

University of Ottawa Short Term Portfolio

Statement of Investment Procedures and Guidelines

1. Purpose

The purpose of the Statement of Investment Procedures and Guidelines (“SIPG Short Term Portfolio” or “SIPG Treasury”) is to provide the objectives, guidelines and procedures for the management of the University of Ottawa short term portfolio (“Portfolio”). The Portfolio is comprised of the University of Ottawa’s (“University”) monetary assets and the operating cash flows that are in excess of requirements to fund ongoing operations of the University.

2. Objectives

The Portfolio has the following objectives:

- (1) to meet the ongoing liquidity requirements of the University;
- (2) to preserve capital so as to increase the long-term financial wealth of the University;
- (3) to maximize investment income so as to achieve the operational objectives of the University;
- (4) to achieve returns on the core portfolio component that exceed the overall cost of capital of the University;
- (5) to align the Portfolio structure with the strategic use of debt in a manner consistent with Policy 114 - Liability Management; and
- (6) to ensure the Portfolio is managed in a manner consistent with Policy 56 - Investment.

To meet the Portfolio objectives, investment and risk management guidelines are outlined in the SIPG Short Term Portfolio through its asset mix policy, which establishes strategic ranges for investments and other restrictions to limit undue exposures in the Portfolio.

3. Asset Mix Policy

The Finance and Treasury Committee – Treasury Component (“Committee”) allocates funds to two broad investment categories:

Operating or Short Term Portfolio – this component of the asset mix consists of cash, money market and fixed income securities and represents the portion of the Portfolio that is designated to meet ongoing liquidity requirements.

Core Portfolio – this component of the asset mix is invested in a diversified portfolio and represents the portion of the Portfolio that is not needed to meet short-term liquidity requirements. Policies and procedures of the Core Portfolio can be found in the SIP&G of the University’s Long Term Portfolio.

The allocation between the operating and core portfolio is based on the long-term cash flow forecast of the University. The operating portfolio is comprised of monetary assets reasonably required for operational and capital cash flows within a three-year period.

Core portfolio assets are invested in the University's Long Term Portfolio (Fund) alongside the endowment fund and the sinking fund to achieve operational efficiency and effectiveness. The individual unit holders of the Fund are maintained as separate entities through an asset allocation service that is provided by the custodian.

4. External Investment Managers

The University may engage the services of external investment managers to manage assets other than those held in the bank account(s) of the University. External manager appointments are approved by the Committee.

The target allocation of the Portfolio between investment managers is determined by the Committee. Investment guidelines shall be established for each external investment manager as appropriate to ensure that the total Portfolio is managed within all established guidelines.

External investment managers must comply with sections 5 (Permitted Investments), 6 (Other Investment Restrictions) and 7 (Risk Management) of the SIPG Short Term Portfolio.

5. Permitted Investments

In general and subject to the restrictions noted below, the operating portfolio may be invested in any of the following asset classes and in any of the investment instruments listed below:

Short-term and Cash:

- Cash on hand and demand deposits
- Treasury bills issued by the Canadian federal and provincial governments and their agencies and foreign governments
- Obligations of trust companies and Canadian and foreign banks, including bankers' acceptances
- Commercial paper, floating rate notes and private placement securities issued by a Canadian company or issued in Canada by a foreign company

Fixed Income:

- Bonds, debentures, notes, and other evidence of indebtedness of issuers, including inflation linked instruments denominated and payable in the issuer's domestic currency
- Publicly traded mortgage-backed securities and other asset-backed securities
- Term deposits and guaranteed investment certificates
- Insurance contracts
- Private placements of fixed income instruments

The Portfolio may hold investments in pooled funds invested in any or all instruments listed above. Provisions in the investment policy of a pooled fund shall prevail over those of the SIPG

Short Term Portfolio to the extent that they are in conflict. However, any such conflict shall be disclosed in writing to the University.

Permitted investments for the core portfolio are as established in the Statement of Investment Policies and Goals for the Long Term Portfolio, incorporated herein by reference. The rest of this document applies to the operating portfolio.

6. Other Investment Restrictions

Derivative instruments should not be used in a speculative manner and they should be hedged or supported by collateral investments. Derivative instruments, such as currency futures and forward contracts, may be used to hedge currency exposure relative to the University's base currency. Exceptions will be dealt with on a case by case basis and may be permitted subject to compliance with specific written guidelines approved by the Committee.

Investments in securities denominated in a foreign currency are only permitted in the operating portfolio with prior written approval by the Committee.

For investments in an open or closed-ended pooled fund the assets invested in the pooled fund by the Portfolio shall not exceed 25% of the market value of the total pooled fund.

7. Risk Management

Quality standards for fixed income securities are established to limit the Fund's exposure to credit risk from borrower default. All quality ratings must be rated by a recognized bond rating agency and are applied at time of purchase:

- (1) the minimum quality standard for individual fixed income securities is "BBB" or equivalent;
- (2) the minimum quality standard for individual short-term investments is "A-3" or equivalent; and
- (3) the minimum quality standard for preferred shares is "P2" or equivalent.

Where the assets of the Portfolio are invested in pooled funds, the minimum quality provisions of the investment policy of the pooled funds shall prevail over those of the SIPG Short Term Portfolio to the extent that they are in conflict.

The above ratings are based on Standard & Poor's. The following rating agencies shall also be considered recognized rating agencies for purposes of the SIPG Short Term Portfolio:

- DBRS
- Moody's Investors Service
- Fitch Ratings

Quantity Restrictions:

The following quantity restrictions are established to ensure an acceptable level of diversification is maintained in the Portfolio:

- (1) except for federal and provincial issues, no more than 10% of the fixed income portfolio may be invested in the securities of a single issuer and its related companies;
- (2) except for federal and provincial issues, no one security shall represent more than 10% of the market value of the total outstanding for that issue; and
- (3) no more than 10% of the market value of the fixed income portfolio shall be invested in securities rated "BBB" or equivalent.

Foreign Currency Exposure:

The Portfolio may have exposure to foreign exchange rate fluctuations due to the foreign component in the portion that is invested in the core portfolio and through foreign currency requirements to meet day to day operations of the University. Foreign currency exposure is managed through:

- (1) limits placed on investments in foreign securities in the Statement of Investment Policies and Goals for the Fund; and
- (2) currency hedging practices that may be established by University management as deemed appropriate to limit the exposure to foreign currencies for known expenditures.

Liquidity Risk:

The Portfolio must maintain a level of liquidity that is sufficient to meet the financial obligations of the University as they become due and the University management must ensure that a sufficient level of liquidity exists in the Portfolio. Liquidity requirements shall be monitored through a cash flow forecasting model.

The overall level of liquidity deemed appropriate is provided by the asset mix policy allocation to the operating portfolio.

8. Performance Measurement

Operating Portfolio:

The rate of return on the operating portfolio, which is designated to meet ongoing liquidity requirements based on the long-term cash flow forecast of the University, is targeted to exceed the rate of return on the FTSE Canada 91 Day Treasury Bill by 20 basis points per annum.

Core Portfolio:

The core portfolio shall target a rate of return that exceeds the overall cost of capital of the University, represented by the weighted average cost of University debt obligations. The return shall be reported at least annually and monitored over four-year moving periods.

The performance measurement targets established for individual investment managers are tailored to the specific mandate established.

9. Monitoring and Control

The Committee has been delegated an oversight role with respect to the Portfolio, which includes evaluating achievement of established performance objectives and monitoring compliance with Policy 56, Policy 114 and SIPG Treasury. University management oversees the external investment managers and reports to the Committee; the Committee may meet with external investment manager(s) as deemed appropriate.

Voting rights for Portfolio investments, where applicable, are delegated to the external investment manager(s) who is responsible for voting using the best interests of the Portfolio as the sole voting criterion.

University management shall direct cash inflows and outflows to the Portfolio to meet ongoing liquidity requirements. The liquidity requirements shall be maintained through the cash flow forecasting model that is updated by University management and reported to the Committee on a periodic basis.

10. Periodic Review

The SIPG Short Term Portfolio may be reviewed and amended at any time; however, it must be formally reviewed by the Committee at least annually. The Committee approves recommended revisions to the SIPG Short Term Portfolio as deemed appropriate.