

Complete Policy Title:
**Statement of Investment Policies and
Guidelines – Cash and Short Term
Investment (formerly Working Capital)**

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Approved by:
Board of Governors

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Responsible Executive:
Treasurer

Enquiries:
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McMASTER UNIVERSITY CASH AND SHORT TERM INVESTMENTS
STATEMENT OF INVESTMENT POLICIES AND GUIDELINES

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SECTION 1 - OVERVIEW

The purpose of this document is to set out the investment principles and practices to be followed in the management of the McMaster Cash and Short Term Investments.

In general, the University Administration, as defined in the University's Safekeeping Resolution, is authorized to complete, without prior approval, transactions involving investments within the limits of this policy.

SECTION 2 - CHARACTERISTICS OF INVESTMENTS

Given the historical data analysis we have a fixed core amount that has remained stable. There is also a variable amount that reflects the cash receipts and disbursements that fluctuate throughout the year. The investment policy for each component is characterized as follows:

- 1) *Core Amount:* invested in the McMaster University Investment Pool which holds a range of securities including Canadian and global equities, and internal loans.
- 2) *Variable Amount:* invested in money market securities and short-term bonds and can be internally or externally managed.

In addition to investment management, the University Administration is also responsible for determining the amount considered as “*core*” based on the medium-to-long-term financial forecast. The management of the “*variable amount*” is based on the short-to-medium-term cash flow requirements of the University.

SECTION 3 - INVESTMENT PRINCIPLES

- 1) *Core Amount:* the investment principles of the *Core Amount*, which are longer term in nature, are similar to those of the Investment Pool.

The investment objectives of the Investment Pool are stated in detail in the Statement of Investment Policies and Objectives of the Investment Pool as approved by the Board of Governors. The primary objective is to obtain long-term rate of return based on a diversified portfolio that includes domestic equities, foreign equities and domestic bonds.

2) *Variable Amount:* the investment principles are based on the following:

Security: Security of principal must be the first consideration in any investment and should be ensured by all reasonable credit tests.

Liquidity: The degree of liquidity is measured by the time required to convert a security into cash with minimum risk of capital loss. Liquidity is achieved by limiting the portfolio to readily marketable short term securities.

Yield: Yield is a highly important factor; however, it should be considered only after the requirements of security and liquidity have been met.

Diversification: Portfolio holdings should be diversified as indicated below.

Short term funds in excess of those required each day should be invested at the maximum yield available consistent with the requirements for security and liquidity.

Investments should be arranged so that, through maturities or sales, cash will be available when required. Cash forecasts will be used as a guide. To meet unforeseen requirements at least a part of the portfolio must be in highly liquid investments which can be converted to cash quickly with minimum loss of principal.

SECTION 4 - PERMITTED INVESTMENTS

1) *Core Amount:*

The list of approved investments for the *Core Amount* is included in the “Statement of Investment Policies and Objectives of McMaster University Investment Pool” and the Central Bank Borrowing Policy as approved by the Board of Governors.

2) *Variable Amount:*

Listed below is a summary for Cash and Short Term Investments, and Bonds that provides limits within which the variable amount will be operated. However, if a specific situation arises in which it appears advantageous to go beyond the limits set for amounts or maturities, the approval of the Assistant Vice-President, Administration or the Vice-President, Administration is required for each such situation before the transaction is made. The Treasurer will periodically review the cash flow requirements of the university to align investment vehicles with the actual need of funds.

(a) Cash and Short Term Investments

(i) Permitted short-term instruments:

- Government of Canada treasury bills, notes, debentures and any obligations unconditionally guaranteed by the federal government of Canada.
- Provincial and municipal treasury bills, notes debentures and any obligations unconditionally guaranteed by the provincial and municipal governments of Canada carrying a R-1 (mid) rating from DBRS, and a long term debt rating of A or higher by DBRS, Moody's or Standard & Poors.
- Commercial paper and corporate bonds issued by a Canadian or foreign corporation carrying a commercial paper rating of R-1 (mid) from DBRS, and a long term debt rating of A or higher by DBRS, Moody's or Standard & Poors.
- Treasury bills, notes or bonds and any obligations unconditionally guaranteed by a foreign government, carrying a R-1 (mid) rating from DBRS, and a long term debt rating of A or higher by DBRS, Moody's or Standard & Poors.
- Bankers Acceptances, Certificates of Deposit and similar instruments issued by a Canadian or foreign bank, carrying a commercial paper rating of R-1 (mid) from DBRS, and a long term debt rating of A or higher by DBRS, Moody's or Standard & Poors.
- Investment savings accounts and similar instruments with one of the following Schedule 1 Canadian Banks (CIBC, TD Bank, BMO, Royal Bank of Canada, and The Bank of Nova Scotia).
- Repurchase agreements collateralized by approved investment vehicles.
- Pooled funds investing in the above noted securities.

(ii) Maturities:

- Maximum term to maturity of instruments is two years.
- Average term to maturity will not exceed 180 days.

(iii) Quantity Requirements:

- Government guaranteed issues must be at least 40% of the market value of fund.
- Maximum for a non-government issuer is 10% of market value of fund at time of

purchase.

- Investment savings accounts and similar instruments with a Schedule 1 Canadian Bank may not exceed \$50 million per institution.
- No investments in foreign currencies are allowed.

(b) Bonds

(i) Permitted fixed income investments:

- Government of Canada treasury bills, bonds, stripped coupons and residuals and NHA guaranteed mortgage backed securities as well as any other debt obligations unconditionally guaranteed by the federal government of Canada.
- Provincial and municipal treasury bills, notes, floating rate notes, bonds, stripped coupons, debentures, and any obligations unconditionally guaranteed by the provincial and municipal governments of Canada provided that such instruments, at the time of purchase, carry a long term debt rating of BBB or higher by DBRS, Moody's or Standard & Pools.
- Bonds, notes, floating rate notes, certificates of deposit, bankers' acceptances, and similar instruments issued by a Canadian or foreign bank provided that such instruments, at the time of purchase, carry a long term debt rating of BBB or higher by DBRS, Moody's or Standard & Pools.
- Bonds, debentures, notes, floating rate notes and commercial paper issued by a Canadian or foreign corporation provided that at the time of purchase, such instruments carry a long term debt rating of BBB or higher by DBRS, Moody's or Standard & Pools.
- Pooled funds investing in the above noted securities.
- Bank Asset-backed commercial paper (Bank Schedule 1 only), and commercial mortgage backed securities carrying a rating of AA or higher by DBRS, Moody's or Standard & Pools.
- Private placements and foreign issuers denominated in Canadian dollars are permitted.
- Treasury bills, notes, or bonds and any obligations unconditionally guaranteed by a foreign government provided that such instruments, at the time of purchase, carry a long term debt rating of BBB or higher by DBRS, Moody's or Standard & Pools.
- All investments shall be reasonably liquid (i.e. - in normal circumstances they should be capable of liquidation within 3 months).

(ii) Maturities:

- All bond investments are limited to maturities of 15 years or less.
- The average term to maturity of bond portfolio shall not exceed 5 years.

(iii) Quantity Requirements

- Government guaranteed issues must be at least 40% of the total market value of fund.
- Except for federal and provincial bonds, no more than 10% of the portfolio, at the time of purchase, may be invested in the bonds of a single issuer and its related companies.
- No more than 10% of the market value of the bond portfolio shall be invested in bonds rated BBB or equivalent and no bond rated BBB shall exceed 3% of the market value of the portfolio.
- No investments in foreign currencies are allowed

SECTION 5 – MONITORING AND CONTROL

Performance Measurements

Core Amount: Core monies invested in the Investment Pool will be subject to the measurements and indices outlined in the Investment Pool Statement of Investment Policies and Objectives.

Variable Amount: Variable monies will be benchmarked to either the FTSE TMX 30 day Canada T-bill index and/or the FTSE TMX Short Term Bond Index. The weighting of each benchmark component will be based on the average amount of investment as this will vary over time reflecting the cash flow needs of the University.

Investment Reporting

At least monthly the Investment Manager(s) shall present reports on the investment performance and actual investment strategy employed since the previous reports. In addition, Investment Manager(s) shall include a statement on the investment strategy to be employed in the next period in view of existing or anticipated economic and investment market conditions

Compliance Reporting by the Investment Manager

The Investment Manager(s) must submit a compliance report on a semi annual basis to the Treasurer. The compliance report should indicate whether or not the manager's portfolio was in compliance with this policy during the previous six months.

In the event that the Investment Manager's portfolio is not in compliance with this policy, the Investment Manager is required to detail the nature of the non-compliance in the semi annual compliance report as well as notify the Treasurer and to implement an appropriate course of action to

remedy the situation, as soon as practical.

Standard of Professional Conduct

The Investment Manager(s) are expected to comply at all times and in all respects with the Code of Ethics and Standards of Professional Conduct as promulgated by the CFA Institute.

The Investment Manager(s) will manage the assets with the care, diligence and skill that an investment manager of ordinary prudence would use. The Investment Manager(s) will also use all relevant knowledge and skill that they possess, or ought to possess, as prudent investment managers.

SECTION 6 - ADMINISTRATION

Valuation of Investments

Where a security is frequently traded, valuation will be determined at the relevant market price. Where a security is not frequently traded, the Funds' Custodian will determine the appropriate market value of the particular security and, in the event of a dispute, the value that the custodian has determined will be deemed as correct.

Monitoring of Investment Managers

At least semi-annually, the Treasurer will monitor and review the:

- (a) Assets and net cash flow;
- (b) Investment performance of the assets in relation to the rate of return expectations outlined in this Policy;
- (c) Investment Manager's financial stability, staff turnover, record of service;
- (d) Investment Manager's compliance with this Policy, where a Manager is required to complete a compliance report; and,
- (e) Investment Manager's current economic outlook and investment strategies.

Voting Rights

In the absence of specific written instructions from the Board of Governors to the contrary, the Investment Manager(s) are empowered to exercise all rights, including voting rights, acquired through investment of the funds. Investment Manager(s) will exercise these acquired rights with the intent of fulfilling the investment policies and objectives of these funds.

Permitted Loans

Assets may not be loaned except at arm's length as provided for under this investment policy and its allowed investments.

The Trustee under a properly approved contract may loan securities. The investments of the Fund

may be loaned for the purpose of generating revenue, subject to the provisions of the Income Tax Act (Canada) and other applicable regulations, and provided that there is full indemnity by the custodian against all losses as a result of the custodian's securities lending program. Cash and/or its equivalents having a market value of at least 105% of the market value of the loaned securities must secure such loans. This mark-to-market relationship must be calculated at least daily.

Conflict of Interest Guidelines

For the purpose of this Statement, any known or perceived conflict of interest of the Investment Manager(s), custodian or party to a decision must be reported to the Chair of the Finance Committee within five working days.

Conflicts Between Policy and Pooled Fund Investment Policies

While the guidelines in this Policy are intended to guide the management of these funds, it is recognized that, due to the use of pooled funds, there may be instances where there is a conflict between this policy and the investment policy of a pooled fund. In that case, the pooled fund policy shall dominate. However, wherever such a conflict results in non-compliance with the Policy, the Investment Manager must report this conflict explicitly in its semi-annual compliance report.

Policy Review

At least once every five years, the Finance Committee should review the Cash and Short Term Investments Statement of Investment Policies and Guidelines with respect to the appropriateness of policies, objectives and strategies contained therein.