UNIVERSITY OF VICTORIA FOUNDATION
SUMMARY OF INVESTMENT BELIEFS

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SUMMARY OF INVESTMENT BELIEFS

Investment beliefs codify investment practices to educate new trustees and remind current board members why a certain practice was initiated.

CURRENCY POSITIONS

Over the long term, the Foundation Board believes investment returns are not materially affected by currency fluctuations; however, short term variability of returns can arise from these positions.

Currency risk is introduced to the portfolio by owning foreign assets that can positively and negatively affect the portfolio in the short term; however, there is not an expected return difference in the long term. The current practice of evaluating global equity managers holistically, including their ability to manage foreign asset currency decisions, should be continued. The cost savings and diversification benefits of not hedging currency positions outweigh the transaction costs and currency certainty of passively hedging.

RESPONSIBLE INVESTING

As long term investors, the Foundation Board believes responsible investing, taking environmental, social and governance (ESG) factors into consideration, can have a positive effect on long term financial performance and investment returns.

The Foundation Board will apply the following measures:

- In evaluating prospective investment managers, the Board considers how ESG issues are incorporated into the investment decision-making process;
- In evaluating prospective investment managers, the Board considers how investment managers engage with management to improve ESG practices;
- Existing equity investment managers are requested to provide proxy voting reports and to highlight exceptions to their proxy voting policy; and
- Requesting annual disclosures by investment managers regarding the processes by which ESG factors are incorporated into the investment decision making process.

Climate change is recognized as a key global issue of our time leading to profound social, economic and environmental challenges in Canada and around the world.

As such the Foundation will take into account material climate-related (physical and transitional) investment risks and opportunities in its stewardship process apply the following measures:

- Requesting due diligence from investment managers to show alignment with a 1.5C or 2C degree pathway and encouraging external managers to publically support the Task Force on Climate-Related Financial Disclosures (TCFD) and disclose TCFD reporting;

- Encouraging active engagement with companies to foster disclosure of operational practices that reduce carbon emissions; and,

- Investing in impactful opportunities that reduce green house gas emissions and capitalize on the transition to a low carbon economy.

PORTFOLIO MANAGEMENT

Active versus Passive Investment Management

Active investment management will add value net of fees.

The board believes passive investing through market indexes cannot, with confidence, generate the risk-adjusted returns required so we strive to add value over and above the fund benchmark each year through the use of active investment managers.

Active investment managers can out perform indices by taking advantage of inefficiencies, long term themes, short term under/over pricing and mean reversion. No one style will outperform consistently, so the Foundation should be diversified by investment style.

Specialist versus Balanced Mandates

The board is in the best position to determine the asset allocation and select the managers to implement each mandate.

In the long run, evidence has shown that managers cannot add value consistently though tactical asset allocation. The implementation of this belief dictates the use of specialist managers for each asset class.

Number of mandates within an asset class

The number of mandates within an asset class should be dictated by the size of the mandate, the size of the investable universe and the ability to achieve the diversification benefits within an asset class with multiple managers.

ASSET ALLOCATION, DIVERSIFICATION AND RISK MANAGEMENT

Asset allocation is the main determinant of portfolio return and risk. Diversification improves portfolio return and risk characteristics.

Ultimately the fund rate of return and volatility is driven by the selected asset classes and their interaction with one another. Diversification across various factors such as asset classes, investment styles, investment time horizons, geography, and economic outcomes will improve risk adjusted returns.

Risk Management of the investment risk associated with the pursuit of returns are managed on the total portfolio basis and reflects strategic objectives of the Foundation.

As some asset classes are better suited to deliver higher absolute returns or provide greater opportunities for relative outperformance it is optimal to assess how allocation and volatility will impact the risk of the overall investment portfolio.

Key investment risks are the inability to consistently meet a desired spending rate and not be able to maintain the inflation-adjusted value of endowed gifts over time.

PORTFOLIO REBALANCING

A prudent portfolio rebalancing policy limits transaction costs, provides flexibility in volatile markets and maintains a desired asset allocation.

The rebalancing guidelines are intended to assist in managing the asset mix. Rebalancing will not be used as a method to reward or punish investment performance results.

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