

# *The University of Calgary Haskayne School of Business*

## *Calgary Portfolio Management Trust Charter of Investment Policies & Procedures October 2020*

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## Part I - Investment Policy Statement

### 1. Purpose

This statement of investment policies and goals (the "Policy") applies to the assets invested in the Calgary Portfolio Management Trust (CPMT) investment dealer trading account fund (the "Fund").

#### 1.1 Goals of This Policy

This Policy outlines the principles by which the investments within the Fund are managed. The goals of the Policy are to:

- (a) ensure that all relevant issues are considered in the formulation of investment strategies for the Fund;
- (b) state the investment guidelines for the Fund; and
- (c) define the performance goals and the procedure for measuring the performance of the Fund.

#### 1.2 Interested Parties

The parties having an interest in the management of the Fund's investments are:

- (a) all donors and sponsors;
- (b) the CPMT Board of Trustees (the "Board");
- (c) the CPMT Faculty Supervisor ("Faculty Supervisor");
- (d) the CPMT Fund Managers (the "Fund Managers");
- (e) the CPMT Fund Analysts (the "Fund Analysts");
- (f) the CPMT Research Associates (the "Research Associates");
- (g) all present and future University of Calgary Haskayne School of Business Finance majors;
- (h) Alumni of the CPMT program;
- (i) the CPMT Advisory Committee;
- (j) Mentors for the CPMT students and Calgary-area money management firms involved in supporting the operations of the CPMT;
- (k) the CFA Society Calgary (CFASC); and
- (l) the Haskayne School of Business and The University of Calgary.

## 2. *Policy Considerations*

### 2.1 Fund Background

The CPMT is a joint venture between the CFASC and the Haskayne School of Business at the University of Calgary. The purpose of the CPMT is to provide specialized investment management training for a select group of undergraduate Bachelor of Commerce and graduate Master of Business Administration students in the Haskayne School of Business.

### 2.2 Funding Considerations

#### (a) Contributions

The Fund is funded entirely by donations from the CFASC and from other individual and corporate sponsors, as well as potentially endowment funds in the future.

#### (b) Fund Longevity

The intention of the CPMT is for the Fund to operate in perpetuity.

#### (c) Fixed Operating Expenses

Addressed in the CPMT Terms of Reference.

#### (d) Administration Fee

Addressed in the CPMT Terms of Reference.

### 2.3 Conclusions

The above factors indicate that the investment policy can be directed toward long term growth of the Fund without significant concern about short term liquidity requirements.

## 3. *Fund Investment Objectives and Risk Tolerance*

3.1 The Primary Objective of the Fund is the overall long-term growth of the Fund.

3.2 A Secondary Objective of the Fund is the preservation of principal through the attention to risk management. The investment objectives for the assets of the Fund have been reviewed with regard to the risk tolerance of the Board. The Board recognizes and acknowledges some risk must be assumed in order to achieve the long term investment objectives of the Fund, and there are

uncertainties and complexities associated with investing in capital markets. The Board acknowledges that the greatest risk is the probability of failing to meet the return objective over the time horizon. In establishing the risk tolerances for this investment policy, the Board's ability to withstand short and intermediate term variability was considered. The Board's prospects for the future, investment time horizon, current financial condition and level of funding in the Fund suggest collectively some shorter term fluctuations in the market value and rates of return may be tolerated within the Fund in order to achieve its longer term investment objectives.

- 3.3 The Fund Managers will act with prudence and care, as required in the CFA Institute Standards of Professional Conduct III. A. Duties to Clients: Loyalty, Prudence and Care. A requirement of this prudence and care is to diversify while minimizing transaction costs.
- 3.4 The Fund's return and risk will be computed for a one, three, five, and ten year time period. Over longer periods, the Fund's Investment Performance will be evaluated on the following measures:
  - (a) Absolute Return - expectation of 7% nominal return gross of all fees and expenses.
  - (b) Relative Returns - exceed the return of the S&P/TSX Composite Total Return Index by 100 basis points and exceed the 50th percentile of a universe of equity funds managed according to a similar investment style.
  - (c) Risk - degree of diversification, volatility of returns as measured by standard deviation, as well as quantitative measures of the individual securities and the portfolio overall including balance sheet and valuation measures.
  - (d) Risk Adjusted Returns - the risk level of the Fund will be regularly monitored. Fund performance will be evaluated based on at least 100 bps of alpha generated relative to the Blended Benchmark. The Managers are responsible for calculating and monitoring alpha levels. Other risk adjusted return measures including the Sharpe, Treynor and Information Ratio measures will be used to assess the risk-adjusted return of the Fund versus the Blended Benchmark.

#### 4. *Permitted Categories of Investment*

- 4.1 Specific Assets & Investment Vehicles:
  - (a) common shares of companies and/or corporates listed on a recognized

- (b) North American exchange;
  - (b) guaranteed investment contracts or equivalent of insurance companies, trust companies, and banks;
  - (c) rights, warrants and subscription receipts;
  - (d) Canadian and US dollar denominated cash, money market securities or cash equivalent exchange traded funds;
  - (e) trust units including REIT units;
  - (f) index participation securities and exchange traded funds. These securities are to be used as short term investments only to minimize unintentional cash balances between security selections; and
  - (g) Pooled funds.
- 4.2 Assets of the Fund may be invested without significant concern for the near term liquidity, but must be invested in publicly traded securities on a recognized North American Stock Exchange.

## 5. *Valuation of Investments*

- 5.1 In the evaluation of the portfolio investment assets, the Fund Managers shall:
- (a) record investments at book and at market values;
  - (b) value investments in publicly traded securities no less frequently than monthly at their market value;
  - (c) value investment in pooled funds comprised of publicly traded securities according to the unit values published at least monthly by the pooled fund manager as "verified" by the Fund Analysts;
  - (d) record gains and losses on investments at the time they are realized.

## 6. *Asset Allocation Guidelines*

- 6.1 In view of the foregoing, the "normal" policy for assets of the Fund, and the associated range for strategic deviation at any time will be as follows. Market Value will be based on the prior closing price of the asset owned.

## Asset Mix Policy

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<b>Asset Class</b>	-----Diversification Range-----		
	<u>Market Value</u>	<u>Market Value</u>	
<b>Asset Class</b>	<b>"Normal" Policy Mix</b>	<b>Minimum</b>	<b>Maximum</b>
Mid and Large Cap Equities (C\$1 billion or more)	80%	60%	100%
Small Cap Equities (C\$100 million to \$1 billion)	20%	0%	40%
Cash and Equivalents	0-5%	0%	10%

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6.2 Within each asset class, there will be a prudent level of diversification subject to the limits below, based on market value.

6.3 Equities

With respect to the equity assets of the Fund, including any cash equivalent:

- (a) not more than 7% of the portfolio shall be invested in the common stock, or other equity issues of any one company and its majority owned subsidiaries;
- (b) investments shall be diversified, with investment in at least 7 of the 11 GICS sector groups. The maximum weight for any single sector will be the lesser of 40% and 300% of the sector weight in the Blended Benchmark (unless this figure is less than 10%, in which case a maximum weight of 10%).

## 7. *Investment Philosophy*

The CPMT investment philosophy is centered on intrinsic value combined with systematic investment selection. The goal is to take advantage of market opportunities over a long-term period (5-10 years). A systematic approach ensures discipline on purchase and sale decisions, maintains a focus on owning high quality businesses, and reduces the probability of errors. The Managers will seek investments that offer the following characteristics:

**Quality Management:** Demonstrated track record of allocating capital to projects that provide above market ROE, growth in earnings and cash flow, without taking on excessive risk in terms of balance sheet or operating leverage. Meaningful share ownership, depth of talent and strong corporate governance will also be considerations.

**Competitive Advantages:** Products and services that maintain a barrier to entry versus competitors. Demonstrated ability to increase market share over time, low cost operator, clear strategy to participate in an attractive, growing market segments.

**Strong Balance Sheet:** Strong balance sheet relative to peers as measured by D/CF, D/Cap and liquidity position.

**Growing Free Cash Flow:** Businesses should generate free cash flow (cash flow after maintenance capex) and demonstrate the ability to grow free cash flow over three, five and ten year periods (where track record exists). Growing dividends are considered an indication of excess free cash generation.

Our hold period for investments is indefinite. The price where we buy these securities will be based on whether valuation is reasonable compared to the intrinsic value of the business. Intrinsic value will be primarily based on free cash flow outlook (Net Asset Value). Other measures such as P/E, P/CF, P/B will be used as comparative measures versus peers, with multiples taken in the context of peer group ROE and ROCE (premium return businesses will be expected to reflect a premium valuation multiple). We explicitly do not buy “cheap companies” using valuation as a primary justification.

The price where we sell these securities will be determined relative to intrinsic value. The impact of portfolio enhancement will also be considered (does the purchase or sale of an investment impact portfolio diversification, or portfolio characteristics such as growth rate, ROE, volatility).

## 8. *Conflicts of Interest*

- 8.1 A conflict of interest, whether actual or perceived, is defined for the purposes of this Policy as any event in which the Board and any member thereof, may benefit materially from knowledge of, participation in, or by virtue of, any investment decision or holding of the Fund. 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 Board and Fund Managers. Any such party shall thereafter abstain from decision-making with respect to the area of conflict.
- 8.2 The Board are the sole arbiter in determining whether a conflict of interest exists and shall take the necessary measures to remedy the situation.
- 8.3 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.
- 8.4 The Board shall satisfy themselves that an appropriate policy regarding conflicts of interest exists and is followed by any Manager appointed by the Board. At a minimum, the Code of Ethics and Standards of Professional Conduct required by the CFA Institute shall be expected to apply to any Manager.

## 9. *Loans and Borrowing*

- 9.1 No part of the Fund shall be loaned to any person, partnership or association.

## 10. *Investment Process*

- 10.1 Individual investment decisions (pertaining to both the purchase and the sale of any and all assets) shall be conceived, researched, recommended and ultimately ratified by the Fund Managers. Security analysis will include, at a minimum:
- History of the business
  - Fundamentals of the business
  - Review of capital allocation and returns
  - Performance through business cycles
  - Valuation review including future forecasts
  - Balance sheet and financial position
  - Insider holdings
  - Portfolio enhancement (impact of the purchase or sale on the portfolio)
  - Recommendation with price target
- 10.2 Individual Fund Managers shall present and make recommendations upon their review of potential investments or the possible disposal of currently held assets, at weekly Manager meetings. Where possible, industry experts working at

professional money management firms should review investment recommendations to provide feedback prior to formal presentation of a recommendation at a weekly Manager meeting. The Fund Managers shall be responsible for making investment decisions and proposing motions to implement the investment recommendations. The approval of a recommendation will be subject to at least 60% of the Fund Managers voting in favour of the investment recommendation. The Board may elect to have the an investment decision revisited to the extent they deem it unsuitable for the Fund.

## **Part II - Procedures Manual**

### *11. Portfolio Managers*

11.1 Portfolio Managers shall be appointed by the Board, when satisfied as to their suitability and competence to act as agents for the Fund. The Board are empowered to also make any Portfolio Manager changes, from time to time, as are deemed in the best interest of the Fund and its beneficiaries. Before the Portfolio Managers are appointed by the Board, the Portfolio Managers will be required to submit a proposal for management of the Fund, detailing:

- Investment mandate and benchmarking
- Investment philosophy
- Investment process
- Oversight policies
- Trade execution
- Compliance operations, handling conflicts of interest, ensuring ethical behaviour
- Performance tracking responsibilities
- Performance reporting timeline
- Fee structure
- Client relations process

### *12. Investment Analysts*

12.1 Duties of the Investment Analysts shall include the following:

- (a) collection of corporate information;
- (b) gathering relevant newspaper articles and other publications;
- (c) compilation of relevant data;
- (d) assistance with bookkeeping, fund analysis and performance tracking;
- (e) data entry; and
- (f) directed research of corporations and equities.

- 12.2 Investment Analysts shall play a significant role in the support of the Portfolio Managers. As a group, and with specific assignments, Managers shall mentor and train the Analysts.

### 13. *Fund Analysts*

- 13.1 Duties of the Fund Analysts shall include the following. :

- (a) Review the trades conducted by the Portfolio Managers on a monthly basis and report any violations of the Charter or the Terms;
- (b) For each CPMT Quarterly Report, and for the CPMT Annual Report, the Fund Analysts must also prepare a document for the Board outlining the process used to evaluate the compliance of the Fund Managers with the Charter and whether any deficiencies have been detected during that quarter;
- (c) To improve the quality of the CPMT reporting process it would be valuable to have a procedure developed in which the Fund Analysts could validate the information reported by the Manager in their quarterly and annual reports. To date, the Fund Analysts only validate that each individual trade complies with the Charter and Terms. Thus, this task will require that the Fund Analysts draw upon auditing principles, advised by industry experts if desired, to develop an administrative process to validate the information presented in the quarterly and annual reports; and
- (d) The Fund Analysts must prepare a report by within 30 days of the fiscal year end outlining how future Fund Analysts will be able to effectively audit the information presented in the quarterly and annual Manager reports.

- 13.2 The Board may direct the Investment Analysts to fulfill the Fund Analyst role.

### 14. *Transactions*

- 14.1 Buy/sell transactions will be executed by the Faculty Supervisor or his/her designate. All transactions will be communicated in writing to the Faculty Supervisor, who will then arrange the execution of investment recommendation and confirm back the transaction details to the Fund Managers.

- 14.2 A written record of the transaction shall be made detailing the:

- (a) date and time of transaction;
- (b) price of the security bought/sold;
- (c) number of securities transacted;
- (d) total dollar value of the transaction; and

- (e) name of the individual executing the transaction and the Fund Managers present.

## 15. *Bookkeeping & Tracking*

- 15.1 A copy of the written record shall be filed in virtual storage of the CPMT.
- 15.2 There shall be a virtual location for all records, updated at least quarterly, including:
  - (a) trade transactions, broker confirmations, and monthly broker statements;
  - (b) stock analysis, recommendations, and investment rationales;
  - (c) meeting minutes;
  - (d) a copy of the Terms of Reference and Policy & Procedures Manual.
- 15.3 Investments shall be monitored on a daily basis and shall be updated Fridays, at the weekly closing prices.

## 16. *Voting Rights*

- 16.1 The responsibility of exercising and directing voting rights acquired through Fund investments shall normally be delegated to the Portfolio Managers, who shall at all times act prudently and in the best interest of the Fund and its beneficiaries. To discharge this responsibility, Portfolio Managers shall maintain a Proxy Voting policy for the CPMT, and retain a record of all proxies received, how the Fund voted with respect to each proxy, and a rationale for each proxy vote.
- 16.2 The Board reserve the right to direct or override the voting decision of the Portfolio Managers, if in the view of the simple majority of the Board such action is in the best interests of the Fund and its Beneficiaries.

## 17. *Monitoring*

- 17.2 The Board shall monitor the performance of the Portfolio Managers, such monitoring shall include, but not be limited to, quarterly meetings, an annual meeting, appointment of Fund Analysts to monitor compliance with the Charter and Terms, and ongoing evaluation of performance relative to standards appropriate to the Manager's mandate.
- 17.3 The Board shall meet at least quarterly, or as otherwise called by the Chair. Quarterly meetings will:

- (a) review the assets and net cash flow of the Fund;
- (b) review the current economic outlook and Portfolio Managers' investment plans;
- (c) review the current asset mix of the Fund and take any action necessary to ensure compliance with this Policy; and
- (d) receive and consider statistics on the investment performance of the Fund.

## 18. *Policy Review*

18.1 This policy shall be reviewed at least annually by the Board and Portfolio Managers, or more frequently if necessitated by a major change. Such a review may be caused by:

- (a) significant additional donations;
- (b) significant revisions to the expected long-term trade-off between risk and reward on key asset classes, significant changes in economic/political/social factors;
- (c) a significant change in the financial risk tolerance of the CPMT;
- (d) shortcomings of the Policy that emerge in its practical application, or substantive modifications that are recommended to the Board by a Manager; and
- (e) changes in applicable legislation.

## 19. *Reporting*

19.1 Quarterly reports shall be submitted to the Board by the Portfolio Managers within 30 days of the end of each quarter. Each Quarterly Report shall include:

- (a) a macroeconomic perspective/analysis;
- (b) summary of current assets;
- (c) investment decision rationales;
- (d) summary of total returns over the period;
- (e) portfolio performance against Fund Objectives (Point 3);
- (f) investment diary, summary of costs incurred;
- (g) financial statements of the portfolio; and
- (h) a compliance report stating whether or not the portfolio was managed in accordance with the Charter.

19.2 An Annual Report shall be submitted to the Board by the Portfolio Managers within 30 days of the end of the fiscal year (March 31). The Annual Report shall include:

- (a) an introduction to the CPMT and its objectives;
- (b) a greeting and letter by the President of the CFASC;
- (c) a greeting and letter by the Dean of the Haskayne School of Business;
- (d) a greeting and letter by the Chair of the Board of Trustees;

- (e) acknowledgment and thanks to sponsors, if any;
- (f) short biographies and resumes of Portfolio Managers;
- (g) short biographies and resumes of Fund Analysts;
- (h) short biographies and resumes of Investment Analysts;
- (i) a macroeconomic perspective/analysis;
- (j) summary of current assets;
- (k) investment decision rationales;
- (l) summary of total returns (gains/losses) over period;
- (m) portfolio performance against Fund Objectives (Point 3);
- (n) investment diary and summary of costs of transactions;
- (o) other miscellaneous information; and
- (p) a compliance report stating whether or not the portfolio was managed in accordance with the Charter.

To the stakeholders of the Calgary Portfolio Management Trust (CPMT):

We, the Board of Trustees of the CPMT, have reviewed the preceeding Charter that will govern the actions of the student Portfolio Managers. We will oversee the Portfolio Managers, who are expected to follow the guidelines herein.

We, the Board of Trustees of the CPMT, have conducted a review of the Charter and the Amendments to the Charter, and find that the guidelines contained within are prudent and fully representative of the interests of all stakeholders.

By our signature, we the following Trustees hereby approve the preceding Charter of Investment Policies & Procedures. Dated this the 20th day of October, 2020.

**Calgary Portfolio Management Trust Board of Trustees:**

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James Anderson, CFA (CFASC Appointee)

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Jessica Hulsman, CFA (CFASC Treasurer)

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Dr. Thomas Holloway, CFA (CPMT Faculty Supervisor)

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Dr. Ari Pandes (Haskayne School of Business Finance Faculty)

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Shiv Desai, CFA (University of Calgary Endowment)