Statement of Investment Beliefs and Principles for the Endowment Fund

UNIVERSITY OF GUELPH

Statement of Investment Beliefs and Principles

For the Endowment Fund

Approved by the Board of Governors on Apr. 22, 2020

I. Introduction

The Endowment Investment Policy (the "Policy") reflects a number of decisions taken by the Board of Governors at the time of the policy development, and at subsequent reviews. These decisions, in turn, reflect certain beliefs held by the Board of Governors at the time the decisions were taken or approved.

To the extent these beliefs remain consistent over time, so too should those elements of the Policy that rest upon them. The purpose of this document is to set forth the Board's beliefs and principles, so that the historical context in which decisions were made will be better understood by readers and users (both current and future).

This statement shall be reviewed at least every three years to ensure that it continues to reflect the views and opinions of the Board.

II. Purpose of the Endowment Fund

- The primary purpose of the endowment portfolio is to invest capital to provide annual income that will grow with inflation.
- Endowment capital is invested for long periods, often expressed as "in perpetuity" meaning short term returns need not outweigh long term performance.
- The generation of long?term, sustainable investment returns is inextricably linked to stability in social, environmental and economic systems[1]. The United Nations Sustainable Development Goals[2] [1](SDGs) and the Paris Agreement on climate change are important guides for future economic development and financial systems.
- The University, through its endowment fund, should promote awareness of the importance of transitioning the economy in line with the SDGs and the Paris Agreement (the central aim of which is keeping a global temperature rise this century to well below 2 degrees Celsius above pre?industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius[3] [2]). Stewardship (which includes proxy voting, corporate engagement and policy advocacy) is an important tool for the endowment fund to influence companies and policy makers in support of a low?carbon, resilient and inclusive world.
- The University should play an active role in advancing responsible investing within the investment industry, and amongst universities in particular.

1 WGRI Final Report 2015 (page 20).

2 https://sustainabledevelopment.un.org/?menu=1300 [3]

3 https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement [4]

III. Governance

- Good governance contributes to superior, timely and sustainable results. Roles and processes related to the investments should be well documented and communicated to all relevant parties;
- All parties involved in the investments will yield superior investment results if the parties' objectives are clear, the parties are empowered to act and the parties are accountable for their results;
- Transparency supports compliance with policy and allows for effective stakeholder understanding of University investment activities.

IV. Investment Process

- It is more cost-effective to hire external managers than to build in-house expertise in order to meet the various investment objectives;
- In the selection of external managers the University strives to hire the best in class who demonstrate strong ethical standards, committed professional management as well as a proven track record of performance.
- Appropriate and timely reporting of investment activities and results is required in order to monitor the investments' performance against the relevant benchmarks.
- The investments should be made and stewardship activities conducted in the context of understanding the primary objectives of the endowment fund.
- It is important to manage the cost effectiveness of the investment process including ensuring the cost of investment management is balanced in the context of returns.
- Environmental, social and corporate governance (ESG) issues can have a material impact on risk and return outcomes and these issues should be integrated into the investment process.
- Greater disclosure of climate change related risks and opportunities leads to improved transparency and helps investors make more informed investment decisions. The University encourages disclosure in line with the Task Force on Climate?related Financial Disclosures (TCFD) recommendations.

V. Market Beliefs

- Investment risks borne by the portfolio are expected to provide commensurate returns (i.e. uncompensated risks should be avoided). Risk in this context is broader than the general measure of volatility of returns especially when measuring investment outcomes across different markets. Therefore qualitative factors in assessing risk may be considered when developing investment policy.
- To achieve the long term objectives of the endowment fund, a certain level of risk must be taken. This will involve the selection of certain asset classes with greater volatility but greater expected return over longer periods of time.
- Global sustainability challenges—such as climate change, environmental degradation and inequality—will have an impact on long?term investment risks and returns. Reducing exposure to transition risk (i.e. reducing carbon risk exposure) and gaining exposure to companies that are positioned to support or prosper in a low?carbon, resilient and inclusive economy can improve risk adjusted returns of the portfolio.The majority of the variability in the investment returns, and the implied inherent risk, can be explained by the strategic asset allocation selected. As a result, the strategic asset mix decision is critical in determining the risk profile of the investments;

- The investments should be diversified across a broad range of financial assets, asset classes, geographies and management styles as portfolio diversification provides reduction in investment risk;
- Simplicity and transparency are essential attributes of any asset, asset class, or investment strategies that could be contemplated for portfolio diversification;
- The use of derivative instruments should be limited to risk mitigation purposes (e.g., limiting currency exposures) and for efficient access to certain asset classes (e.g., index replication) and not for return enhancement;
- The risk and return characteristics of specific asset classes should be reviewed periodically to evaluate if the investment strategy or the asset allocation for the Policy and its impact on specific investment risk and return metrics is still appropriate;
- Active investment management where markets can be inefficient represents an opportunity to earn higher returns thereby justifying fees. Passive investment management is not excluded when the belief is not as strong;
- Over the long term, fluctuations in currency tend to offset but over the short term, currency risk can matter when a specific exposure to an asset class is sought. Currency management (at a specific manager level or on an overall basis) in order to reduce some of the volatility that may result from interim currency fluctuations can be used if the trade-off between benefit and cost is favourable.