Operating and Endowment Fund

Statement of Investment Objectives, Policies and Governance
(MAPP 2.26)

Revised November 2017

Western
UNIVERSITY · CANADA

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Section 1 Purpose and Background

1.1 Introduction

The purpose of this Statement of Investment Objectives, Policies and Governance is to document the investment beliefs, principles and policies of Western University (the "**University**") for the Operating and Endowment Fund (the "**Fund**"). This document is a management tool and is not designed to satisfy any specific legislation, but is expected to demonstrate prudent management of the Fund and provide a framework for investments. The authority and responsibilities of decision-making entities are also documented herein.

1.2 Description of University Funds

The Fund includes all of the University's available funds and consists of two components:

i) endowed assets that are invested to generate income sufficient to meet the payout rate established by the Board of Governors (the "**Board**") under Investment Payout Policy **MAPP 2.11** ("**Policy 2.11**") to fund endowed chairs and scholarships, among others (the "**Endowed Portfolio**"); and

ii) excess cash related to non-endowed funds (the "**Operating Portfolio**").

The two components are invested according to the same investment policy as described in this document. The ownership share of the Fund between the Endowed Portfolio and the Operating Portfolio is tracked on a monthly basis and investment returns are allocated based on the pro-rata share each month.

The University also holds two portfolios:

- a Short-Term Asset Portfolio generally invested in a bank account, a money market fund and a high-interest savings account; and

- a Mid-Term Asset Portfolio invested in bonds and debentures maturing within 10 years, with the majority of the portfolio maturing within five years. This portfolio will generally be invested in bonds and debentures guaranteed by the Government of Canada, a Crown corporation or agency, a Canadian province, a Canadian municipality or a Canadian corporation. Bonds and debentures shall have a credit rating of at least "BBB" as measured by two recognized credit rating agencies.

These two shorter-term asset portfolios provide the University with the liquidity necessary for the allocation of spending from endowments. As a result, the University is able to manage the Fund with a very long term focus, with little need for liquidity. In fact, the horizon of the Fund is perpetuity, and it is invested to withstand volatility in returns from quarter to quarter and year to year.

Section 2 Statement of Investment Committee Beliefs

The Investment Committee is guided by various investment beliefs, including:

- A governance framework is essential to achieve success in managing investments and consists of:

  i) a diverse, independent and experienced Investment Committee to mentor, monitor and counsel University Administration;

  ii) written investment objectives, policies and governance guidelines to facilitate efficient operations;

  iii) acknowledgment and delegation of responsibilities amongst four levels of fiduciaries:

    - Board – approves policies and is ultimately responsible for results attained;
    - Property and Finance Committee (“**P&F”**) – recommends policies to the Board;
    - Investment Committee – designs policies and oversees implementation thereon; and
    - Administration - implements policy directly and through contracted agents;

  iv) establishment of risk management policies, commensurate with the Fund’s circumstance, which attempt to address the greatest investment risks within the Fund. However, it must be recognized that in order to attain the stated objectives, some risk is essential within the Fund.

- A broadly diversified portfolio which includes, among other vehicles, cash, bonds, equities and less liquid non-traditional investments such as private equity, real assets and absolute return strategies are the best way to achieve required nominal and real returns and is a prudent and cost-effective method of reducing risk.

- Cash is generally the asset class with the lowest expected long-term returns and should be minimized.

- Bonds provide a steady income stream and often experience lower volatility when equity performance is volatile.

- Equities provide dividend income and/or potential capital growth and are expected to outperform bonds by a risk and volatility premium.

- Equity premiums are dynamic and unpredictable; hence, diversification by market, manager and style is preferred.

- Non-liquid and non-traditional investments, particularly in private equity, real estate and infrastructure, provide income and potential capital growth but generally require more specialized knowledge than public equities and have higher management fees.

- Portfolio rebalancing according to asset range guidelines is a procedure that maintains equity/bond exposures at risk policy levels.

- Active portfolio managers are expected to add value above their respective benchmark after taking into account related fees, particularly in less efficient markets such as Canadian, Non-North American equities and in private markets. Active portfolio management is defined as any strategy where a manager uses proprietary knowledge to outperform a benchmark, as opposed to only replicating the benchmark return.

- Due to the size of the Fund, it is more economical to use external investment managers. External investment managers should preferably be researched by the investment consulting community in order to be considered for managing a portion of the portfolio.

- The Investment Committee should remain mindful of the size of the Fund's holdings with a particular manager in relation to the size an investment manager's assets under management.

- The Fund has a long duration with low liquidity needs and, as a result, can hold some of its assets in illiquid investments (e.g. real estate, private equity, infrastructure and hedge funds) with an objective to achieve additional diversification and an additional liquidity risk premium.

- Attempting to achieve investment return advantages through market timing practices, such as frequent asset allocation changes, poses unacceptable risks to the Fund. It is extremely difficult to repeatedly time the market through ongoing changes to the equity/bond mix and in individual elements of the portfolio.

- Portfolio return objectives and pursuits thereon must be evaluated on a net-of-fees basis.

- Most University operating costs and obligations are denominated in Canadian dollars; hence, some foreign currency hedging is desirable to reduce risk.

- The Investment Committee recognizes that environmental, social and governance factors may have an impact on corporate performance over the long term, although the impact can vary by industry.

- Members of the Investment Committee will advise the Committee Chair of any conflicts of interest that arise.

- The above investment beliefs should be reviewed on an annual basis.

Section 3 Investment Objectives and Policies

3.1 Fund Objectives:

i) to maintain the purchasing power of the Fund after payout over the long-term. The required return, at a minimum, should meet (after fees) the University's Investment Payout Policy 2.11;

ii) to earn the return produced by the Asset Mix Policy (section 3.3), based on the return of the market indices, plus a premium to reflect active portfolio management. The premium should at least cover the cost of active management; and

iii) to meet the following payout requirements:

<u>For the Endowed Portfolio:</u>

a) Pay the total return generated by the endowment portfolio's share of the Fund to the capital of the endowment funds.

<u>For the Operating Portfolio:</u>

b) Pay the 30-day Treasury bill rate less an established administrative fee to a portion of the non-endowed funds, as outlined in Policy 2.11. Such portion of the Operating Portfolio includes the Capital Fund, Ancillaries, and Trust Funds but do not include Research Funds.

c) Pay the amounts required for the Supplemental Pension Plan and for Term Endowments as outlined in Policy 2.11.

d) Pay an allocation to the Operating Budget, subject to availability and restricted to one-time allocations.

e) When investment returns exceed the above obligations and are in excess of the reserve requirements (as defined later in this document), the Board may make additional allocations in relation to University priorities and needs.

3.2 Risk Tolerance

The required real rate of return over time can only be achieved by accepting a level of volatility in returns from quarter to quarter and from year to year. The current expected asset mix policy return on the portfolio is 6.7 % and the expected standard deviation of returns is 11.7% (see note 1 below). As a result, we expect that annual policy returns will fall within a range of minus 5.0% to plus 18.4% about 67% of the time and that annual returns will fall outside of this range about 33% of the time.

1 Source: Russell Investments as of June 30, 2014.

3.3 Asset Mix Policy

The Investment Committee reviews the asset mix policy on an annual basis to maintain, over the long term, the best balance between investment returns within an acceptable level of risk. Assets will be allocated across four strategic asset classes, based on the role of the underlying assets in the portfolio. The four strategic classes are Equities, Fixed Income, Real Assets and Diversifiers. Each strategic asset class is exposed to particular risk factors.

- Equities are expected to generate most of the growth in the portfolio.
- Fixed Income assets are expected to protect the portfolio in times of stress and provide some liquidity.
- Real Assets are expected to protect the Fund from high or unexpected inflation.
- Diversifiers provide additional diversification to the portfolio due to their low correlation with the other asset classes.

The current target asset mix policy is 65% in Equities, 15% in Fixed Income, 15% in Real Assets and 5% in Diversifiers. The asset mix policy is based on an optimization model that was externally developed and vetted by the Investment Committee. This model projects investment return and risk based on historic relationships among the asset classes. To achieve the return objective, the portfolio has a substantial weight in growth assets.

The table below shows the risk factors that each strategic asset class is exposed to:

Risk Factor Exposure

Asset Class	Risk Factors
Equities (Growth)	
Canadian equities U.S. equities EAFE equities Long/short equities Private equity	Equity Size (Small cap) Liquidity Value / Growth Foreign exchange
Fixed Income (Interest Sensitive)	
Core fixed income Commercial mortgages	Interest rate Credit Deflation Liquidity Foreign exchange
Real Assets	
Real estate Infrastructure Commodities	Inflation Liquidity Foreign exchange
Diversifiers	
Absolute return strategies Market neutral strategies Cash	High yield credit spread Liquidity

3.4 Rebalancing Policy

The Investment Committee is permitted to deviate from the approved asset mix policy as follows:

Western University
Operating & Endowment Fund
Rebalancing Policy

Strategic Asset Class	Target Mix	Allowable Drift	Range
Equities			
Canadian Equities	20%	+/- 5%	15% to 25%
U.S. Equities	20%	+/- 5%	15% to 25%
EAFE Equities	20%	+/- 5%	15% to 25%
Private Equity	5%	+/- 5%	0% to 10%
Total Equities	65%	+/- 5%	60% to 70%
Fixed Income			
Core Fixed Income	10%	- 5%, +25%	5% to 30%
Commercial Mortgages	5%	+/- 5%	0% to 10%
Total Fixed Income	15%	-5%, +25%	10% to 35%
Real Assets			
Real Estate	5%	+/- 5%	0% to 10%
Infrastructure	10%	+/- 5%	5% to 15%
Total Real Assets	15%	- 10%, +5%	5% to 20%
Diversifiers			
Cash	0%	- 0%, +10%	0% to 10%
Absolute Return Strategies, Market Neutral Strategies	5%	+/- 5%	0% to 10%
Total Diversifiers	5%	- 5%, +10%	0% to 15%

Changes to the asset mix policy beyond these ranges would require the approval of P & F on the recommendation of the Investment Committee.

3.5 Target Ratios for Non-Endowed Funds

The Administration provides quarterly reports to P & F which monitor the reserve levels for the Operating Portfolio by reporting the ratio of the market value of investments to the obligations of the Operating Portfolio at the end of each fiscal quarter over time. The Board's policy requires the ratio of investments to obligations to maintain a target level of at least 1.08, based on a 12 quarter moving average. It is recognized that due to volatility in investment returns this ratio may fall below 1.00 at the end of a given quarter. Any such shortfall will be shown in the annual financial statements but will not be used in calculating the balanced operating budget required by the Board.

The investment earnings objective is expected to exceed the payout requirements over time for the Operating Portfolio. Indeed, a fundamental premise is that investment returns in excess of the payout requirements will be generated to meet other important University needs.

Reserves, being the cumulative difference between investment returns and obligations are maintained for the Operating Portfolio to accommodate the short-term variability of investment returns and thus reduce, to an acceptable level, the risk associated with meeting the payout requirements discussed in 3.1 (b) and (c) above.

The reserve level is equal to the total market value of the Operating Portfolio portion of the Fund less the obligations owing to the Operating Portfolio. It is recognized that there is potential for the reserve level for non-endowed funds to be in deficit. Nevertheless, the Investment Committee is expected to take a long-term view of the management of the Fund and to maintain an asset mix which is expected to earn the required rate of return over the long run.

3.6 Endowment Payout Policy

The Board establishes policy for endowment payout (Policy 2.11, as amended from time to time). Such policies are designed to ensure that current and future generations share equally in the benefits of the endowments.

3.7 Eligible Investments

Equities

Equity investments include common stock and equivalent securities, including, but not limited to, equity warrants, rights, call options, installment receipts, subscription receipts, convertible debentures, limited partnerships, private placements, REITs, preferred shares, stapled units (see note 2 below), stock index futures, options on futures and other derivative securities to manage risk, such as currency futures. The common stock or equivalent securities may be traded on Canadian, U.S., international or emerging markets stock exchanges, but can also be privately held. Specific equity mandates may be classified as Canadian equity, U.S. equity, international equity, global equity or emerging markets equity. Equity investments may also involve short selling. Private equity investments may include leverage that is appropriate for that asset class.

Fixed Income

Fixed income investments may include Canadian Government and Guaranteed-Affiliates bonds, real return bonds, provincial and municipal bonds, corporates/credit sensitive securities (includes the debt of corporations, supranational agencies and municipal entities whether domiciled inside or outside Canada, in developed or developing countries), sovereign bonds from developed or developing countries, high-yield bonds, mortgages, preferred stock, commercial mortgage-backed securities, commercial mortgages, mortgage-backed securities, asset-backed securities, private placements, convertible securities, cash and equivalent and fixed income futures and options.

2 A stapled unit is a security that is contractually bound to one or more other securities to form a single salable unit.

Real Assets

Real Asset investments include real estate, infrastructure and commodities.

Real estate investments are ownership investments in land and buildings that are used for office, industrial, retail or residential purposes. Returns from real estate are expected to provide an offset for inflation over time.

Infrastructure investments are investments in assets that provide essential services with sustainable demand and predicable cash flows (see note 3 below). Returns from infrastructure are expected to provide an offset for inflation over time.

Real estate and infrastructure investments may include leverage that is appropriate for those asset classes.

Commodities may include direct investments, or investments through derivatives such as futures, in basic goods in the agriculture, livestock, energy and mining sectors.

Diversifiers

Diversifiers include cash and cash equivalents, absolute return strategies and market neutral strategies.

Cash and cash equivalents include the following securities:

- Government of Canada treasury bills, notes, debentures and any obligations unconditionally guaranteed by the Federal Government of Canada;
- Treasury bills, notes, debentures and any obligations unconditionally guaranteed by a provincial government of Canada;
- Municipal notes, debentures and any obligations unconditionally guaranteed by a municipal government of Canada;
- Highly rated foreign government treasury bills, notes, debentures and any obligations unconditionally guaranteed by a foreign government;
- Highly rated Banker's Acceptances, Certificates of Deposits and other instruments issued by a Canadian or foreign bank;
- Highly rated commercial paper and corporate bonds of Canadian and foreign corporations;
- Repurchase agreements backed by a minimum of industry standard collateral; and

3 Infrastructure investments projects include water, utilities, toll roads, bridges, tunnels, communications and airports, etc.

- Floating-rate notes issued by Canadian or foreign issuers.

Absolute return strategies try to achieve positive returns irrespective of the market environment and exhibit low correlations with bonds and stock portfolios.

Market neutral strategies are structured in such a way that they are not exposed significantly to market fluctuations.

Absolute return and market neutral strategies may include leverage that is appropriate for these types of assets.

3.8 Manager Structure

The Investment Committee manages the risk profile of the Fund by recommending for approval the Asset Mix Policy to P & F and then, ultimately, to the Board. The Committee hires external investment managers with specific asset class investment mandates as opposed to balanced investment mandates and the Committee is thus able to manage the actual asset mix of the Fund.

The Investment Committee may hire either active or passive investment managers. In general, passive management is preferred in markets where managers have not been able to outperform the market indices, such as the current case in Canadian fixed income securities. Active managers are required to earn a prescribed amount over the appropriate index return to cover their fees and to compensate for the greater risk of active management.

Management of publicly traded equities may involve the use of leverage and short selling at a level with which the Committee stated at the outset of the Manager's mandate. The Committee may hire managers where the mandate allows leverage and short selling (see note 4 below).

There is a preference for multiple manager styles for the total fund. Within equities, styles can include value and growth. Within bonds, styles can include interest rate anticipation, sector selection, security selection, yield curve positioning and currency management or passive (index returns).

The University's tax-exempt status makes interest, dividends, capital gains and foreign exchange gains equally desirable.

3.9 Exposure to Non-Canadian Currencies

The Canadian equity market represents approximately 4% of total world equity market in terms of total capitalization. Non-Canadian investments are included in the Fund in order to add diversification and reduce volatility of returns. Non-Canadian investments need not necessarily incur gains or losses from increases or decreases in the value of the Canadian dollar relative to currencies in other countries. This can be accomplished through currency hedging techniques employed by an investment manager.

4 When a security is sold short, the security is borrowed from a broker and sold with the intention of making a profit by buying the security back at a lower value.

Although an analysis of the University's spending shows that less than 5 % of all expenditures are in non-Canadian funds, the value of the Canadian dollar affects the price of imported materials that are resold in Canada. Accordingly, it is appropriate to have some exposure to investments within currencies that are Non-Canadian to provide a hedge against a major fall in the value of the Canadian dollar.

The policy range of exposure to Non-Canadian currencies has been established to be within the range of 0% to 60% of the total Fund, after currency hedging.

3.10 Measurement of Investment Returns

Investment returns are measured quarterly and assessed in relation to the following criteria:

- The overall objective is to achieve the required rate of return over the long term on the Fund, with an acceptable level of risk. The real rate of return is monitored on a four year annualized basis.

- The Managers are expected to achieve the performance objectives included in their mandates over 4-year periods.

3.11 Cash Flow Management

The objectives of the University's cash flow management process are as follows:

i) to maximize the funds that are available for external management in the Fund, while maintaining sufficient short-term and mid-term investments outside of the Fund to meet the University's working capital requirements;

ii) to generally maintain a positive cash balance throughout each year in order to meet the University's liquidity needs, investing temporary excess cash either in money market funds and short term fixed income funds to provide cash as required for working capital needs or in debt securities maturing within 10 years in order to generate higher returns. The Investment Committee shall approve the investment managers for such funds;

iii) to only borrow funds for short periods of time to support operating purposes. A line of credit is maintained for operating needs in the amount of up to $20 million; and

iv) to ensure, as much as reasonably possible, that the funds allocated to external managers are not subject to short-term cyclical variations as a result of the University's cash flow needs.

The above objectives require Financial Services to monitor funds on a daily basis and to regularly monitor and project total cash balances across all University accounts.

3.12 Conflict of Interest

If a member of the Investment Committee or any agent of or advisor to the Committee has any material pecuniary interest, direct or indirect, in any matter in which the Fund is concerned and becomes aware of such a conflict, that person shall, without delay, disclose this interest in writing and shall not take part in any debate or vote on such a matter. It is noted that agents and advisors are permitted to present items to the Committee and it is understood that such agents and advisors may benefit in the event that the Committee adopts the items.

The Investment Committee shall include in the mandate of each investment manager the requirement to comply with the Code of Ethics and Standards of Professional Conduct adopted by the CFA Institute.

Every disclosure of interest under this section shall be recorded in the minutes of the Investment Committee meeting. The failure of a person to comply with the procedures described in this section shall not of itself invalidate any decision, contract or other matter.

If a conflict of interest is discovered or disclosed after the Investment Committee has made a decision, the Investment Committee will reconsider the decision in light of the new information.

3.13 Proxy Voting

The exercise of voting rights acquired through any investment is delegated to the investment managers with the instruction to vote in favour of any proposal which, in their opinion, will accrue and enhance the investment value of the relevant security, and against any proposals which will unduly increase the risk level or reduce the investment value of the relevant security to the detriment of the Fund. However, when it would be in the University's best interest to do so, the University reserves the right to exercise its voting rights.

If the investment management firm, or any employee or associate of the investment management firm, has any direct or indirect pecuniary interest in any matter on which the Fund has a right to vote, it must be brought to the attention of the Committee which has discretion to:

i) instruct the investment manager to exercise the voting right in line with the principles described above, on the grounds that the relevant pecuniary interest is not material; or,

ii) instruct the investment manager how to cast the Fund's vote, having considered the principles described above; or,

iii) authorize the Fund's custodian/trustee to exercise the voting right in line with the principles described above.

3.14 Securities Lending

The Fund may engage in securities lending activities to generate incremental income, subject to approval from the Investment Committee, P & F and compliance with appropriate laws and regulations.

Such loans must be secured by obligations of, or guaranteed by, the respective government of Canada or the United States, their respective agencies, or any highly-rated Canadian province. The amount of collateral taken for securities lending should reflect best practices in local markets and marked to market on a daily basis.

The terms and conditions of any securities lending program, including the maximum exposure in aggregate and by counterparty, will be set out in a contract with the Custodian. The Custodian shall, at all times, ensure that the administration has a current list of those institutions that are approved to borrow the Fund's investments. If the Fund assets are invested in a pooled fund, security lending will be governed by the terms and conditions set out in the pooled fund contract.

3.15 Derivatives Usage

Derivatives may be used by the University or the external managers managing the Fund for hedging, risk management and portfolio rebalancing purposes, but not for leveraging the portfolio. Derivative products include options, futures, forwards and swaps.

3.16 Liquidity

The Investment Committee will ensure that the Operating & Endowment Fund has sufficient liquidity to meet its future obligations. To properly assess the liquidity needs of the portfolio, management will provide the Investment Committee with regular updates on risk controls regarding liquidity, such as:

i) the availability of short-term assets;
ii) the ratio of assets to obligations for the Operating Portfolio;
iii) any upcoming contributions to the operating and capital budgets; and
iv) internal loans.

3.17 Valuation of Infrequently Traded Instruments

The valuation of infrequently traded investments shall be determined by the trustee or Custodian of the underlying fund. In the case of private investments, including but not limited to real estate, infrastructure, private equity and commercial mortgages, the valuation shall be based on independent opinions of qualified appraisers as required.

Section 4 Responsible Investing

4.1 Introduction

The Investment Committee recognizes that environmental, social and governance ("**ESG**") factors may have an impact on corporate performance over the long term, although the impact can vary by industry.

The Investment Committee has a fiduciary obligation to invest funds for the benefit of the University in the interests of endowment funds/donors.

The University leaves the decision to exclude a stock to the investment managers hired to manage a portion of the portfolio, as they possess the necessary expertise and information to make the decision that is in the best interest of the Fund.

4.2 Engaging Companies and External Investment Firms

Given the relatively small size of the Fund and the fact that most investments are held in pooled vehicles, it is not practical for the University to directly engage individual companies on ESG related issues, either through dialogue or by filing shareholder resolutions.

Instead, the University will engage the external investment managers it hires to manage the Fund. The engagement will involve increasing the level of scrutiny on ESG factors. The University will maintain a registry, to be updated on an annual basis, with ESG related information on its external investment managers. The information may include, but is not limited to:

- the incorporation of ESG factors into the firm's investment process;
- the firm's target allocation for climate change related investments;
- the presence of a committee on sustainable investment;
- the portfolio's exposure to fossil fuels, sustainable industries and high impact sectors; and
- details about the firm's proxy voting policy.

4.3 Advocacy and Collaboration

The University endeavours to remain up to date on sustainability investing issues and the impact of ESG factors on its Fund. In order to maintain its knowledge of the field of sustainability investing and to contribute to its development, the University will liaise with other institutional investors and industry associations to discuss key issues.

4.4 Disclosure

The University will make available to the university community, upon request, the most recent list of investments of the Fund (subject to confidentiality agreements with the underlying managers) as well as the ESG related information it gathers from its external investment managers, as defined in the Disclosure of Information on UWO Investments Policy 2.14 of the Board.

Section 5 Governance

Responsibilities are divided among P&F, the Investment Committee, which is a sub-committee of P&F, and Western's Financial Services as noted below. Additional stakeholders involved with the Fund include external investment managers, a custodian, investment consultant and a performance measurement consultant.

5.1 Property and Finance Committee:

i) when appropriate, recommends to the Board changes to the Statement of Investment Objectives, Policies and Governance;

ii) receives quarterly reports from the Investment Committee and may request assessment and evaluation of alternative investment policies and strategies;

iii) recommends for Board approval payout policies for the endowed and non-endowed funds of the University;

iv) monitors the target ratio of total non-endowed funds;

v) appoints members of the Investment Committee; and

vi) reports investment activities to the Board.

5.2 Investment Committee:

The overall objective of the Investment Committee is to bring expert advice and knowledge to bear on the effective management of the Fund consistent with the approved fund objectives. Within this general mandate, the Investment Committee:

i) develops and regularly reviews the Statement of Investment Objectives, Policies and Governance and recommends changes for P & F approval. In particular, the Committee periodically reviews the asset mix policy and real rate of return objective included in the Statement and recommends changes to P & F as appropriate;

ii) directs the investments according to the approved asset mix policy in the markets it considers to be the most appropriate;

iii) manages exposure to non-Canadian currencies within a range of 10% to 30% of total assets. Each external manager must comply with a stated non-Canadian currency exposure and report any deviation to management. Any deviation to the overall policy will be the result of a deviation to the asset mix policy and must be reported by Administration to the Investment Committee;

iv) determines and monitors any deviation from policy within the approved asset mix ranges;

v) structures the portfolio framework, giving consideration to:

- active versus passive management
- specialty versus balanced management manager styles

vi) makes decisions concerning the engagement and termination of investment managers, consultants providing performance measurement and investment advice, and custodians;

vii) approves mandates and investment objectives given to individual investment managers and establishes criteria for manager review;

viii) makes investment-related policy decisions such as securities lending, directed commissions, etc.;

ix) meets quarterly to monitor investment performance of the total Fund and of individual managers and assesses each manager's compliance with the approved mandate. The Investment Committee will maintain a process to undertake a special review of individual managers should the circumstances warrant it;

x) stays abreast of new instruments and investment products; and

xi) establishes policy for rebalancing of funds among the Investment managers.

5.3 Western Financial Services:

i) ensures compliance with legal and University requirements;

ii) rebalances the portfolio by transferring funds among managers and asset classes as appropriate according to policies approved by the Investment Committee and reports such activity to the Investment Committee;

iii) manages University cash flows in accordance with the objectives and policies outlined in Section 3 of this document. Reports to the Investment Committee about the University's cash flows, short term investing and borrowing activities on a periodic basis;

iv) executes investment decisions made by the Investment Committee;

v) reports to the Investment Committee on the performance of individual managers and of the total Fund. Keeps the Investment Committee informed of all other issues and developments relative to the management of the University investment portfolio;

vi) works closely with and directs the Consultant, the Custodian and the investment managers as appropriate;

vii) reports to the Investment Committee on other University activities that have an impact on the investment portfolio;

viii) periodically meets with each member of the Investment Committee to discuss any concerns, additional information requirements and suggestions for improvement;

ix) maintains an awareness of progressive investment management policies and practices at other Canadian and US universities;

x) reports to the Investment Committee and to the Property and Finance Committee on the ratio of investments to obligations for the non-endowed portion of the portfolio; and

xi) makes recommendations to the Investment Committee concerning terminating investment managers and hiring new investment managers.

5.4 External Investment Managers:

i) manage a specific investment mandate according to a set of investment guidelines and maintain compliance to those guidelines;

ii) aim to achieve a performance objective;

iii) report to the University on performance by providing attribution analysis, but also on changes at the firm in terms of organizational structure, personnel and investment process; and

iv) vote proxies on behalf of the University according to proxy voting guidelines.

5.5 Custodian:

i) holds assets owned directly by the University and provides monthly valuation of those assets;

ii) executes instructions provided by authorized representatives of Western Financial Services; and

iii) coordinates securities lending, if any.

5.6 Investment Consultant:

i) assists the Investment Committee in the development of governance structures, policies and procedures;

ii) assists the Investment Committee in identifying the objectives and risks to be managed and in implementing the appropriate asset mix;

iii) provides research on emerging investment strategies;

iv) maintains research on public equity and fixed income managers employed by the University;

v) assists with manager searches by giving the University access to its database of investment managers, narrowing the universe, providing performance analysis, preparing questionnaires and attending finalist meetings;

vi) provides quarterly opinions on the Fund's performance;

vii) informs the Investment Committee on successful, seasoned, and state-of-the-art investment management technologies where relevant and appropriate; and

viii) attends Investment Committee meetings, at the invitation of the Investment Committee Chair.

5.7 Performance Measurement Consultant

i) provides performance measurement services and analytical services through research reports, data and/or database(s) to be delivered by electronic means or hard copy format;

ii) provides total fund, individual manager and asset class return on a monthly basis; and

iii) provides quarterly performance reports that include capital market commentary, market indexes, asset class summary by class and manager, returns over selective time periods by class and manager, returns attribution analysis, and comparative analysis measurement for active manager.