



## **Operating and Capital Funds Investments Policy**

Approving Authority: Board of Directors

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Supersedes: N/A

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### **Purpose**

- 1) The purpose of this policy is to outline how investments of the University Hospitals Kingston Foundation (UHKF) operating and capital funds are administered and managed.

### **Jurisdiction/Scope**

- 2) This policy applies to all operating and capital funds invested by the University Hospitals Kingston Foundation.
- 3) This policy is subject to and consistent with the UHKF Investment Policy.
- 4) The UHKF holds funds generated from its operations. The funds arise from operating reserves and from gifts earmarked for projects, including but not limited to major capital projects, planned by the related hospitals but for which funds are only required at some future date.
- 5) The cash flows of the Foundation and the timing of grant requests from the related hospitals are generally predictable and permit the investment of these funds.
- 6) Short term funds must be maintained in the Savings Account with the UHKF Operating Bank so that they are sufficiently liquid to meet one years' forecasted cash needs, including operating expenses and expected Grant Requests.

- 7) The UHKF holds funds generated from its operations that will not be granted for several years, such as those held for major capital projects. The Foundation will work with its hospital partners to understand the expected timing of these grants. For investment purposes, these funds will be divided into two investment portfolios. The first includes funds required by the hospitals within five years, and the second includes funds required by the hospitals more than five years in the future. The separation of these investment funds allows the best combination of preservation of funds when required and sufficient returns on investments.
  
- 8) The UHKF holds funds generated from its operations that are related to endowments. This policy does not apply to the investment of endowment funds. The Endowment Policy identifies the expectations and allocations of returns on investment.

### **Investment Objectives Based on Risk and Return**

- 9) The investment objectives for investments related to this policy are:
  - 9.1) to preserve capital;
  - 9.2) to provide liquidity by the investment of a portion of the Funds in liquid short-term investments that can be converted to cash with no risk of principal loss; and
  - 9.3) to provide yield at a low level of volatility by the investment of a portion of the funds in equities, bonds and other fixed income securities.

### **Investment Constraints**

- 10) The investment constraints related to these investments are:
  - 10.1) **Liquidity.** A proportion of the assets will be invested in cash and cash equivalents with an average duration of less than 90 days. This will minimize the liquidity risk that stems from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. The fund manager may also invest in short-term securities deemed appropriate for this portfolio including but not limited to:
    - 10.1.1) Treasury Bills and other securities issued or guaranteed by the federal government, provinces or municipalities of Canada including their agencies and crown corporations.
    - 10.1.2) Banker's Acceptances and other bank and trust company obligations or deposits.

- 10.1.3) Corporate and asset backed commercial paper.
- 10.2) **Capital Preservation.** Funds in the portfolio related to this policy are chiefly made up of restricted donations designated for a specific purpose. As such capital preservation is paramount. Based on the timing of when these funds are to be granted to the related hospitals, the fund manager may invest in fixed and equity products deemed appropriate for this portfolio including but not limited to:
  - 10.2.1) Securities issued or guaranteed by the federal government, provinces or municipalities of Canada including their agencies and crown corporations.
  - 10.2.2) Corporate bonds.
  - 10.2.3) Mortgage and other Asset backed securities.
  - 10.2.4) Foreign issued Canadian pay securities.
  - 10.2.5) Common and Preferred Equities
- 10.3) **Credit Quality.** The Fund assets are to be invested at all times in a prudently diversified portfolio. Reference credit ratings for fixed income instruments are those as published and regularly reviewed and/or revised by recognized debt rating agencies, including DBRS, Standard & Poor's and Moody's.
- 10.4) The portfolio manager will be responsible for diversifying the portfolio by type and by sector and for prudently and diligently managing credit risk. If downgrades occur it is expected that the portfolio manager will closely monitor the situation and provide updates to Foundation management.
- 10.5) The Investment Committee of the Board of Directors, with the support of the Chief Finance and Administration Officer, will develop investment manager guidelines for the Investment Portfolio mandate. These will be developed in conjunction with the investment managers to ensure consistency with applicable pooled funds. These guidelines will be reported semi-annually to the Board of Directors.

### **Investment Managers**

- 11) **Selection.** The Investment Committee of the Board of Directors, with the support of the Chief Finance and Administration Officer, 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:

- 11.1) **Relevant experience and expertise**

- 11.2) Suitability of investment style
- 11.3) Structure of the investment firm
- 11.4) Turnover of personnel
- 11.5) Capacity and servicing capabilities
- 11.6) Investment performance record, including consistency of performance and risk
- 11.7) Investment management fees

12) **Duties and responsibilities** of the investment managers:

- 12.1) To exercise care, diligence and skill of a prudent investment counsellor and to, at all times, act on a basis that is fair and reasonable.
- 12.2) To adhere at all times to the Code of Ethics and Standards of Professional Conduct adopted by the CFA Institute.
- 12.3) To provide monthly reports of transactions and rates of return
- 12.4) To provide quarterly reports of portfolio holdings, results achieved and explanations of any shortfall from the benchmark.
- 12.5) To inform the UHKF Chief Finance and Administration Officer promptly of any changes in the Investment Manager's firm, including changes of ownership, senior investment personnel or investment style
- 12.6) To follow the investment objectives and guidelines for the operating and capital funds.

**Authorized Investments and Limits**

13) The distribution of weights among asset classes will be determined based on the Foundation's cash balances and near-term liquidity requirements and the related hospitals' capital plans over the longer horizon. The investments are to be managed within fund benchmark and asset mix guidelines developed in the investment plans based on when funds will be needed. Should a large cash inflow or outflow occur resulting in a breach of the asset mix defined by the investment plans, UHKF Chief Finance and Administration Officer will take the steps necessary to rebalance within the policy parameters in a prudent manner. Specific Investment Plans will be developed in consultation with the investment managers, taking into account the investment objectives of the Foundation. The Specific Investment Plans will be approved by the Investment Committee and the Board of Directors.

14) Fund managers' investment mandates as it relates to risk tolerance will be assigned based on when the funds will need to be available for granting:

- 14.1) Funds that will be drawn upon in less than one year will be maintained in cash or cash equivalents in the Foundation's bank account.
- 14.2) Funds that will be drawn upon in more than one year, but less than five years will be invested using a "Conservative (Income) Portfolio" with an approach consisting of low-risk tolerance and income generation, while protecting capital from loss of value due to inflation.
- 14.3) Funds that will be drawn upon in five years or more will be invested in a "Balanced Portfolio" that provides low to medium investment risks.

### **Reporting**

- 15) A report of investments will be submitted quarterly to the Board of Directors, through the Investment Committee, 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.

### **Review**

- 16) This policy will be reviewed on an annual basis by the UHKF Board of Directors.

### **Related Documents**

Investment Policy

Endowment Policy

Financial Decision Authority Policy