all times.

RELATED FOUNDATION DOCUMENTS

- Statement of Investment Policy –Short Term Investments
- Designated Fund Disbursement Policy
- Statement of Investment Management – Endowments

REFERENCES

HISTORICAL DATES

- New Policy approved by Board of Trustees July 2004
- Revised April 2006, November 2010, October 2011, June 2013 and January 2016
- Revised May 2017: Combined Investment Policy Statement – Designated Funds and Investment Policy Statement- Endowment Funds into one document. Preamble updated to include disbursement requirements. Asset Mix adjusted. Updated Conflict of Interest section.
- October 2017: Revised percentages in Asset Mix section 1.1 and 2.2.
- October 2018 – Revised percentages in Asset Mix section 2.2