

	Addendum Number: 7311-40-003A Title: Investment Policy Addendum
Authorization [X] SRHA	Source: Vice President, Finance and Administration Cross Index: Date Approved: June 23, 2011 Date Revised: Date Effective: June 29, 2011 Date Reaffirmed: Scope: Children’s Hospital of Saskatchewan Funds

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OVERVIEW

Objective

The objective of the Children’s Hospital of Saskatchewan Fund is to preserve capital in order to meet future cash requirements to cover the Children’s Hospital of Saskatchewan construction costs as projected, while generating an optimal return taking into account the risk tolerance of SRHA.

The investment manager will use cash flow matching techniques to replicate the project’s future cash requirement characteristics in terms of maturities and duration. There will be no persistent material maturity mismatch between the portfolio in terms of maturity value, including repayments and interest, and SRHA future cash requirements. However, there should be some flexibility to accommodate changes in the projected expenditure as actual construction costs may differ in timing and amounts.

In cases where the timing of disbursements is unknown, investments will be actively managed in a cash management portfolio.

Investment Philosophy

Fund Assets shall be prudently managed to assist in avoiding excessive volatility in annual rates of return. The Fund has a short to mid-term investment horizon of approximately five years or less. Accordingly, the asset mix for the Fund is dedicated to short to mid-term fixed income securities.

Risk Philosophy

The primary objectives of the Fund are capital preservation, maintaining a maturity structure and sufficient liquidity to meet expected cash flows and optimizing returns within the investment parameters. In order to achieve the investment goal, the Fund must invest in assets that have uncertain returns such as non-government bonds. SRHA mitigates the level of investment risk by:

- Constructing the portfolio so that bond cash flows (interest and principal) closely match the expected required project cash flows;
- Maintaining a diversified asset mix within the investment parameters of this policy.
- Investment guidelines for the portfolios are referred to in Appendix B

DEFINITIONS

Authority means Saskatoon Regional Health Authority (SRHA)

Bond Rating Agency means a corporation whose primary business mandate is to analyze the credit-worthiness of debt securities issued by all levels of government and corporations and make recommendations as to the risk level of such debt. Debt ratings refer to the ratings issued by Dominion Bond Rating Service (DBRS), Standard & Poor's and Moody's Investor Services).

Custodian means Trust company responsible for safekeeping of the assets, income collection, settlement of investment transactions, and accounting for the investment transactions.

Fund means investment assets of the Children's Hospital of Saskatchewan Fund.

Investment Manager means professional investment manager hired to manage the assets of the Fund.

Prudent Person Portfolio Approach means as defined by the Office of the Superintendent of Financial Portfolio Approach Institutions (OSFI), the Prudent Person Portfolio Approach requires the Authority to establish, and the Fund to adhere to, "investment and lending policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments and loans to avoid undue risk of loss and obtain a reasonable return".

1. PURPOSE

The purpose of this addendum is to provide a framework for management of the Children's Hospital of Saskatchewan Fund within levels of risk acceptable to the SRHA.

2. POLICY

2.1 SRHA shall use an external professional investment manager for management of Fund assets.

2.2 There are three overriding objectives of the Fund:

2.2.1 Preservation of capital;

2.2.2 Provide a flow of funds that match expenditure requirements;

2.2.3 Enhancement of yield;

Portfolio Return Expectations

- 2.3. The investment goal of the Fund is to optimize the annual rate of return while meeting the above objectives.

Expected Volatility

- 2.4 The Fund has adopted an asset mix that consists of cash, cash equivalents and fixed income securities. The volatility of the Fund is expected to be similar to that of the benchmark portfolio.

Asset Mix

- 2.5 The Investment Manager shall adhere to an assets mix that consists of 100% cash, cash equivalents and fixed income securities.

Permitted and Prohibited Investments

- 2.6 Subject to the restrictions below, the Fund may invest in any of the following asset classes and investment instruments:

2.6.1 Bonds

- Government of Canada Bonds and Guarantees
- Canadian Provincial Bonds and Guarantees
- Corporate Bonds
- Asset-backed securities
- Term deposits and Guaranteed Investment Certificates (GICs)

2.6.2 Cash and Cash Equivalents

- Domestic cash
- Bankers acceptances
- Bearer deposit notes
- Government of Canada T-bills
- Provincial Promissory Notes
- Term deposits and Guaranteed Investment Certificates (GICs)

2.6.3 Currency

All investments will be denominated in Canadian dollars

2.6.4 Derivatives

Use of derivatives is not permitted.

2.6.5 Pooled Funds

Investment in pooled funds is not permitted.

2.6.6 Socially Responsible Investing

Consideration shall be given to compelling moral and social factors; investments will not be made directly in entities in the alcohol and tobacco industries.

Minimum Quality Requirements

- 2.7 Within the investment restrictions for managed portfolios all portfolios shall hold a prudently diversified exposure to the intended market.

- 2.7.1 The minimum quality standard for individual government bonds, debentures, is 'A' or equivalent and 'AA' or equivalent for non-government bond, debentures as rated by a recognized bond rating agency at the time of purchase.

- 2.7.2 The minimum quality standard for individual short term investments is 'R-1-low' or equivalent as rated by a recognized bond rating agency, at the time of purchase
- 2.7.3 The minimum average quality standard for the portfolio is 'AA'.
- 2.7.4 Split Ratings
In cases where the bond rating agencies do not agree on the credit rating, the security will be classified according to the methodology used by DEX, which states:
- If two agencies rate a security, use the lower of the two ratings;
 - If three agencies rate a security, use the most common; and
 - If all three agencies disagree, use the middle rating.
- 2.7.5 Downgrades in Credit Quality
The Investment Manager will take the following steps in the event of a downgrade in the credit rating of a portfolio asset by a bond rating agency to below the purchase standards set out in Section 2.7 Minimum Quality Requirements:
- The Director, Finance will be notified of the downgrade by telephone at the earliest possible opportunity; the Director, Finance advises the Vice President, Finance and Administration.
 - Within ten business days of the downgrade, the Investment Manager will advise the Director, Finance in writing of the course of action taken or to be taken by the Investment Manager, and its rationale; and
 - The Investment Manager will provide regular reporting on the status of the asset until such time as it matures, is sold or is upgraded to a level consistent with the purchase quality standards as expressed in the above guidelines.

Maximum Quantity Restrictions

- 2.8 The Investment Manager shall adhere to the following quantity restrictions within the Fund
- 2.8.1 Maximum exposure to corporate bonds: 50%
- 2.8.2 Maximum exposure to non-bank corporate bonds: 30%
- 2.8.3 Maximum exposure to any one issuer, excluding federal and provincial governments: 5%
- 2.8.4 Except for federal and provincial bonds, no one bond holding shall represent more than 5% of the market value of the total outstanding for that bond issue.

Prior Permission Required

- 2.9 The following investments require prior permission from the Vice President, Finance and Administration:
- 2.9.1 Any other investment not explicitly authorized in this Policy Addendum.

Prohibited Investments

- 2.10 The investment manager shall not:
- 2.10.1 Invest in companies for the purpose of managing them
- 2.10.2 Purchase securities on margin or engage in short sales
- 2.10.3 Make any investment not specifically permitted by this Policy Addendum.

Securities Lending

2.11 The securities of the Fund may not be loaned.

Performance Reporting (by the Investment Manager)

2.12 The performance of the Fund shall be reported daily and return calculations shall be as follows:

2.12.1 Time weighted rates of return; and

2.12.2 Total returns, including realized and unrealized gains and losses and income from all sources.

2.13 On a calendar quarterly basis, the Investment Manager will provide a performance report and a strategy review for the portfolio under management.

2.14 On a monthly basis, the Investment Manager will provide a transaction history and statement of current holdings including current market value as of the last business day of the month. This report shall be provided to the Treasury Accountant by the 10th of each month.

2.15 The Investment Manager is required to complete and sign a compliance report within 10 business day of each quarter. The compliance report should indicate whether or not the Investment Manager's portfolio was in compliance with this Addendum during the quarter. Copies of the compliance reports must be sent to the Director, Finance. A suggested report format for the compliance report is included under Appendix A.

2.16 In the event that the Investment Manager is not in compliance with this Policy Addendum, the Investment Manager is required to advise the Director, Finance immediately, detailing the nature of the non-compliance and recommending an appropriate course of action to remedy the situation. If it is in the best interest of the Fund, the Director, Finance may permit the Investment Manager, on a temporary basis, to be outside of the guidelines.

2.17 If the Investment Manager believes the Asset Mix and the guidelines are inappropriate for anticipated economic conditions, the Investment Manager is responsible for advising the Director, Finance that a change in guidelines is desirable and the reasons therefore.

2.18 On an annual basis, the Investment Manager will provide a copy of their auditors report on their compliance with their internal controls.

Standard of Professional Conduct

2.19 The Investment Manager is expected, as a minimum, to comply, at all times and in all respects, with the Code of Ethics and Standards of Professional Conduct as promulgated by the CFA Institute and the Prudent Person Portfolio Approach as defined by OSFI.

2.20 The Custodian is expected to comply at all times with relevant and applicable legislation.

Suppression of Terrorism

2.21 The Investment Manager must comply at all times and in all respects with the Federal Suppression of Terrorism Regulations.

Annual Review of Investment Manager Performance

2.22 Annually the Audit & Finance Committee will undertake a review of the Investment Managers performance

3. ROLES AND RESPONSIBILITIES

3.1 Audit & Finance Committee

- 3.1.1 Annual Review of Investment Policy Addendum.
- 3.1.2 Annual review of Investment Manager performance.
- 3.2.3 Quarterly review of investment portfolio reports including cash flow matching and Portfolio performance.

3.2 Vice President, Finance and Administration

- 3.2.1 Approves policy execution
 - Approves exceptions to the Policy Addendum

3.3 Director, Finance

- 3.3.1 Recommends appointment of an Investment Manager and Custodian
- 3.3.2 Monitors compliance with the Investment Policy addendum and advises Vice President, Finance and Administration
- 3.3.3 Liaise with the Investment Manager and Custodian

3.4 Investment Committee - Administrative

- 3.4.1 Monitors investment performance
- 3.4.2 Recommends changes to the investment policy for review and, to the extent acceptable, acceptance by SRHA
- 3.4.3 Monitors expected cash flow requirements from the Fund and advises the Investment Manager

3.5 Investment Manager(s)

- 3.5.1 Invests the assets of the Fund in accordance with this Policy Addendum
- 3.5.2 Meets with the Director, Finance/Investment Committee as required and provide quarterly written reports regarding their past performance, their future strategies and other issues as requested
- 3.5.3 Notifies the Director, Finance, in writing, of any legal or regulatory proceedings or charges of which the Investment Manager may be aware, against the manager's firm or investment personnel, or against any sub-advisor or that firm's personnel; and
- 3.5.4 Submit quarterly compliance reports to the Director, Finance.
- 3.5.5 Meet with the Audit, Finance and Risk Committee annually to review past performance, their future strategies and other issues.

3.6 Custodian

- 3.6.1 Maintain safe custody over the assets of the Fund,
- 3.6.2 Execute the instructions of SRHA, as delegated to the Investment Manager appointed to manage the assets of the Fund.
- 3.6.3 Record income and provide monthly reporting package to Treasury Accountant,

3.7 Treasury Accountant

- 3.7.1 Reconcile monthly statements of investments to the General Ledger Accounts
- 3.7.2 Prepares quarterly reports to the Audit, Finance and Risk Committee

4. POLICY MANAGEMENT

The management of this policy including policy education, monitoring, implementation and amendment is the responsibility of the Vice President, Finance and Administration.

5. NON-COMPLIANCE/BREACH

Non-compliance with this policy will result in a review of the situation.

6. REFERENCES

University of Saskatchewan Fixed Income Policy Statements, June 2010.
City of Saskatoon Portfolio Management Policy, March 7, 2011.

Compliance Report For The Period From _____ To _____
 (date) (date)

		Guidelines	Policy Complied With Yes/No*
Asset Mix (at Market Value)		%	
Canadian Bonds and Cash		100	
Constraints			
Corporate bonds incl. asset-backed securities	Weighting	Max 50% of the market value of the portfolio Max 30% of the market value of the portfolio in non-bank corporates	
Bonds	- Quality	Min. 'A' for government Min. 'AA' for non-government Min. 'AA' for the average quality of the portfolio	
	Foreign Currency Concentration	All investments denominated in Canadian Dollars Max. 5% per any outstanding issue (non-governments) Max. 5% per corporate issuer	
Short Term Investments	- Minimum Quality	'R-1-low' rating	
Other Investments	- Prior Approval Required		
Conflicts of Interest	- Disclosure	Conflicts of interest disclosed to the Director, Finance	
Suppression of Terrorism	- Compliance	Compliance with Federal Suppression of Terrorism Regulations	

* Provide actual weight or range where appropriate. If portfolio not in compliance with policy, comment on specifics.

I believe this to be a factual representation of compliance with the Addendum 7311-40-003A to the Client's Investment Policy throughout the reporting period.

Signature and Title

Company Name

Portfolio Investment Guidelines

Overview

Two investment portfolios will be constructed to meet our investment objectives:

Cash Flow Matched Portfolio will be constructed using bonds with cash flows (interest and principle) that closely match the expected required cash flows. The Investment Manager will use cash flow matching techniques to replicate the project's future cash requirement characteristics in terms of maturities and duration. There will be no persistent material maturity mismatch between the portfolio in terms of maturity value, including repayments and interest, and SRHA future cash requirements.

Cash Management Portfolio will provide some flexibility to accommodate changes in the projected expenditure as actual construction costs may differ in timing and amounts from the initial projected cash flows. In cases where the timing of disbursements is unknown, investments will be actively managed in the cash management portfolio.

Investment guidelines for each portfolio or outlines below:

1. Cash Flow Matched Portfolio

1.1. The Cash Flow Matched Portfolio to be managed by Baker Gilmore & Associates inc. shall be comprised of Canadian dollar denominated:

- 1.1.1 Cash and equivalents.
- 1.1.2 High quality fixed income securities.

1.2 Performance Criteria

1.2.1 This fixed income portfolio will be managed on a buy-and-hold basis, with transactions largely limited to rebalancing the portfolio to reflect updated expected project cash flows or changes in issuer credit quality. As such, performance over the life of the portfolio will largely be determined by the yield to maturity at the time of initial portfolio construction (book or cost yield).

To ensure that portfolio cash flows closely match expected project cash flows, portfolio risk characteristics and performance (on a daily mark-to-market basis) will be measured against a customized benchmark (the "Cash Flow Matched Benchmark"). The Cash Flow Matched Benchmark will be constructed by discounting the expected project cash flows by appropriate spot rates (a combination of Federal, Provincial and Corporate spot rates) that reflect the investable universe for the mandate.

1.2.2 The performance goal is to exceed the Cash Flow Matched Benchmark over any one year period by selecting securities that provide the portfolio with incremental yield, while ensuring that capital is preserved and cash flow is sufficient to meet expected project outlays;

1.2.3 The bias of the portfolio is to preserve capital, provide a flow of funds that match expenditure requirements and enhance yield.

1.3 Custody of assets

1.3.1 All portfolio assets shall be held in custody in a dedicated SRHA account at the custodian.

2. Cash Management Portfolio

2.1 The Cash Management Portfolio to be managed by Baker Gilmore & Associates inc. shall be comprised of Canadian dollar denominated:

- 2.1.1 Cash and equivalents and,
- 2.1.2 High quality fixed income securities.

2.2 Performance Criteria

2.2.1 In all cases the portfolio will be measured against the relevant benchmark.

2.3 Custody of assets

2.3.1 All portfolio assets shall be held in custody in a dedicated SRHA account at the custodian.