

**Working Capital  
Investment Policy**

**University Policy No.:** FM5200  
**Classification:** Financial Management  
**Approving Authority:** Board of Governors  
**Effective Date:** June 2020  
**Supersedes:** September 2017  
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**Background**

- 1.00 The University of Victoria ("the university") has working capital investments from its operations that do not include pensions, the University Student Investment Fund, and endowments that are separately managed. The working capital investments arise from operating, research, and capital project financing received in advance, insurance reserves, and from appropriations of funds set aside for equipment replacement and future initiatives including carryovers of funds not spent by departments in the fiscal year.
- a) The cash flows of the university are generally predictable and permit the investment of the working capital funds. A portion of the funds must be invested so that they are sufficiently liquid to meet periodic cash needs on relatively short notice.

**Authority**

- 2.00 The funds are to be invested in accordance with Section 57 of the [University Act](#), which states that "subject to a contrary intent expressed in a gift, devise bequest or trust, Section 15 of the Trustee Act does not apply to investments made by a board of a university and each board (a) may invest money belonging to the university and available for investment, and (b) must, when investing under paragraph (a), make investments that a prudent person would make."

**Investment Objectives Based on Risk and Return**

- 3.00 The investment objectives are:
- to preserve capital;
  - to provide liquidity by investing a portion of the funds in liquid short-term investments that can be converted to cash with no risk of principal loss;
  - to provide yield at a low level of volatility;
  - to maintain purchasing power; and

- to achieve a commitment of investing at least 25% of the portfolio in thematic impact investments.

The working capital fund will be categorized into the following three categories:

a) Liquidity

Assets used to meet the day to day cash requirements of the university. These assets should be principal guaranteed, and cash redeemable at any time for at least the principal value. Assets in this category are limited to cash, funds held in the Central Deposit Program with the Provincial Government, as well as fully guaranteed investment certificates (GICs) with credit unions and banks.

b) Yield

Assets used to generate additional return at an appropriate level of risk. Assets are limited to fixed income securities, mortgage funds, and private debt.

c) Return Seeking

Assets used to generate a higher rate of return to provide long term growth to the short-term pool. Assets are limited to public equities, private equities, infrastructure, and venture capital.

### **Investment Constraints**

4.00 The investment constraints are:

a) Liquidity

All liquidity assets must be redeemable on short notice with principal value fully guaranteed.

Funds invested in GICs will have a minimum R-1 Low credit rating, through approved investment brokers. Investments with a specific issuer may not exceed 30% of the total liquidity asset pool at the time of investment.

b) Yield

At least 50% of Yield assets, excluding those invested in internal loans, must be redeemable within 90 days.

i. Fixed Income

Assets are to be invested at all times in a prudently diversified portfolio. Reference credit ratings for bonds are those as published and regularly reviewed and/or revised by recognized debt rating agencies, including DBRS, Standard & Poor's, and Moody's.

The portfolio manager will be responsible for diversifying the bonds by type and by sector and for prudently and diligently managing credit risk. If downgrades occur it is expected the portfolio manager will closely monitor the situation and provide updates to the university administration.

ii. Mortgage Funds

The investment constraints established above for credit quality minima applicable to bonds shall by equivalency apply to the selection and weighting of credit quality applicable to mortgage holdings.

The portfolio manager will be responsible for diversifying the mortgages by type and by geographic location and for prudently and diligently managing the risks associated with exposure to individual properties.

iii. Private Debt

Assets are to be invested at all times in a prudently diversified portfolio. The portfolio manager will be responsible for diversifying the debt by type and by sector and for prudently and diligently managing risk. Investment in this asset class will not make up more than 20% of the overall working capital investments.

c) Return Seeking

i. Public Equities

Assets are to be invested at all times in a prudently diversified portfolio through a portfolio manager or indexed funds. The portfolio manager will be responsible for diversifying the securities by sector and for prudently and diligently managing the risks associated with exposure to this asset class. No one equity holding shall represent more than 10% of the market value of the total equity portfolio of any one manager.

ii. Private Equities

Assets are to be invested at all times in a prudently diversified portfolio. The portfolio manager will be responsible for diversifying the securities by sector and for prudently and diligently managing the risks associated with exposure to this asset class.

iii. Infrastructure

Assets are to be invested at all times in a prudently diversified portfolio. The portfolio manager will be responsible for diversifying the securities by type and geographic location and for prudently and diligently managing the risks associated with exposure to this asset class.

iv. Venture Capital

Assets are to be invested at all times in a prudently diversified portfolio. The portfolio manager will be responsible for diversifying the securities and for prudently and diligently managing the risks associated with exposure to this asset class. Investment in this asset class will not make up more than 1% of the overall working capital investments.

### **Investment Managers**

5.00 The Vice-President Finance and Operations will develop investment manager guidelines for all external mandates. These will be developed in conjunction with the investment managers to ensure consistency with applicable pooled funds. These guidelines will be reported to the Board as part of the semi-annually reporting on performance.

a) Selection

The Vice-President Finance and Operations will recommend for the Board to appoint one or more suitably qualified external professional investment managers. The selection of an investment manager will be made in a prudent manner, applying fair and reasonable identification, evaluation, and selection standards, taking into account for a potential investment manager:

- the relevant experience and expertise;
- suitability of investment style;
- the structure of the organization;
- turnover of personnel;
- capacity and servicing capabilities;
- investment performance record, including consistency of performance and risk;
- investment management fees;
- ability to effectively incorporate environmental, social, and governance factors into investment management practices; and
- ability to actively engage with companies to foster disclosure of climate related risks, and adoption of operational practices that reduce carbon emissions.

b) Duties and Responsibilities

- exercise care, diligence, and skill of a prudent investment counsellor and at all times act on a basis that is fair and reasonable;
- adhere at all times to the Code of Ethics and Standards of Professional Conduct adopted by the Association of Investment Management and Research;
- provide monthly reports of transactions and rates of return;
- provide quarterly reports of portfolio holdings, results achieved, and explanations of any shortfall from the benchmark; and
- inform the Vice-President Finance and Operations promptly of any changes in the investment manager's firm, including changes of ownership, senior investment personnel, or investment style.

## Authorized Investments and Limits

- 6.00 In placing working capital investments, the Vice-President Finance and Operations will advance funds to be managed within the benchmarks and asset mix guidelines, as noted in the following tables. Should a large cash inflow or outflow occur resulting in a breach of the maximum and minimum percentages below, the university's treasury staff will advise the Vice-President Finance and Operations of the breach and take the steps necessary to rebalance within the policy parameters in a prudent manner.

The distribution of weights among asset classes will be determined based on the university's cash balances, near-term liquidity requirements, and capital plans over the long term horizon. Cash flow modeling will be used to determine the level of liquidity needed with allocations to liquidity and yield assets reflecting those needs. Where it is determined that a portion of the fund will not be required over the longer term, funds can be invested in return seeking assets.

### Benchmarks

Asset Class	Benchmark	Benchmark (%)
Liquidity	Canadian Consumer Price Index (CPI)	55
Yield	Canadian Consumer Price Index (CPI) + 1%	40
Return Seeking	Canadian Consumer Price Index (CPI) + 3%	5

Managers are expected to achieve the performance objectives included in their mandates over the relevant time horizon.

### Allocation Ranges

Asset Class	Minimum (%)	Target (%)	Maximum (%)
Liquidity	35	55	75
Yield	0	40	60
Return Seeking	0	5	10

If there are any changes to investment managers or brokers, the Board will be informed at the subsequent meeting.

#### a) Currency (or Exchange Rate) Risk Management

The university recognizes that exchange rate risks are incidental to normal business operations. The university does not normally hedge against foreign currency transactions as a matter of general practice.

Where a specific transaction or group of transactions is to occur in a foreign currency and the amount of the transaction exceeds \$50,000 USD the Vice-President Finance & Operations may authorize the purchase of hedging products which are effective in

managing risk and make hedging decisions based on the institution's objectives and tolerance for risk, rather than market conditions.

### **Reporting**

- 7.00 A report of working capital investments will be submitted semi-annually to the Board of Governors, including investment performance of each fund compared to benchmarks and adherence to each fund's stated guidelines of duration, investment constraints, and credit risk exposure. An update on the fund's responsible investment activities, including percentage of committed impact investments, will be submitted in the same report.
- 8.00 The Vice-President Finance and Operations is authorized to exercise discretion in varying the application of the foregoing policy directives on the understanding that any such variations shall be identified in the semi-annual reports referred to above, but in no event shall investments be made in funds not authorized.

### **Authorities and Officers**

The authorities and officers for this policy are:

- i) Approving Authority: Board of Governors
- ii) Designated Executive Officer: Vice-President Finance and Operations
- iii) Procedural Authority: Vice-President Finance and Operations
- iv) Procedural Officer: Vice-President Finance and Operations

### **Relevant Legislation**

[University Act, RSBC 1996 c 468](#)