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|  DALHOUSIE UNIVERSITY Expendable Funds Investment Policy | <i>Policy Sponsor:</i> Board of Governors | <i>Approval Date:</i> December 9, 1999 |
| | <i>Responsible Unit(s):</i> Treasury & Investment Office | <i>Revisions:</i> July 15, 2009 October 9, 2014 Board Finance, Audit, Investment & Risk Committee: June 11, 2019 |

Background and Purpose

The purpose of this policy is to establish operating guidelines which will facilitate effective management of Dalhousie’s balances in its expendable funds. In the course of its operations, the University accumulates cash balances which will fluctuate in size during the fiscal year. These cash balances are derived from funding grants, tuition fees, research grants and ancillary revenues. The bulk of these funds are spent within a relatively short period of time to support the operations of the University and ongoing research. Although the funds are committed for specific purposes, the use of the committed funds is not always immediate and thus significant cash balances can accumulate. It is desirable that the University both protect and optimize the value of these funds, and therefore the excess funds not immediately required for operations should be invested at the maximum yield available within appropriate security, liquidity and diversification constraints.

Regular cash flow and cash balance forecasts are generated by Financial Services to determine the case requirements of the University in both the immediate future and over the following three years. These forecasts will serve as a guide in determining the levels and time periods of cash balances in the University’s expendable funds. The cash balances will be invested to enhance yield and return within the constraints of the University’s Investment Objectives while ensuring sufficient cash resources are maintained to meet upcoming obligations.

Policy

Investment Objectives:

a) The investment of cash balances must satisfy the following investment objectives:

- Maturity terms of directly held fixed income securities are selected which ensure that sufficient cash resources are available to meet obligations as they become due;

- Security of the invested funds must be a prime consideration in any investment and must be assured by reasonable tests. In addition, protection of the invested principal will be achieved with a diversified portfolio as specified by the Eligible Investment Guidelines set forth below;
- A high level of liquidity must be maintained in the portfolio of investments to enable the sourcing of funds at minimal risk level of capital loss, or to provide the ability to adjust the portfolio in changing market conditions. This will be achieved by limiting investments to readily marketable securities;
- A portion of the expendable funds may be invested in the University's endowment investment pool and in assigned short-term mortgage funds. Dollar limits for each individually and for both in aggregate will be set from time to time as percentages of the defined baseline balance of the expendable funds. The percentages and dollar limits approved will be set periodically by the Investment Committee and specified in Appendix A to this policy. As protection against market volatility in either of these investment options, a reserve of \$5 million shall be established from returns on these investments that exceed what the Funds would otherwise earn on the bank deposit rate. The reserve will be utilized to restore the capital in any year that these investments incur a capital loss.
- A portion of the expendable funds may be invested as internal loans to finance strategic University projects. A dollar limit for internal loans in aggregate will be set from time to time as a percentage of the defined baseline capital of the expendable funds. The percentage and dollar limit approved will be set periodically by the Investment Committee and specified in Appendix A to this policy.
- Investment yield and return for the expendable fund portfolio, while important factors, will be subordinate to security and liquidity considerations.
- Securities that are held directly will not normally be actively traded - this will occur only when unexpected cash requirements arise, or opportunities arise to enhance credit at the same yield or enhance yield at the same credit without loss of principal. Underlying investments in the University's endowment investment pool or in a short-term mortgage fund may be subject to active trading.

b) Eligible Investment Guidelines:

The following security guidelines must be followed in the investment of Dalhousie University's expendable funds. The limits and constraints set forth are applicable at the time of investment.

| Type of Security | Investment Limit Percentage of Invested Portfolio | Maturity Limit |
|---|--|-------------------------|
| a) Government of Canada T-Bills, Notes, Bonds | no limit | 3 years |
| b) Government of Canada – Crown Corporations & Agencies, guaranteed notes | no limit | 3 years |
| c) Provincial, T-Bills & Notes - minimum R-1 low Bonds - minimum A (low); [A-] | 30% for entire category 20% per single issuer | 3 years |
| d) Municipals T-Bills, notes - minimum R-1 low bonds - minimum A(low) ; [A-] | 30% for entire category 10% per single issuer | 1 year |
| e) Canadian Chartered Banks, Sch 1 minimum R-1 mid rating Bankers' Acceptances Certificates of Deposit, BDNs, interest bearing GICs | 60% for entire category 30% per single issuer | 6 months 2 years |
| f) Corporate Commercial Paper minimum R-1 mid rating, Canadian Chartered Banks, Sch 2 minimum R-1 mid rating | 30% for entire category 10% per single issuer | 3 months |
| g) External Investments via: <ul style="list-style-type: none"> • Endowment Investment pool • Short-term mortgage fund Aggregate external investments | \$25 million \$60 million total - \$20 million per fund \$60 million | None None None |
| h) Internal Strategic Loans | \$60 million | 10 years |

DBRS ratings [Standard & Poors ratings]

In addition, the portfolio of invested securities must also adhere to the following constraints:

- No additional investments will be made with any issuer within classes (c), (d), (e), or (f) should that issuer be subject to a “rating alert”;
- The portfolio will maintain a minimum of \$40 million cash balance within its liquid operating accounts;

c) Investment Transaction Approval:

Investments made must receive the following approvals prior to the execution of each transaction:

| | <u>Approval required</u> |
|--|--|
| Term to Maturity of less than one year | Any two of the following: <ul style="list-style-type: none">• Vice-President, Finance & Administration• Treasurer• Assistant Vice-President, Financial Services• Controller |
| Term to Maturity exceeding one year | Vice-President, Finance & Administration plus any one of the following: <ul style="list-style-type: none">• Treasurer• Assistant Vice-President, Financial Services• Controller |

Procedure:

Senior Treasury & Investments staff are responsible to plan and execute the investment of the balances of expendable funds and are authorized to make only those investments which are in compliance with the investment guidelines and approval requirements of this policy. Treasury & Investments shall report both quarterly and annually to the Investment Committee on the investment of the University’s expendable funds.

Dalhousie University
Appendix A to
Expendable Funds Investment Policy

June 2019

Projected cash Levels, Expendable Funds:

Peak: \$300 million
Trough: \$200 million

Constraints
(% of Baseline – bank
minimum)

| | | | |
|----------------------------------|---------------------------|------------------------------|----------------------|
| Baseline Capital (trough) | | \$200,000,000 | |
| Bank Balance Minimum | | <u>40,000,000</u> | |
| Available for Investment | | \$160,000,000 | |
| | | | |
| Internal Loans | \$0 - \$60,000,000 | \$ 60,000,000 | 37.5% maximum |
| | | | |
| <u>External Investments :</u> | | | |
| Endowment Pool | \$0 - \$25,000,000 | | 15.6% maximum |
| Short-term Commercial | <u>\$0 - \$60,000,000</u> | | <u>37.5% maximum</u> |
| Mortgage | | | |
| Total Endowment & Mortgage | \$0 - \$60,000,000 | \$ 60,000,000 | 37.5% maximum |
| | | | |
| Money Market & Short Bonds* | | \$15,000,000 – \$200,000,000 | |