Université de Moncton
Endowment Fund

Investment Policy

Revision adopted by the Université de Moncton

Board of Governors

CDU-240615

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Preamble

Université de Moncton, an institution of higher learning that abides by generally accepted moral values, expects its manager(s) (the "Manager") to ensure that the Endowment Fund (the "Fund") is managed in accordance with ethics and conduct that are consistent with these values. The Manager commits in good faith to act accordingly, but cannot guarantee that she or he will be aware of all of the issuer's transactions.

Chapter 1 – Objective

The Université de Moncton Board of Governors (the “Board”) is responsible for the management of the Fund’s assets. It is incumbent upon the Board to provide sound and prudent management of these assets. The Investment Policy (the “Policy”) described in this document is included with the responsibilities of the Board.

The Investment Committee (the “Committee”) is responsible for the implementation and oversight of the Investment Policy.

The objectives pursued by the Fund are:

a) to generate maximum annual revenues while keeping return volatility low;

b) to ensure a consistent annual income to meet the financial commitments of the Fund;

c) to ensure growth at a rate that is equal to the annual increase in the Consumer Price Index; and

d) to ensure that the Fund generates, in the medium term, a real rate of return sufficient to sustain the rate of spending established by the Policy.

Chapter 2 – Distribution of Responsibilities

The responsibilities that are assigned or may be assigned to the various parties are as follows:

The Board must:

- adopt the Policy;
- appoint the Fund Manager;
- approve the custodian of the Fund's assets; and
- determine and periodically review the annual disbursement rate of the Fund within its specific context and evolution.

The Committee must:

- establish the Policy and monitor its application;
- review the Policy annually, reassessing factors such as the return expectations, risk tolerance and the long-term asset allocation of the Fund;
- recommend to the Board the Manger of the Fund and, as required, select an asset management coordinator and any other expert advisors required;
- select the custodian of the assets;
- conduct quarterly monitoring of the Fund's asset allocation and apply the rebalancing mechanism to the assets;
- at least annually, review and evaluate, both quantitatively and qualitatively, the performance of the Manager; and
- conduct any other assessment or analysis deemed useful or necessary for the purpose of decisionmaking.

The Manager must:

- fulfil the mandate assigned by the Committee, as described in this Policy, with due consideration for applicable legislation and any additional guidelines transmitted in writing by the Committee;
- provide the Committee with a quarterly written report of its decisions and investment performance, as well as forecasted returns by asset class and investment strategy recommendations for the next period;
- provide the Committee with a quarterly certificate of compliance with the Policy;
- notify the Committee, in a timely manner, of any element of the Policy that could limit its performance or hinder the achievement of its objectives;
- explain the characteristics of new asset classes and their potential contribution to the attainment of the objectives of the Fund;
- in the case of a pooled fund,
  - provide the Committee with a written statement of investment policies and objectives for each pooled fund,
  - submit to the Committee a quarterly certificate of compliance with the Investment Policy of the said fund,
  - ensure that policies comply with applicable legislation,
  - promptly notify the Committee of any amendment to this statement; and
- attend a meeting with the Committee at least once a year.

The asset custodian must:

- provide the Committee with monthly financial statements showing all assets of the Fund, all transactions and the allocation of these assets (market value).

All of the above responsibilities may be delegated to one or several parties as directed by the Board.

Chapter 3 – Investment Beliefs of the Committee

The investment beliefs of the Committee are as follows:

a) A balanced approach to managing the Fund is preferred wherever possible, in order to limit the complexity of the investment structure and reduce costs. A more complex investment structure may, however, be justified by risk management or added-value considerations in the long term, after having taken direct and indirect costs into account.

b) Active management has the potential to add value to market returns, net of management fees, across all asset classes.

c) A neutral approach to equity mandates or a combination of complementary styles are expected to generate long-term returns adjusted for risk similar to those of growth or value styles. Consequently, strong style biases should be limited to protect the Fund against periods of relative underperformance.

d) The Canadian equity market is more concentrated and less diversified than the main foreign markets, and exposure to foreign markets improves portfolio diversification.

e) With globalization, markets are increasingly integrated, and the industry or sector in which a company operates is more important than its country of origin. Consequently, exposure to foreign markets through an integrated approach offers a superior return and diversification potential, while being more efficient in terms of tactical asset allocation management and fees.

f) Currency exposure does not significantly affect total risk in the long term. Currency hedging has a cost and therefore currencies should not be hedged (except in the case of a mandate where the objective is to generate an absolute return).

g) The Committee believes that environmental, social and governance (ESG) factors can be important for long-term returns for businesses, sectors, regions and asset classes. The Committee believes that the analysis of investments should integrate ESG factors insofar as they have an impact on return and risk. As for investments, the Committee gives the Manager full latitude in assessing the risks and opportunities with regards to responsible investing. The Committee will take into account the level of consideration for ESG factors and their integration into the investment process when selecting a manager.

Chapter 4 – Return Objective, Benchmark Portfolio, Expected Return and Risk

Return objective

The long-term return objective of the Fund (e.g., over a ten-year period) is to yield an annualized rate of return that is at least equal to the spending rate to which the Consumer Price Index rate of increase is added.

Benchmark portfolio

The benchmark portfolio determines the long-term targeted asset allocation that should enable the Fund to achieve its return with an acceptable level of risk.

	Benchmark Portfolio	
Asset Class	**Long-Term Weighting**	**Benchmark Index**
Short-term securities	1.0%	FTSE Canada 91-day treasury bill index
Fixed-income securities:		
Canadian	20.0%	FTSE Canada Universe Bond Index
Unconstrained	10.0%	Bloomberg US Aggregate Index (CAD-hedged)
Equity securities :		
Canadian	10.0%	S&P/TSX Capped Composite Index
Foreign (world)	17.0%	MSCI World Net Index (CAD)
Foreign (all countries)	17.0%	MSCI ACWI Net Index (CAD)
Emerging markets	10.0%	MSCI Emerging Markets Net Index (CAD)
Canadian real estate (direct)	7.5%	MSCI/REALPAC Canada Property Fund Index
Infrastructure (direct)	7.5%	Consumer Price Index (CPI) +4%

Expected return and risk

An analysis was conducted to assess the risk/return profile of the benchmark portfolio, assuming passive portfolio management (index management). The analysis indicated that the benchmark portfolio should yield a median annual real rate of return of approximately 4.3% for the majority of the rolling ten-year periods. However, in any given year, the annual real rate of return may deviate significantly from the median (upwards or downwards).

Annualized returns and probabilities were calculated based on long-term return and risk assumptions for the asset classes selected. These are listed in Appendix A. Projections are based on lognormal probability distributions.

The use of different probability distributions and assumptions may result in variations of the estimated rates of return and levels of risk. However, the Committee is of the opinion that the assumptions used are appropriate for the purposes of this Policy.

The Committee therefore believes that a portfolio with an asset mix comparable to that of the benchmark portfolio, the Fund should achieve its target return objective with a long-term level of risk that is both acceptable and controlled.

Chapter 5 – Permitted Investment Limits and Rebalancing Mechanism

Due to the different performance in each of the Fund's asset classes, its composition may deviate from the long-term target allocation.

Permitted investment limits

Asset Class	Minimum Threshold	Long-Term Target	Maximum Threshold
Short-term securities	0.0%	1.0%	3.0%
Fixed-Income securities:			
Canadian	17.0%	20.0%	23.0%
Unconstrained	7.0%	10.0%	13.0%
Equity securities:			
Canadian	7.0%	10.0%	13.0%
Foreign (world)	14.0%	17.0%	20.0%
Foreign (all counties)	14.0%	17.0%	20.0%
Emerging countries	7.0%	10.0%	13.0%
Canadian real estate (direct)	0.0%	7.5%	10.5%
Infrastructure (direct)	0.0%	7.5%	10.5%

Rebalancing mechanism

The Committee is responsible for applying the rebalancing mechanism. The underlying principles of this mechanism are as follows:

a) The Fund's asset allocation between the different mandates is reviewed at the end of each quarter during preparation of investment activity monitoring reports.

If the proportion of the Fund allocated to a specific mandate exceeds the maximum allowable limit, the assets are liquidated and transferred to reestablish the allocation to the half-way point between the target and the maximum allowable threshold. These liquidated assets are then allocated to the mandate with the allocation closest to the minimum threshold, up to the half-way point between the target and the minimum threshold of this mandate. If the desired weighting is achieved, the remaining assets are transferred to the next mandate with the allocation closest to the minimum threshold, and so on until the allocation of the mandate with an allocation superior the maximum threshold is reestablished.

b) If the proportion of the Fund allocated to a given mandate is inferior to the minimum threshold, a similar procedure is applied.

c) The allocations per mandate are evaluated using the market values provided by the custodian.

d) The rebalancing mechanism must be applied promptly after the end of a quarter, taking into account the liquidity constraints of the various funds used.

Chapter 6 – Permitted Investment Categories

Short-term securities: Cash, demand deposits, treasury bills, short-term notes, bankers' acceptances, term deposits, guaranteed investment certificates and insurance-backed securities.

Fixed-income securities: Bonds, debentures, asset-backed securities, mortgages, mortgage-backed securities, insurance-backed securities, indexed mortgage loans, term deposits, guaranteed investment certificates and pooled funds.

Equity securities: Common shares, income trusts, instalment receipts, warrants and securities convertible into common shares and pooled funds.

Income trusts are permitted provided that the legal status governing the said income trust limits the trustee's right of recourse and indemnity to the assets of the trust, or that a provision limiting liability has been adopted in the provincial legislation governing the income trust prior to its activation.

Investments that are not explicitly authorized by the Policy are prohibited, unless they are used through a pooled investment fund whose use is permitted by the Investment Policy.

The use of derivatives, private placements, real estate, infrastructure and closed-end funds is permitted with prior written approval by the Committee, but may not be used under any circumstances for speculative purposes. This constraint does not apply to unconstrained fixed-income and hedge fund mandates.

Chapter 7 – Management Structure, Value-Added Objectives and Investment Constraints

Management structure

The management structure retained by the Committee for the Fund is comprised of various mandates managed by specialists. Insofar as possible, and in accordance with the Committee's belief in a balanced approach to investment, certain mandates have been assigned to the same manager.

Value-added objectives

Asset Class	Benchmark Index	Value-Added Objective (Annualized)
Total portfolio	Benchmark portfolio	+0.9% over 4 years
Fixed-income securities:		
Canadian	FTSE Canada Universe Bond Index	+0.3% over 4 years
Unconstrained	Bloomberg US Aggregate Index (CAD-hedged)	+2.5% over 4 years
Equity securities:		
Canadian	S&P/TSX Capped Composite Index	+1.0% over 4 years
Foreign (world)	MSCI World Net Index (CAD)	+1.25% over 4 years
Foreign (all counties)	MSCI ACWI Net Index (CAD)	+0.6% over 4 years*
Emerging countries	MSCI Emerging Markets Net Index (CAD)	+2.0% over 4 years
Canadian real estate (direct)	MSCI/REALPAC Canada Property Fund Index	+0.0% over 4 years
Infrastructure (direct)	Consumer Price Index (IPC) +4%	+0.0% over 4 years

* This objective reflects a very small expected tracking error for the selected manager (2%). For a manager using a standard tracking error (4–5%), the expected added value will be 1.25% per annum.

Investment constraints

Pooled funds are used for all mandates. The investment constraints for these mandates are those set out in the Investment Policy specific to each of the pooled funds used. In the case of a discrepancy between the content of this Policy and that of a pooled fund used, the latter will prevail.

Other constraints

a) No loan shall be contracted on behalf of the Fund. However, temporary overdrafts resulting from sale/purchase transactions carried out by the custodian as well as the purchase of instalment receipts are permitted.

b) Margin purchases are not permitted.

c) Short sales are not permitted.

d) Options and futures are not permitted.

e) All investments must comply with relevant applicable legislation and the standards of the CFA Institute.

f) The Manager must have adopted the code of conduct of the CFA Institute, or a similar code.

With the exception of e) and f), the constraints listed above do not apply to unconstrained equity and hedge fund mandates.

Conflict of Interest Policy and Disclosure Requirements

The following persons are required to comply with these guidelines:

a) the members of the Board

b) the members of the Committee;

c) the Manager;

d) the custodian; and

e) the employees or agents retained by the Committee or any of the above-mentioned persons to provide services related to the management of the Fund.

Persons subject to the conflict of interest guidelines must disclose any interest, association or participation of importance directly or indirectly related to their role with regard to investments that will or may result in a conflict of interest.

Without limiting the generality of the foregoing, disclosure must be made of any material benefit derived from one of the Fund's assets, any significant ownership of such assets, or membership on the boards of other companies, or any actual or proposed contracts.

Persons subject to the guidelines must, immediately upon becoming aware of the conflict, disclose the nature and extent of any actual or potential conflict by written notice to the Committee, or request that this information be recorded in Committee meeting minutes.

The party disclosing a conflict of interest may only continue to pursue her or his activities with respect to the issue in conflict with the assent of the Committee.

Securities lending

Securities lending is not permitted.

Delegation of voting rights

Voting rights acquired through the Fund's investments are delegated to the Manager, who discharges this responsibility with due respect for the objectives of the Policy. The Manager shall, however, notify the Committee as soon as possible every time there is a vote of an exceptional nature.

Valuation of investments not traded on the market

All securities held by the Fund shall be traded on the market and assessed at their market value.

In the event that the Fund should hold securities that are not traded on the market, these securities shall be valued at least annually by the custodian, using a discount rate based on a projection of the risk-free rate of return, the forecasted inflation rate, and a risk premium commensurate with the uncertainty of future income from the investment.

Alternatively, a valuation may be obtained at least annually from an independent valuator who is qualified to assess such an investment.

Pooled funds

In the case of assets invested in pooled funds, the Conflict of Interest Policy and disclosure requirements, as well as the rules concerning securities lending, delegation of voting rights and valuation of investments not traded on the market, will be subject to the Investment Policy of the specific pooled fund.

Chapter 9 – Fund Spending Policy

Spending rate

The spending rate, including management and administrative fees, is set at 4.0% of the average market value of the Fund as at December 31 of the three years preceding the current year. In addition, a variable component of 5% of the value of the accumulated surplus is added, leading to a maximum spending rate of 4.5%. This spending rate reflects the expected real rate of return on the Fund's assets. This calculation determines the total spending allowed for the coming year.

Management and administrative fees are subtracted from the total allowable spending. The remainder is then distributed proportionally to all individual donor funds of the Fund. These amounts become the sums authorized to be spent during the year, and are transferred to the unrestricted account of the donors.

Capitalization of donations received

Donations received (or the capital) will be deposited in the donor's fund and held in perpetuity. Only the investment income will be used for the purposes specified by the donor. To preserve the real value of the donation, an amount equal to the increase of the Consumer Price Index will be added annually to each donor fund (or the capitalization) from the investment income of the current year.

Donor fund deficit

The Fund's Spending Policy provides for donor funds to accumulate a surplus to allow continued spending when returns are low. The accumulated surplus (or restricted balance) represents the cumulative total of investment income less the amounts capitalized and less the amounts authorized to be spent. In consecutive years of low stock market returns, it is possible for a donor's fund to be in a deficit position.

A donor fund is in a deficit position when the balance of the restricted account is less than the amount authorized to be spent for the coming year. In this situation, to avoid encroaching on the original donation, the amount authorized to be spent over the next fiscal year will be limited to the lesser of A and B below:

A – the amount authorized to be spent; and
B – the restricted and capitalization account balances.

Balances from previous years

In a normal situation, the balance of previous years available for spending is the accumulated balance of the unrestricted account. The accumulated balance of the unrestricted account represents the total amounts authorized to be spent over the years, less the total actual spending. When a donor's fund is in deficit (see definition above), spending of the balance from prior years can be restricted to avoid encroaching on the original donation of the donor. In such a situation, the balance from prior years available for spending will be the lesser of A and B:

A – the balance of the unrestricted account; and
B – the greater of C and D:
    C – 0
    D – the sum of the balance of the unrestricted, restricted and capitalization accounts.

All situations are unique. Finance staff will need to discuss the matter with the person responsible for the fund in question to arrive at an appropriate balance for each situation.

Appendix A - Benchmark Portfolio Asset Class Assumptions

Expected Return and Risk

	Long-Term Return	Annual Volatility
Short term	2.9%	1.5%
Universe bonds	4.1%	5.4%
Multi-asset credit	6.2%	7.0%
Canadian equities	5.8%	19.5%
Foreign equities	5.8%	16.2%
Emerging markets equities	6.8%	25.0%
Infrastructure	6.9%	14.0%
Canadian real estate	6.7%	15.1%

Correlations

	A	B	C	D	E	F	G	H
A – Short term	1.00							
B – Universe bonds	0.17	1.00						
C - Multi-asset credit	(0.19)	0.49	1.00					
D - Canadian equities	(0.39)	(0.02)	0.24	1.00				
E - Foreign equities	(0.40)	0.13	0.40	0.78	1.00			
F - Emerging markets equities	(0.37)	0.16	0.36	0.78	0,79	1.00		
G - Infrastructure	0.05	0.05	0.33	(0.25)	(0.01)	(0.20)	1.00	
H - Canadian real estate	(0.07)	(0.13)	(0.06)	0.04	0.08	(0.09)	0.22	1.00

All figures were calculated by Mercer as at March 31, 2024. The Mercer method of calculation was used to estimate expected returns, standard deviations, correlation factors and probabilities.

Expected returns on short-term securities and bonds were estimated using the current yield curve and the equilibrium yield curve. Expected returns on equities were calculated based on ratio projections such as gross domestic product (GDP) growth, inflation, price-to-projected-earnings ratio, income growth, anticipated dividend rate, etc. Expected returns for non-traditional asset classes were calculated to reflect the nature of the asset, past experience and previous factors.

Standard deviations for short-term securities and bonds were estimated using 10 years of historical data and adjusted with a duration model (since duration and standard deviation are a function of interest rate levels). Standard deviations of equities were estimated using 10 years of historical data and adjusted to obtain CAPM variables consistent with the assumptions.

Correlations between asset classes were estimated based on 10 years of historical data and adjusted for consistency.

It is assumed that the annual return of the benchmark portfolio will follow a lognormal distribution curve. The use of assumptions other than the ones provided herein for expected returns, standard deviations, and correlations would result in different estimates of return and risk characteristics for the benchmark portfolio.