

INVESTMENT OF OPERATING AND ENDOWMENT FUNDS POLICY AND PROCEDURES

Approving Authority: Board of Governors

Policy Lead: Vice President and Chief Financial Officer

Administrative Contact: Finance

Effective Date: 06/24/2013

Revision Date: 12/09/2024

POLICY STATEMENT:

The purpose of this Policy is to provide a framework and guidelines to ensure that Conestoga College's investments are managed in accordance with the *Ontario Trustee Act* for endowment funds, and the Minister's *Binding Policy Directive on Banking, Investments and Borrowing* for operating funds.

SCOPE:

This policy applies to Conestoga's endowment and operating funds held internally or managed externally by Conestoga's independent certified Fund Manager(s).

DEFINITIONS:

Conestoga

'Conestoga' refers to The Conestoga College Institute of Technology and Advanced Learning. Conestoga is a registered charity under the Canada Revenue Agency (CRA), with registered charitable number 106966799 RR 0001.

Donor funds

Donor funds consist of accumulated external contributions from individuals, corporations and other gifts which are not tuition, grants, or revenue earned in exchange for a product or service.

Endowment fund

An endowment fund is a fund established by a donor or group of donors and kept in perpetuity for the purpose of generating income to fund charitable objectives such as scholarships and bursaries or other commitments from annual earnings. It includes the capital value of all donations as well as income earned on the investment of the funds net of accumulated disbursements.

Operating funds

Operating funds are funds that are generated by and used for day-to-day operations of the college. Investment of these funds must comply with the *Ontario Colleges of Applied Arts and Technology Act, 2002*, including the Minister's *Binding Policy Directive on Banking, Investments and Borrowing*.

POLICY:

1. Roles and Responsibilities

- 1.1. Conestoga's Board of Governors (Board) is responsible for safeguarding the financial assets of Conestoga and has ultimate responsibility and decision-making authority for these assets.
- 1.2. The Finance and Audit Committee is responsible for:
 - reviewing and recommending changes to this Policy, investment strategies and disbursement practices for Conestoga's Operating Funds and Endowment Funds;
 - implementation of this Policy, including monitoring and regularly reporting to the Board on Endowment Funds and Operating Funds held in investments;
 - ensuring that all investments follow this Policy and comply with the Federal Government of Canada and the Province of Ontario legal requirements;
 - retaining the services of a Fund Manager(s) to manage the funds in accordance with the objectives and guidelines established in this Policy;
 - reviewing the performance of Conestoga's Fund Manager(s).
- 1.3. At its discretion, the Finance and Audit Committee may appoint a subcommittee to execute its duties under this Policy.
- 1.4. From time-to-time, the Finance and Audit Committee may use the services of an independent investment consultant to assist with its duties; in particular, Fund Manager oversight, asset allocation, and the appropriateness of asset classes for inclusion or exclusion (see Section 8 – Investment Policy Review).
- 1.5. In carrying out its mandate, the Finance and Audit Committee has recommended, and gained Board agreement, that Conestoga financial investments will be managed by an external, independent professional Fund

Manager(s). Selected firm(s) must meet all the requirements to operate as Portfolio Managers and be registered with the Securities Commission.

1.6. Fund Managers are responsible for:

- selecting securities within the asset classes assigned to them, subject to the guidelines set out in this Policy;
- providing the Finance and Audit Committee with at least semi-annual compliance reports of portfolio holdings and annual performance reports (see section 6 – Reporting on Endowment and Operating Funds);
- attending meetings of the Finance and Audit Committee as required, to review performance and discuss proposed investment strategies;
- informing the Finance and Audit Committee of any investments that fall outside the constraints, and actions that will be taken to remedy such situations;
- advising the Finance and Audit Committee of any factors that could prevent attainment of the investment objectives;
- ensuring that Endowment Funds are invested in accordance with the *Ontario Trustee Act*, and this Policy;
- certifying that Operating Funds are invested in accordance with the *Government of Ontario Binding Policy Directive on Banking, Investments and Borrowing*, and this Policy;
- overseeing proxy voting rights on fund securities where applicable, and maintaining a record of how voting rights of securities in the funds are exercised.

2. Operating Fund Investment Objectives

2.1. The investment objectives, parameters and benchmarks for Operating funds include:

- compliance with the *Government of Ontario Binding Policy Directive on Banking, Investments and Borrowing*;
- preservation of capital to minimize the risk to the principal of investments;
- the maintenance of liquidity to ensure funds are available to meet all of Conestoga's cash flow requirements;
- short-term yield enhancement – the goal for the Operating funds is to attain a higher return than would otherwise be achieved by keeping funds in Conestoga's treasury account.

2.2. Operating fund benchmark stipulations and parameters include:

- benchmarks should be established to evaluate the investment's performance on an ongoing basis;
- benchmarks may change occasionally to reflect evolving market conditions, changes to the investment policy or changes in the Portfolio's composition.

3. Endowment Fund Investment Objectives

3.1. Conestoga's objective is to generate a total investment return that maximizes the rate of risk-adjusted return while achieving the granting objectives of the Endowment funds on the following basis:

- recovers the cost of managing and administering the funds;
- protects the long-term purchasing power of the capital component;
- establishes a stability reserve for future market declines;
- maintains sufficient liquidity in the portfolio to support Conestoga's disbursement requirements on a timely basis.

3.2. Performance expectation

3.2.1. The Endowment Fund has an established target return of 7.5 per cent on a rolling four-year basis, to protect capital in perpetuity, and distribute 4.0 per cent as outlined under Section 9. This 4.0 per cent distribution is in addition to inflation as measured by the Consumer Price Index (CPI) and in addition to operating costs.

3.2.2. The Fund Manager(s) is expected to outperform the policy benchmark by at least 1 per cent on a rolling five-year basis, gross of fees. Shorter time periods will be considered until the five-year mark is reached

3.2.3. The policy benchmark is represented by a passive allocation to the target asset mix as follows:

- 20 per cent of the S&P/TSX Composite
- 30 per cent S&P500 (CAD)
- 13 per cent MSCI EAFE (CAD)
- 35 per cent of the FTSE Canada Universe Bond Index
- 2 per cent FTSE Canada 91 Day Index

4. Risk Tolerance

4.1. Asset allocation

4.1.1. The target asset allocation outlined in Section 5 (Authorized Investments for the Endowment Funds) has been determined with the objective of maximizing the long-term rate of return, subject to an appropriate level of risk, consistent with the goal of capital preservation and growth.

4.1.2. Over shorter time periods, the Fund Manager(s) may use the permissible ranges for each asset class to potentially enhance risk-adjusted return.

4.2. Risk

4.2.1. The level of risk to which portfolios are exposed will be controlled by diversifying the holdings, not only in terms of asset class, but also in terms of holdings within each asset class, sectors and geographies.

5. Authorized Investments for the Endowment Funds

5.1. Given the portfolio's legal and regulatory requirements, investment time horizons, liquidity and income requirements, the asset mix range for Endowment funds is as follows:

Long-term strategic asset allocation for the funds			
Asset class	Minimum %	Target %	Maximum %
Cash & Cash Equivalent	0	1	25
Fixed Income	25	35	55
Equities	45	64	70

5.2. Cash and cash equivalents

5.2.1. All short-term investments will be at least R-1 or equivalent as defined by a Nationally Recognized Statistical Rating Agency (NRSRA):

- Cash
- Demand or term deposits
- Short-term notes
- Treasury bills
- Banker's Acceptance
- Commercial paper
- Guaranteed Investment certificates

5.3. Fixed income

Investment parameters and permissible investments for this asset class are as follows:

- 5.3.1. Minimum average credit rating of fixed income portfolio shall be single A or better
- 5.3.2. Minimum credit quality rating of any bond at time of purchase shall be BBB or better
- 5.3.3. Bonds and debentures of the Canadian government, its agencies and crown corporations
- 5.3.4. Corporate bonds and debentures
- 5.3.5. 10 per cent maximum in any single issuer except Canadian government or Canadian government guaranteed and Provincial government securities
- 5.3.6. Mortgage (within a pooled fund), mortgage-backed securities, and other asset-backed securities

5.3.7. Derivatives may be used for currency hedging purposes to facilitate currency risk management or interest rate management.

5.3.8. Any use of derivative instruments must always be subject to regulations outlined by the Ontario Securities Commission or by such other applied regulatory bodies

5.4. Equities

Equities will include:

- Exchange-traded Canadian and foreign securities*
- Common shares, convertible preferred shares
- American Depositary Receipts
- Global Depositary Receipts
- Convertible and exchangeable debentures
- Preferred shares (rated R-1 low or better)

Diversification shall be achieved by limiting to 10 per cent or less the amount that can be invested in a single security as a percentage of the portfolio's total equity value, with the exception of an exchange traded fund or a pooled fund.

*Foreign securities may include US, International, and Emerging Markets equities. They may be diversified by size (large cap, small and mid-cap), and/or style (value and growth).

5.5. Pooled funds

5.5.1. A Fund Manager may hold any part of the portfolio in one or more pooled funds or co-mingled funds managed by the Manager, provided that such pooled funds operate within the constraints described in this Policy.

5.5.2. To accomplish the investment objectives of the Endowment funds and to comply with the *Ontario Trustee Act*, as revised, it is suggested that this Policy provide for flexibility whereby the proportion of endowment funds invested in various asset classes may be varied.

5.6. Exclusions include:

- options
- futures contracts
- purchase of securities on margin
- short sales
- units of limited partnerships
- private equity
- venture capital
- commodities
- hedge funds

- derivative products that expose the portfolio to potential losses greater than the amount invested.
- 5.7. Investment in derivative instruments may be used for hedging purposes to facilitate the management of risk.
- 5.8. Under no circumstances will derivative products be used for speculative purposes or to leverage the portfolio.

6. Reporting on Endowment and Operating funds

- 6.1. The Chief Financial Officer will provide an annual report to the Board of Governors, through the Finance and Audit Committee, summarizing the performance results of the Endowment and Operating fund investments of Conestoga.
- 6.2. The Fund Manager(s) will provide a semi-annual and an annual report to the Finance and Audit Committee, which will include:
- a portfolio valuation, including the market value of each security or pooled fund;
 - a compliance report confirming compliance with the guidelines of this Policy;
 - data and commentary on the investment performance against benchmarks and performance expectations;
 - commentary on the Manager's forward-looking views on the capital markets;
 - information pertaining to changes of investment or senior management and/or ownership structure;
 - information pertaining to changes to the Manager's investment process that may impact performance;
 - data and commentary on the Manager's integration of the UN Principles of Responsible Investment (UNPRI) into their investment decision-making and portfolio management activities (see Section 8 – Responsible Investing).
- 6.3. The Fund Manager(s) will be responsible for reviewing the asset mix and for maintaining the portfolio within the permissible ranges as outlined in Section 5 (Authorized Investments for the Endowment Funds).
- 6.4. The Fund Manager(s) will be available for meetings with the Finance and Audit Committee on a semi-annual basis, or more frequently if required, and will be available for discussion and consultation as needed.
- 6.5. Each Fund Manager is expected to comply, at all times and in all respects, with the Code of Ethics and Standards of Professional Conduct of the CFA Institute.

7. Investment Policy Review

- 7.1. The Finance and Audit Committee is responsible for ensuring that this Policy continues to be appropriate for the Endowment and Operating funds and to meet the objectives of Conestoga, while remaining responsive to changing economic and investment conditions.
- 7.2. An independent consultant will review the Investment Policy annually and report its findings to the Finance and Audit Committee.
- 7.3. Any individual who becomes aware of an incident under this policy should not disclose the details of the incident outside of the appropriate reporting channels.

8. Responsible investing

- 8.1. Conestoga is committed to responsible investment, which involves incorporating Environmental, Social and Governance (ESG) factors into investment decisions. The College believes that, over the long term, companies that exhibit responsible corporate behavior with respect to these factors will have a positive impact on long-term financial performance. The assessment of ESG factors along with the assessment of the business, management and financial metrics will enhance the identification of good investment opportunities and help mitigate risk to the invested funds.
- 8.2. Given its use of an investment pool, it is not practical for the College to directly engage individual companies on ESG related issues. Therefore, subject to its primary fiduciary responsibility of acting in the best interests of Conestoga and its stakeholders, and within the limits faced by an investor in externally managed pooled funds, the College will seek to incorporate ESG factors into its investment portfolio through the following methods:

i. Fund Manager Selection and Reporting

Conestoga's standards and activities are in alignment with the UN Principles for Responsible Investment (PRI). As such, the integration of UNPRI in investment approaches and processes will be a criterion in the selection, management and assessment of the College's Fund Manager(s). The Finance and Audit Committee will require the Fund Manager(s) to provide regular and annual reporting on their activities and progress toward implementing the UNPRI, as well as any ESG risks that have been discovered, in the management of their portfolios.

ii. Engagement

Since the College does not directly invest in companies, proxy voting is delegated to the Fund Manager(s). The Finance and Audit Committee will encourage the Fund Manager(s) to incorporate into their proxy voting

guidelines policies that encourage issuers to increase transparency of their ESG policies, procedures and other activities, as well as to bring to the Committee's attention any significant exposure through the investment portfolio to a particular company, industry or nation that is facing a material ESG issue.

9. Conflict of Interest

- 9.1. No fiduciary, Finance and Audit Committee member, or employee of the Fund Manager(s) will knowingly permit their interest to conflict with their duties or powers to affect the investment of the portfolio's assets.
- 9.2. Any actual or perceived conflict of interest must be reported to the Finance and Audit Committee.
- 9.3. The Finance and Audit Committee will be the sole arbiter in determining whether a conflict or potential conflict of interest exists.
- 9.4. The Fund Manager(s), independent investment consultant, and all employees of the Fund Manager(s) will abide by the CFA Institute of Ethics and Standards of Professional Conduct.

10. Adoption of the investment policy

- 10.1. The Board of Governors of Conestoga has adopted this Policy by way of resolution at its meeting on December 9, 2024.

RELEVANT LEGISLATION AND RELATED DOCUMENTS

- [Ontario Colleges of Applied Arts and Technology Act, 2002](#)
- [MCU Minister's Policy Binding Directive on Banking, Investments and Borrowing](#)
- [Trustee Act, R.S.O. 1990](#)
- Conestoga Board of Governors Conflict of Interest Policy
- [Conestoga Endowment Management Policy and Procedures](#)

REVISION LOG

12/09/2024	Board of Governors Approval
10/07/2024	Finance and Audit Committee Approval
05/29/2023	Finance and Audit Committee Review
05/10/2022	Finance and Audit Committee Review
06/08/2021	Finance and Audit Committee Review
10/07/2019	Board of Governors Approval
06/24/2013	Board of Governors Approval
05/21/2013	Finance and Audit Committee Approval