

# BC Children's Hospital Foundation



## Statement of Investment Objectives and Guidelines

Approved on behalf of the BC Children's Hospital Foundation:

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# 1 Purpose

## 1.1 Purpose of the Foundation

The BC Children's Hospital Foundation is the province's only full-service, pediatric acute-care hospital and serves the one million children living in BC and the Yukon.

## 1.2 Mission Statement

The BC Children's Hospital Foundation, a centre for International Child Health, which coordinates patient care, training, education & research partnerships with pediatric hospitals around the world.

## 1.3 Description of Portfolio

The Total Portfolio is divided into two parts, Spending Fund and Investment Fund. Spending Fund includes all funds that are invested for subsequent disbursement to specific programs, sites and activities. The Investment Fund (the "Fund") includes all funds where the capital is held for longer periods. This Investment Policy covers the Spending Fund and Investment Fund component of the BC Children's Hospital Foundation investment portfolio.

## 1.4 Objective of this Policy

The Investment Policy for the BC Children's Hospital Foundation is designed to generate superior rates of return while protecting the investment capital from capital loss and erosion of real value by inflation. In addition, it establishes a framework of principles and guidelines for compliance with all regulatory authorities, and for monitoring both compliance with this Policy and rates of return over time.

## 2 Governance

### 2.1 Application

This Statement of Investment Objectives and Guidelines (the "Policy") applies to the BC Children's Hospital Foundation, which is non-taxable.

### 2.2 Purpose of this Policy

This Policy outlines the principles by which the investment of the Fund is managed. The purpose of the Policy is to:

- 2.2.1 Ensure that all relevant issues are considered in formulating an investment strategy for the Fund;
- 2.2.2 State the investment guidelines of the Fund; and
- 2.2.3 Define the performance goals and procedure for measuring the performance of the Investment Manager(s).

### 2.3 Responsibility

The Board of the BC Children's Hospital Foundation (the "Board") has established the Finance Committee (the "Committee") with delegated responsibility for overseeing the Fund. The assets are to be administered by this Committee to ensure prudent investment and operation of the Fund. This Committee is responsible for all aspects of the investment of the Fund, including recommending an appropriate Investment Manager(s), asset mix as well as monitoring the investment results. The Committee will recommend to the Board changes or modifications to this Policy from time to time.

The responsibilities of the Committee with respect to the Fund, include:

- 2.3.1 To recommend the appropriate investment managers and advisors to carry out this Policy;
- 2.3.2 To monitor the investment performance of the assets held in the Fund;
- 2.3.3 To monitor the compliance of the Fund with this Policy;
- 2.3.4 To monitor the administrative costs of the Fund;
- 2.3.5 To review this Policy and make recommendations as required;
- 2.3.6 To establish an investment manager structure and strategy which specifies the number of managers, types of managers and allocation of asset between managers; and
- 2.3.7 To establish procedures for rebalancing of the asset mix.

The Committee has the right to delegate certain responsibility as it deems appropriate and prudent.

## 2.4 Standard of Care

The Committee and their appointed advisors shall exercise the degree of care, diligence and skill that a person of ordinary prudence would exercise in dealing with the property of another person.

Committee members and their appointed advisors who possess, or because of their profession or business ought to possess, a particular level of knowledge or skill relevant to their responsibilities to the Fund, shall employ that particular level of knowledge or skill in the interest of the Fund.

## 2.5 Legal Consideration

The BC Children's Hospital Foundation has the power to invest available funds in whatever manner it deems most appropriate. In addition the Foundation is subject to the Canada Revenue Agency ("CRA") disbursement rules for foundations.

### 3 Policy Considerations

#### 3.1 Nature of the Fund

Investment income, capital gains and a portion of the Fund's capital which has not been endowed will be used to make disbursements for various programs, equipment and research. Therefore the primary objectives are to ensure that the capital of the fund is maintained in real terms, taking inflation into account, and that investment income is earned on the capital.

Income earned is used to fund programs, equipment and research, and to pay administration fees related to the portfolio. The generation of a superior rate of return is therefore important to the long-term operation of the Foundation.

The BC Children's Hospital Foundation has an infinite time horizon with the objective to generate enough dividends and interest to pay out at least 4% per annum of the Total Fund without affecting the principal as well as earn enough for the fund to offset erosion of the capital by inflation.

#### 3.2 Primary Investment Performance Objective is an annual target rate of return for the Fund as specified in section 5.1 of this policy and is comprised of:

- 2.5 % Inflation
- 4.0 % Distribution
- 1.0 % Administration

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#### 7.5% per annum

The inflation component of this return is based on the Consumer Price Index as published by the Government of Canada. The return in any particular year may be higher or lower depending on the inflation rate for that year. The objective is to achieve a 5% real annual return.

#### 3.3 Liquidity

The Foundation defines liquidity as the ability to access funds quickly without the risk of capital loss. Disbursements will be funded by income earned by the Fund and a portion of the Fund's capital which has not been endowed. Therefore a portion of the Fund may be invested in liquid investments through a bond ladder strategy. The Foundation will advise the Investment Manager(s) of significant cash flow requirements when needed.

## 4 Investment Managers

- 4.1 The BC Children's Hospital Foundation shall retain one or more Investment Managers (the "Manager") to manage the investments of the Fund. Managers for the Fund's assets must be registered and in good standing with the BC Securities Commission and for international assets must be registered and in good standing with the Securities Exchange Commission in the U.S. or other appropriate jurisdiction.

Should the registration of an incumbent Manager be declined or revoked, the Manager shall immediately notify the Committee. The Committee shall discuss their course of action within 14 days of such notification.

- 4.2 Managers are engaged under the condition that they agree to be bound by the Code of Conduct, Ethics and Practices of the CFA Institute. The CFA Institute is the industry association of investment professionals whose aim is to promote the highest ethical standards of professional conduct within the investment profession.
- 4.3 Managers shall provide written confirmation each December to the Committee that they continue to meet the registration and the Code of Conduct requirement of clauses 4.1 and 4.2.
- 4.4 A set of guidelines shall be established within which the Manager is expected to operate, including discretion limits, diversification, quality standards and performance expectations. These guidelines are set out in the Investment Manager Letter of Agreement.
- 4.5 The Manager(s) will be required to read this Policy and shall manage their portfolio in a manner that is compliant with it. At the end of each calendar quarter the Manager shall submit a letter of compliance to the Committee.
- 4.6 The Manager may make a written request to the Committee for a change to the Policy as it affects their mandate. The Committee will review the area of concern with the advice of their Investment Consultant within four months of such a request.
- 4.7 The Manager(s) shall notify the Committee promptly in writing of any conflict of interest, direct or indirect, or a substantive change in investment philosophy, key personnel or corporate organisation.
- 4.8 The Committee shall monitor the performance of the Manager's portfolio. Such monitoring shall include, but not be limited to, semi-annual meetings and ongoing evaluation of performance relative to standards appropriate to the Manager's mandate. The Committee shall also monitor, or cause to be monitored, the Manager's turnover of personnel, consistency of investment style, discipline in portfolio construction, and record of service.

The Committee shall take such steps as it deems appropriate to address any concerns which may arise from such monitoring.

## 5 Investment Objectives

- 5.1 The Primary Investment Performance Objective for assets of the Fund is to achieve a time weighted rate of return including capital gains, dividends, interest and other income, net of all investment management expenses but gross of investment management fees of at least equal to 7.5% per annum as described in section 3.2 of this policy.

This objective should be viewed as an average annual compound rate to be sought over one or more complete capital market cycles, i.e., over a four year period.

- 5.2 The Fund's Relative Performance Objective for each asset component as applicable is to rank 40<sup>th</sup> percentile or better on moving 4-year periods in a Balanced Mandate Universe when compared to a representative sampling of relevant funds.
- 5.3 The Fund's investment performance should add value above a passive or index strategy on moving four year periods constructed as follows:

<u>Asset Category</u>	<u>Benchmark Index</u>	<u>Weighting</u>
Cash Equivalents	91 Day T-Bill Index	0%
Fixed Income	Universe Bond Index Return	40%
Canadian Equities	Standard & Poor's TSX Composite Index	30%
Global Equities	MSCI World Total Return Index (Cdn\$)	30%

- 5.4 An overall analysis of the Fund's performance shall be prepared and reviewed by the Committee at least quarterly.
- 5.5 The most important constraint on the achievement of the investment objectives of the various accounts is risk aversion. The risk of permanent capital impairment will be minimized through investment policies, which places restrictions on the quality of securities, and through proper diversification. The BC Children's Hospital Foundation is willing to accept some short-term volatility in capital values in order to earn higher long-term returns.

Although funds earned on the Fund's total portfolio will be used to make disbursements, a significant portion of the Fund is relatively permanent in nature and therefore can accept some capital volatility in order to earn a higher return. The risk aversion of the account is moderate.



## 6 Permitted Categories of Investment

- 6.1 Subject to Section 8 of this Policy, and the Manager Mandate Statement, the Manager may invest in any or all of the asset categories and subcategories listed below:
- 6.1.1 Equities, convertible debentures or preferred securities, share purchases warrants and rights, American Depository Receipts and Global Depository Receipts, Exchange Traded Funds (ETF), Limited Partnerships that are listed on a major stock exchange, and trusts (Income and Royalty Trusts and REITs) unless holding such limited partnerships and trusts would be considered by CRA to be carrying on an unrelated business;
  - 6.1.2 Bonds, debentures, mortgages, notes or other debt instruments of governments, government agencies, or corporations including such securities when the amount of coupon, payment or maturity value varies in accordance with an external index related to the cost of living;
  - 6.1.3 Investments in foreign property as defined by the Income Tax Act of Canada;
  - 6.1.4 Mortgage loans, asset-backed and mortgage-backed securities;
  - 6.1.5 Guaranteed investment contracts or equivalent of insurance companies, banks or other eligible issuers, which invest primarily in such instruments;
  - 6.1.6 Annuities, deposit administration contracts or other similar instruments regulated by the Insurance Companies Act or comparable provincial law, as amended from time to time;
  - 6.1.7 Term deposits or similar instruments issued or unconditionally guaranteed by trust company, banks or credit unions;
  - 6.1.8 Cash or money market securities issued by governments, government agencies or corporations; and
  - 6.1.9 Pooled or segregated funds and limited partnerships which may invest in any or all of the above instruments or assets.
- 6.2 Fund Managers may utilise derivatives in the following financial instruments or in a manner that has been specifically approved in their Manager Mandate Statement:
- 6.2.1 Covered call options and futures for hedging purposes;
  - 6.2.2 Currency forwards, futures and options used to hedge foreign investments and the foreign pay obligations of Canadian debt issuers with respect to the Canadian dollar; and

6.3 The Fund may invest in real estate, natural resource properties or participation rights in natural resource properties provided that participation has been specifically approved in the Manager Mandate Statement. Such investments may be purchased through closed or open-end pooled funds, or through participating debentures or shares of corporations or partnerships formed for the purpose of such investment.

6.4 Community Position on Restrictions on Investments

Investments will not be made in entities which could damage the role or standing of BC Children's Hospital Foundation within the community or which could be construed to be at odds with the BC Children's Hospital Foundation Mission Statement. Additional restrictions may be communicated to the Investment Manager by the BC Children's Hospital Foundation.

## 7 Asset Allocation Guidelines and Restrictions

7.1 All categories of investment including financial securities, asset classes, derivatives, and synthetic forms are permitted when approved by the Committee in writing.

7.2 The minimum, maximum and target asset mix of the Funds is as follows:

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Bonds	30%	40%	60%
Cash Equivalents	0%	0%	20%
<b>Total Fixed Income</b>	<b>30%</b>		<b>80%</b>
Canadian Equities	20%	30%	40%
Global Equities	0%	30%	40%
<b>Total Equities</b>	<b>20%</b>		<b>70%</b>
Private Debt	0%	0%	15%
Private Equity	0%	0%	15%
Real Estate	0%	0%	15%
<b>Total Illiquid Assets</b>	<b>0%</b>		<b>15%</b>

7.3 Cash is to be managed at the Total Fund level and the Manager is expected to be fully invested in their mandate at all times except for cash held in transition or for liquidity purposes.

7.4 Within each asset class and the Manager's portfolio, there will be a prudent level of diversification subject to the limits below.

7.5 Liquidity requirements are expected to be low and the portfolio will be structured accordingly. The Foundation will advise the investment manager of anticipated disbursements and an appropriate portion of the fund will be maintained as Short-Term or equivalent investments for this purpose.

7.6 The combined holdings of equities and all other security types of an individual entity shall not exceed 10% of the market capitalization of that entity.

### 7.7 Canadian Equities

7.7.1 There should be prudent diversification strategy by industry sectors and number of companies.

7.7.2 In the interest of diversification, not more than 10% of the total Canadian equity portfolio at market value, shall be invested in the common stock, preferred shares or other equity issues of any one corporation. The committee shall review all security positions greater than 5% at market value.

7.7.3 The investment manager will advise the Committee in writing when the manager owns/controls 10% or more at market value of one security or company in the portfolio.

7.7.4 All equity investments shall be publicly traded on recognized stock exchanges or through organised facilities upon which market prices are readily available.

## 7.8 **Global Equities (International and U.S)**

7.8.1 Global equity holdings shall be prudently diversified among countries, industry sectors and number of companies.

7.8.2 Not more than 10%, based on market value, of the Global equity component, shall be invested in the common stock, preferred shares or other equity issues of any one corporation. The committee shall review all security positions greater than 5% at market value.

7.8.3 The investment manager will advise the Committee in writing when the Manager owns/controls 10% or more at market value of one security or company in the portfolio.

7.8.4 All Global equity investments shall be publicly traded on recognised stock exchanges or through organised facilities upon which market prices are readily available.

## 7.9 **Bonds**

7.9.1 All bonds in the portfolio should be high quality, with the majority of all bonds being rated “A low” or higher by the Dominion Bond Rating Service or equivalent internationally recognised rating service.

7.9.2 The Investment Manager has the discretion to purchase “BBB” rated bonds (including convertible and other high yield securities) to a maximum of 10% of the total market value of the fixed income portfolio, unless otherwise stated in the mandate statement.

7.9.3 No more than 10% of the total portfolio will be invested in any one government issuer, other than the Government of Canada or Province, and no more than 5% in any one corporate issuer. The committee shall review all security positions greater than 5% at market value

7.9.4 If an investment credit rating is downgraded to below a “BBB” rating, the Investment manager will inform the Foundation of their strategic reason to maintain a position in the asset. If the committee is not satisfied, the investment manager will dispose of the downgraded security as expeditiously as possible without compromising the portfolio.

7.9.5 The average duration range of the bond portfolio will be  $\pm 50\%$  of the duration of the Universe Bond Index.

## 7.10 **Short-Term**

7.10.1 All Short-Term investments shall be rated DBRS R-1 low or higher by the Dominion Bond Rating Service or equivalent internationally recognized rating service.

## 7.11 **Pooled Funds and Like Vehicles**

Investments may be made in the asset classes defined in section 7 by directly holding individual securities or by acquiring units of pooled funds, mutual funds, index funds or other types commingled fund vehicles. It is acknowledged that pooled funds follow restrictions established for a group of clients and that these may be more or less restrictive than this Policy. The Investment Manager will outline to the committee the possible conflicts associated with the investment in the pool, and the committee will determine whether the policies of the pooled fund are acceptable in totality, whether the pooled fund is to be discontinued, or whether this Policy is to be amended. Future pooled investment policy changes will require re-approval by the committee.

## 7.12 **Donated Securities**

All securities that are donated to the BC Children's Hospital Foundation will be valued, accounted for and liquidated in an orderly fashion, not to exceed ninety days, unless otherwise directed by the BC Children's Hospital Foundation. The Investment Manager has the option of retaining donated securities as part of the portfolio as long as they are in accordance with this Investment Policy.

## 8 Valuation of Investments

- 8.1 Investments in publicly traded securities shall be valued monthly at their market value.
- 8.2 Investment in pooled funds and like vehicles comprised of publicly traded securities shall be valued according to the unit values published at least monthly by the pooled fund Manager and verified by the pooled fund's Custodian.
- 8.3 If a market valuation of an investment is not readily available, then a fair value shall be determined by the Manager. For each such non-traded investment, an estimate of fair value shall be supplied to the BC Children's Hospital Finance Operations Department and reported to the Committee no less frequently than quarterly. In all cases, the methodology should be disclosed and applied consistently over time.
- 8.4 The Committee shall be provided with a qualified independent appraiser's evaluation of all non-traded investments no less frequently than every two years or annually where the investment represents more than 2% of that asset class in the Manager's portfolio.

## 9 Conflicts of Interest

- 9.1 A conflict of interest, whether actual or perceived, is defined for the purposes of this Policy as any event in which a Related Party may benefit materially from knowledge of, participation in, or by virtue of, an investment decision or holding of the Fund or decision of the Committee.
- 9.2 Should a conflict of interest arise, the party in the actual or perceived conflict, or any person who becomes aware of a conflict of interest situation, shall immediately disclose the conflict to the Committee Chair. The party to the conflict shall thereafter be excused from meetings and abstain from decision-making with respect to the area of conflict, and a written record of the conflict shall be maintained by the Committee.
- 9.3 Where an actual or perceived conflict of interest arises, the nature and substance of the conflict will be disclosed to all affected parties within 30 days after the conflict has arisen.

## 10 Voting Rights

- 10.1 The responsibility of exercising and directing voting rights acquired through Fund investments shall normally be delegated to the Manager, who shall at all times act prudently and in the best interest of the Fund.
- 10.2 The Committee reserves the right to direct or override the voting decision of a Manager if in its view such action is in the best interests of the Fund.
- 10.3 It is recognised that voting rights are not enforceable to the extent that the Fund is invested in pooled funds.
- 10.4 The manager shall track, and report to the committee, all instances in which they vote against company management as part of his regular reporting to the Committee.



## 11 Review Meetings

- 11.1 The Committee shall meet at least semi-annually, and as otherwise called, to:
  - 11.1.1 Review the Assets and Net Cash Flow of the Fund;
  - 11.1.2 Review the current economic outlook and investment plans of the Manager;
  - 11.1.3 Review the Current Asset Mix of the Fund;
  - 11.1.4 Receive and consider statistics on the Investment Performance of the Fund;
  - 11.1.5 Receive and review a report on the Compliance of the Funds with this Policy;
  - 11.1.6 Recommend changes to this Policy as required;
- 11.2 The Manager(s) will prepare and submit an Investment Management Strategy for each semi-annual meeting. The submission will address actions taken since the last presentation and those contemplated over the forthcoming year.
- 11.3 This Policy shall be reviewed at least annually, and whenever a major change is necessary.

## 12 Loans and Borrowing

- 12.1 No part of the Foundations assets shall be loaned to any persons, partnership or association except as provided in this section.
- 12.2 The Foundation may approve the lending of securities subject to applicable legislation and provided that a minimum, liquid, high quality collateral coverage as required by provincial regulations is maintained at all times.
- 12.3 The assets of the Fund may not be pledged, hypothecated, or otherwise encumbered in any way except to the extent that temporary overdraft occurs in the normal course of business.
- 12.4 The Trustee of the Fund shall not borrow on behalf of the plan except to a limited and temporary extent for the timely payment of Plan expenses or administrative costs