



Procedure

Procedure Name	Investment		
Procedure #	RM 2.1	Parent Policy	RM 2.0 Investment
Policy Owner	Board of Governors	Effective Date	November 26, 2019
Procedure Owner	Vice-President Administration and Chief Financial Officer	Review Date	November 26, 2024
Approved by	Finance Committee	Approval Date	November 26, 2019

1.0 Purpose/ Background

- 1.1** These procedures are required to prudently manage the investments of the Northern Alberta Institute of Technology's ("NAIT" or the "Institution") and achieve its principle in accordance with the Investment Policy. Under the policy, NAIT must take appropriate action to ensure the preservation of capital. Within this constraint, NAIT will invest in a manner that optimizes return on its investments that will contribute to the current and future funding requirements of NAIT.

2.0 General Principles

- 2.1** As a publicly funded and accountable organization, NAIT's risk appetite is "somewhat risk adverse". This supports taking appropriate action to ensure the preservation of capital.
- 2.2** Investments that adhere to the investments standards and procedures that a reasonable and prudent person would apply in respect of a portfolio to avoid undue risk and obtain a reasonable return consistent with the fund's objectives are permitted provided these otherwise comply with NAIT's investment policy and procedures.

3.0 Definitions

Term	Definition
Alternative Investment Fund	A fund that invests in asset classes other than stocks, bonds, and cash, such as real estate, infrastructure, mortgages, and others.
Benchmark	The point of reference used for comparison purposes of the performance of a predetermined set of securities. It may be based on published indexes or may be customized to suit an investment strategy.

Credit Rating	The perceived ability of the borrower to pay what is owed on the borrowing in a timely manner; it represents the ability of a company to withstand adverse impacts on its cash flows.
Credit Risk	The risk of loss caused by a counterparty's or debtor's failure to make a promised payment.
Derivative	A financial instrument whose value depends on the value of an underlying asset or factor (e.g., a stock price, an interest rate, or an exchange rate).
Impairment	The diminishment in value as a result of carrying (book) value exceeding fair value and recoverable value.
Liquidity	The ability to purchase or sell an asset quickly and easily at a price close to fair market value
Long-term Investment Fund	Funds used to enhance the capital base and provide an annual income stream to fund endowment commitments and help fund operating activities.
Option	A financial instrument that gives one party the right, but not the obligation, to buy or sell an underlying asset from or to another party at a fixed price over a specific period of time.
Portfolio	A collection of investments.
Project Funds	Funds used to finance NAIT's capital requirements for strategic projects (i.e., capital projects) over the next five years.
Purchasing on Margin	An investor borrows a portion of the money required to purchase a certain amount of securities. In futures markets, there is no borrowing so the margin is more of a down payment or performance bond.
Security	A documentation of ownership that proves ownership of stocks, bonds and other investments.
Short Selling	Selling a security that the seller does not own but is committed to repurchasing eventually. It is used to capitalize on an expected decline in the security's price.

4.0 Standard of Care

4.1 Members of the Board of Governors, Finance Committee, Investment Advisory Subcommittee and Institution personnel shall adhere to the following guidelines when exercising their responsibilities in relation to NAIT investments:

- 4.1.1 In the discharge of their duties and exercise of their powers, they shall exercise the degree of care, diligence and skill that a person of ordinary prudence would exercise in dealing with the property of another.
- 4.1.2 Without limiting the generality of (i), persons who possess, or because of their profession, business or calling, ought to possess, a particular level of knowledge or skill relevant to their responsibilities to the investment fund, shall apply that

particular knowledge or skill set to the investment activities and administration of the Institution's investments.

- 4.2** Institution personnel involved in investment activities at NAIT shall do so in accordance with the Conflict of Interest Policy.

5.0 Targeted Rate of Return

- 5.1** At the beginning of the year, the Office of the Vice-President Administration and Chief Financial Officer ("CFO") and the Investment Manager will provide a plan, based on the investment parameters listed below to achieve the desired rate of return.

6.0 Investment Parameters

6.1 Project Funds

- 6.1.1 Project funds must be invested in short to mid-term bonds of the highest quality that present minimal risk of capital loss in accordance with the investment limitations.
- 6.1.2 Equity components can only be included within the project funds based on the recommendation of the Investment Advisory Subcommittee and the approval of the Finance Committee.
- 6.1.3 A cash component is allowed within project funds within the parameters established for the long-term investment fund.
- 6.1.4 The target return of the project funds is the benchmark plus 35 basis points.

6.2 Long-term Investment Fund

6.2.1 The Long-term Investment Fund must be invested in a diversified portfolio of equities and bonds in accordance with the following asset mix guidelines:

ASSET CLASS	MINIMUM	MAXIMUM
Cash and Short-term Bonds	0%	10%
Bonds	20%	40%
Total Fixed Income	20%	50%
Canadian Equity	10%	20%
Global Equity	30%	60%
Emerging Market Equity	0%	15%
Total Equity	40%	80%
Real Estate	0%	10%
Infrastructure	0%	10%
Total Alternatives	0%	20%

6.2.2 The target total return of the Long-term Investment Fund is to both exceed the benchmark and achieve a rate of return over time of 4% after management fees, expenses, and inflation.

6.2.3 Short-term variations of the minimums and maximums of up to three months, amounting to plus or minus 5% of the market value of the investment portfolio, are permitted due to changes in market value of the total invested assets.

6.3 Supplementary Retirement Plan Fund

6.3.1 NAIT's executive staff are offered membership in a Supplementary Retirement Plan. A separate investment fund, consisting of a mix of bonds and equity, is used to manage NAIT's liability to the pension holders.

6.3.2 The Investment Advisory Subcommittee of the Board is responsible for selecting an Investment Manager and an appropriate array of investment products. The Subcommittee review the performance of the fund annually.

6.4 Credit Ratings

6.4.1 Minimum credit quality limits are established to reduce a fund's credit risk exposure. Credit ratings refer to the ratings issued by an approved credit rating

agency. In the event one or more credit ratings differ from the others, the most conservative credit rating shall be used.

- 6.4.2 If the credit rating of a security is subsequently downgraded below the minimum credit rating limit, adjustments must be implemented within one month of the downgrade unless approval to continue holding downgraded security is obtained from the Finance Committee.

6.5 Cash and Short-term Securities

- 6.5.1 Cash and short-term securities with a maximum term to maturity, at time of purchase, of 364 days or less, may be held in the investment portfolio when deemed appropriate in managing the investment portfolio and NAIT's cash requirements.
- 6.5.2 For cash and short term securities, the Investment Manager may invest in treasury bills issued by the federal and provincial government, short term bank notes, bankers' acceptances, chartered bank certificate of deposit, promissory notes, repurchase agreements, or other corporate short term paper with a minimum credit rating of one of the following:

APPROVED CREDIT RATING AGENCY	RATING
Standard & Poor's	A-1 (low)
DBRS	R-1 (low)
Fitch Ratings	F1
Moody's	P-1

- 6.5.3 The maximum percentage of the market value of foreign issuers is 30%.
- 6.5.4 Repurchase agreements must be secured securities approved in these procedures.

6.6 Bonds and Debentures

- 6.6.1 The emphasis within the bond portfolio will be on quality, with 70% of the portfolio meeting the following minimum credit ratings:

APPROVED CREDIT RATING AGENCY	RATING
Standard & Poor's	A
DBRS	A
Fitch Ratings	A
Moody's	A2

- 6.6.2 The acceptable quality commitment for the bond and debentures component of the portfolio is as follows:

QUALITY	LIMIT OR MAXIMUM PERCENTAGE OF MARKET VALUE
BBB Bonds (or equivalent)	30%
Single (non-government) Issuer	10%
Corporate Bonds	75%
Foreign Content	30%

6.7 Equities

- 6.7.1 Investment in any one security or issuer shall not exceed 10% of the equity portfolio, or 5% of the entire investment portfolio.
- 6.7.2 The Investment Manager must hold a minimum of 20 securities to provide a diversified selection of equities.
- 6.7.3 All investments in international and emerging market equity must be denominated in U.S. dollars and listed and traded on a recognized major stock exchange.

7.0 Investment Performance Monitoring

- 7.1 NAIT will measure asset classes against the following benchmark indexes.

ASSET CLASS	BENCHMARK INDEX
Cash and Short-term	FTSE TMX Canada 30 Day T-Bill Index
Bonds and Debentures	FTSE TMX Canada Universe Bond Index CAD
Canadian Equity	S&P/TSX Composite Index CAD
International and Emerging Markets Equity	MSCI All Country World Net Index CAD
Alternative Investments	CPI + 4% (global real estate)

- 7.2 Investment performance shall be monitored on a quarterly basis by the Associate Vice-President of Finance and Corporate Services.
- 7.3 If underperformance relative to the benchmarks is observed in any three consecutive quarters, the Associate Vice-President of Finance and Corporate Services will evaluate the results and prepare an action plan for Vice-President Administration and CFO and Investment Advisory Subcommittee approval.

8.0 Selecting Investment Manager(s)

- 8.1 The Investment Advisory Subcommittee reviews the performance of each Investment Manager annually. Every five years, NAIT will review the performance of the current Investment Manager(s) and determine if a market Request for Proposal for selection of

alternate Investment Manager(s) in accordance with the Procurement Policy is required.

- 8.2 The Associate Vice-President of Finance and Corporate Services will draft a recommendation for investment management services for review and approval by the Vice-President Administration and CFO.
- 8.3 The Investment Advisory Subcommittee will review the recommendation on behalf of the Vice President Administration and CFO or, alternatively, the proposals received in response to the Request for Proposal and provide recommendations to the Finance Committee for approval. Only those proponents who are registered with the Alberta Securities Commission and in good standing with the Investment Industry Regulatory Organization of Canada will be considered.

9.0 Safekeeping and Custody

- 9.1 The custodian shall be selected by the Investment Advisory Subcommittee based on the recommendation of the Vice-President Administration and CFO.
- 9.2 The custodian shall provide monthly activity reports for each investment account to the Manager, Financial Planning. The reports shall include the following information:
- Investment activity
 - Book value of the holdings
 - Month-end market values
 - Cash receipts and disbursements
 - Income

10.0 Investment Reporting

- 10.1 On a monthly basis, the Investment Manager will provide the Manager, Financial Planning with monthly activity reports. The Manager, Financial Planning will review the accuracy of the reports and reconcile the amounts to the Institution's accounting records and the reports provided by the custodians.
- 10.2 On a quarterly basis, the Manager, Financial Planning will prepare an investment report for the Associate Vice-President of Finance and Corporate Services to present to the Investment Advisory Subcommittee. The report will include, at a minimum, the following:
- Financial market and economic update
 - Asset listing detailing par value, cost and market value of each type of investment, issuer and interest rate
 - Rates of return for the total fund and individual categories and benchmarks for the prior three months, one year and annualized and fiscal year to date
 - Performance and compliance reports from the Investment Manager
 - Investment Exceptions Report detailing investment activities that breached an investment parameter, reasons for the breach and an action plan.
- 10.3 During the fiscal year, the Investment Manager will provide the Associate Vice-President

of Finance and Corporate Services with the following information:

- Monthly summary of transactions provided to NAIT's Financial Planning department within a few days of month end.
- A monthly written listing of all portfolio transactions and portfolio valuations.
- A quarterly analysis of the total and individual asset class return, sources of value added or loss, relative and absolute risks of the fund(s) in comparison to the relevant benchmark, and adherence to the Investment Policy.
- A quarterly written assessment on the relevant economies and market expectations in the near term.
- An annual review of the Investment Policy and the investment portfolio quality and diversification guidelines.

The Investment Manager must notify the Office of the Vice-President Administration and CFO as soon as possible when net realized losses are expected in the portfolio in any fiscal year.

10.4 The Associate Vice-President of Finance and Corporate Services shall prepare and present an investment report, at least annually, to the Finance Committee. The report will include, at a minimum, the following:

- Financial market and economic update
- Rates of return for the total fund and individual categories and benchmarks for the prior one month, three months, one year and annualized and fiscal year to date
- Investment Exceptions Report detailing investment activities that breached an investment parameter, reasons for the breach and an action plan.

11.0 Investment Manager Monitoring

11.1 Investment managers shall be monitored on an ongoing basis by the Associate Vice-President of Finance and Corporate Services with consideration to, among other things:

- Compliance with the Investment Policy and Investment Procedures
- Performance in relation to the investment targets and objectives
- Fees and commissions
- Characteristics of the investment manager's firm (e.g. ownership, client retention, growth in assets, etc.)
- Alignment of investment manager's style and philosophy to NAIT's.

11.2 As noted above, the Associate Vice-President of Finance and Corporate Services will report Investment Exceptions Report to the Investment Advisory Subcommittee along with an action plan to address the non-compliance.

11.3 The Associate Vice-President of Finance and Corporate Services shall provide recommendations on the termination of investment managers to the Vice-President Administration and CFO and the Investment Advisory Subcommittee for approval if required. Factors that should be considered include, but are not limited to:

- Performance results below objectives and targets over a reasonable period of time
- Changes in the structure of the investment fund such that the investment manager's services are no longer required
- Legal or regulatory proceedings against the Investment Manager or investment personnel including sub-advisors of the firm
- Non-compliance with the Investment Policy and/or Investment Procedures.

12.0 Roles and Responsibilities

12.1 The Board of Governors shall:

- Approve the Investment Policy including any amendments as deemed appropriate
- Set the direction for the investments of Institution funds.

12.2 The Finance Committee shall:

- Appoint members to the Investment Advisory Subcommittee
- Develop policies and guidelines for the investment of funds and select managers to invest the funds in line with those policies and guidelines
- Approve the allocations of assets to the Projects Funds and the Long Term Investment Fund based on recommendations from the Investment Advisory Committee
- Determine the percentage of the Long Term Investment Funds that will be used for spending each year based on recommendations from the Investment Advisory Committee

12.3 The Investment Advisory Subcommittee shall:

- Ensure compliance with the Investment Policy
- Annual set and review investment mix, benchmarks and procedures
- Report quarterly to the Finance Committee
- Provide an annual report to the Finance Committee
- Recommend the Investment Manager(s) to the Finance Committee
- Set and review target investment mixes within the established guidelines
- Review and advise on investment portfolio mix and benchmark returns
- Evaluate investment performance relative to benchmarks
- Review performance of any Investment Managers and recommend changes, if appropriate
- Report back to the Finance Committee on an annual basis on the performance of the Investment Managers
- Review investment portfolio for security and consistency with the Investment Policy
- Review and recommend Investment Policy changes to the Finance Committee

- Annually review and recommend changes to the Terms of Reference for the Investment Advisory Subcommittee to the Finance Committee
- Undertake additional responsibilities as requested by the Finance Committee.

12.4 The Vice-President Administration and CFO shall:

- Designate members of NAIT staff to serve as resource persons to the Investment Advisory Subcommittee
- The Office of the Vice-President Administration and Chief Financial Officer will be the main contact for communication between NAIT and the Investment Manager

12.5 The Investment Manager shall:

- Have full discretion in the management of assets of the funds, selecting the appropriate asset mix and individual securities, in accordance with the guidelines contained in this policy

13.0 Exceptions to the Procedure

13.1 Exceptions to the guiding principles in this policy must be documented and formally approved by the Policy Lead.

Procedure exceptions must include:

- The nature of the exception
- A reasonable explanation for why the procedure exception is required
- Confirmation that the exception aligns with the general principles
- Any risks created by the procedure exception and how they will be managed.

Document History

<i>Date</i>	<i>Action/ Change</i>
September 23, 2015	Updated existing procedure to new format and clarified NAIT's general principles and roles and responsibilities.
October 10, 2017	Update policy with new asset mix guidelines and minor housekeeping.
May 29, 2018	Update the ranges acceptable for the different investment classes.
September 24, 2019	Update procedure with new asset mix.
November 5, 2019	Update Procedure with new asset mix.