ALGONQUIN COLLEGE	
Report to:	Board of Governors
Subject:	Revised Endowment Funds Statement of Investment Policies and Goals
Date:	May 14, 2012
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Purpose

To provide the Board of Governors with an updated 'Statement of Investment Policies & Goals' for the Endowment Fund.

Background

On February 13, 2012, a report entitled" Asset Mix and Spending Review" prepared by Mercer was presented to Audit Committee for consideration. Mercer provided a review of the current asset mix and long-term forecasts of the Endowment Fund based on the current asset mix, the spending allocation and a recommendation to change the asset mix of the fund. Several of Mercer's recommendations were endorsed by the Audit Committee.

The Board of Governors has responsibility for approving the investment policies of the College, including any amendments, and for monitoring the performance of the Endowment fund. The College does not have a formal Investment Committee and, therefore, the Audit Committee as a sub-committee of the Board, has assumed this oversight role.

Endowed funds are held by the College in perpetuity, with the expectation that the capital will grow at a rate at least equal to inflation to maintain its value over the long term. Endowed funds are also expected to generate an income stream at a level sufficient to meet the annual spending obligations currently set at 4%.

Discussion/Considerations

The "Statement of Investment Polices & Goals" (Appendix A attached) has been amended to reflect the changes resulting from the Mercer recommendation that includes a change in the equity mix to 1/3 Canadian equity, 2/3 global equity and the elimination or reduction of the direct allocation to cash.

The benchmark has also been changed as recommended by Doherty & Associates to the MSCI World ex Canada (in Canadian dollars).

In addition to the proposed changes above, the following proposed amendments to the Statement of Investment Policies and Goals are presented for

consideration:

- Under SECTION 5 – INVESTMENT PERFORMANCE BENCHMARKS the following changes are proposed:

  - Replace "Scotia McLeod Universe Bond Index" with its re-branded name "DEX Universe Bond Index". The DEX Universe Bond Index is designed to be a broad measure of the Canadian investment-grade fixed income market and consists of bonds issued by the Government of Canada, Provincial Bonds, Municipal Bonds and Corporate Bonds.
  - Replace "Government of Canada 30 day T-Bills" with "DEX 30-day T-Bills". DEX now owns this 30-day T-Bill index.

- Under Appendix A – Permitted Investments (last page of policy), holdings of high quality corporate bonds or debentures may not exceed 20% of the market value of the bond portion of the portfolio. Management reviewed the endowment investment policies of five other higher education institutions (Carleton, Queens, Dalhousie, Lakehead and Western). Only one institution imposes a limit of 50% on corporate bonds while the other institutions do not limit corporate bond holdings within the fixed income allocation. In addition, all 5 institutions allow bond holdings with a minimum credit rating of BBB while Algonquin's policy requires a minimum A-. In order to optimize the yield from the fixed income portfolio while still managing risk appropriately it is recommended that the limit on corporate bonds be increased from 20% to 50% of the market value of the bond portion of the portfolio.

Recommendation:

That the Board of Governors approve the amendments to the Algonquin College Endowment Fund – Statement of Investment Policies and Goals