Statement of Investment Policy
For
The Royal Institution For The Advancement of Learning/ McGill University
Endowment Fund

Endowed funds are primarily invested through the McGill Investment Pool ("MIP") and are composed of: (i) bequests and donations received by The Royal Institution For The Advancement of Learning/McGill University ("University"), for the most part externally restricted, and generally to be held in perpetuity (ii) those assets of entities affiliated to the University and units of the University which have been invested in the MIP as an investment vehicle (iii) such other assets as may be designated by the Board to be endowed.

Section 2: Governance

The Endowed funds are governed pursuant to the terms of this Statement under the authority of the Board of Governors and of the Investment Committee (the "Committee"), in accordance with its Term of Reference. The Committee will review this Statement annually.

Section 3: Investment Objectives

The overall objective of the MIP is to preserve (in real dollar terms) the capital of the MIP within the social and ethical norms of the University, to obtain a total return (yield plus capital appreciation) necessary to provide a dependable and optimal source of income for endowment beneficiaries and to cover the annual operating costs of the MIP.

The MIP’s assets have a long-term, indefinite time horizon that runs concurrent with the longevity of the institution (in perpetuity). As such, these funds can assume an above-average level of risk as measured by the standard deviation of annual returns. It is expected, however, that both professional investment management and appropriate portfolio diversification will smooth volatility and help to ensure a consistency of return.

3.1 Benchmarks

(i) Benchmarks for publicly traded securities must be publicly quoted and readily investable.
(ii) Additional measurable objectives are:

a) to exceed the composite benchmark consisting of target asset weights of market indices as measured over annualized three and five year periods. The composite benchmark for the total portfolio will be composed of:

- S&P/TSX Composite (10%);
- S&P 500 (50% USD hedged) (20%);
- MSCI EAFE (10%);
- MSCI EM (10%);
- 5.15% plus CPI (All Items) (10%);
- US T-bills + 5% (50% USD hedged) (10%);
- ((MSCI World + 2%) (50%) + (5.15% + CPI) (50%)) (10%);
- FT TMX Universe Bond (18%)
- FT TMX 91 Day T-Bill (2%).
b) to achieve a total rate of return that ranks in the top one-third of a universe of similarly managed funds over annualized three and five year time periods.

Section 4: Investment Guidelines

In order to achieve its investment objectives, the MIP shall be allocated among a number of asset classes. These asset classes may include Canadian equity, US equity, non-North American equity, income trusts, Canadian, US and non-North American fixed income, real estate infrastructure, venture capital, private equity, hedge funds, commodities, exchange-traded and index funds, staff mortgages, cash and cash equivalents and other asset classes, investments or strategies designated by the Investment Committee from time to time. The purpose of allocating among asset classes is to ensure the proper level of diversification within the MIP.

4.1 Asset Mix

Under normal circumstances, the asset mix of the total MIP based on market value is to fall within the following ranges:

The following target asset mix table defines the MIP’s target policy asset allocation and the minimum and maximum allocation limits of each asset class:

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>MINIMUM</th>
<th>TARGET</th>
<th>MAXIMUM</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Equities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Canadian</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>b) US</td>
<td>15%</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>c) Non-North American (developed)</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>d) Non-North American (emerging)</td>
<td>5%</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Public Equities</strong></td>
<td>40%</td>
<td>50%</td>
<td>70%</td>
</tr>
<tr>
<td><strong>Alternative Investments:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Hedge Funds (North American and Global)</td>
<td>5%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>b) Private Investments</td>
<td>0%</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>c) Real Assets</td>
<td>0%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Alternative Investments</strong></td>
<td>10%</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Fixed Income:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Cash and equivalents</td>
<td>0%</td>
<td>2%</td>
<td>10%</td>
</tr>
<tr>
<td>b) Nominal and real-return bonds - Cdn</td>
<td>8%</td>
<td>18%</td>
<td>30%</td>
</tr>
<tr>
<td><strong>Fixed Income</strong></td>
<td>15%</td>
<td>20%</td>
<td>40%</td>
</tr>
</tbody>
</table>

4.2 Rebalancing

The asset mix shall be monitored monthly and rebalanced when necessary.

Transfers between asset classes and investment managers may be done by the Chief Investment Officer and staff within the ranges stipulated in the policy target allocation and within the limits stipulated in the Regulations Relating to the Approval of Contracts and Signing Authority.
The use of a transition manager could be appropriate to execute rebalancing of assets when investment managers are terminated or hired. Such manager’s objective is to transition assets in the most efficient way possible while minimizing transaction costs to the MIP.

Section 5: Investment Policy Guidelines and Restrictions

The MIP shall be diversified both by asset class and within asset classes. Within each asset class, securities shall be diversified among economic sector, industry, quality and size.

Investment in pooled or commingled funds are permitted subject to advance written approval of the Investment Committee provided that such pooled and commingled funds are expected to be operated within constraints reasonably similar to those described in this mandate. It is recognized that in such cases complete adherence to the provision of this Statement may not be entirely possible.

5.1 Public Equity Investments

The purpose of equity investments is to provide capital appreciation, growth of income and current income, with the recognition that this asset class carries with it the assumption of greater market volatility and increased potential for loss.

Investment in income trust units, and index and exchange-traded (ETFs) funds is permitted. Investment managers are prohibited from selling securities short, buying securities on margin, borrowing money or pledging assets, or trading uncovered options without the advance written approval of the Committee.

No single issuer with the exception of the Federal or Provincial governments shall represent more than 5% of the market value of the total MIP at the time of the investment without prior approval of the Committee or designate.

5.2 Alternative Investments

The purpose of alternative investments is to provide capital appreciation, growth of income and current income as well as diversification of the portfolio, with the recognition that this asset class, with absolute return strategies, carries with it the assumption of lesser market volatility and lesser liquidity compared to Public Equity investments.

Alternative investments include liquid real assets (publicly traded equity and debt), real estate, infrastructure, venture capital, private equity, hedge funds and commodities.

Investments in alternative investment strategies such as real assets, private equity/venture capital and hedge funds can be directed to funds or through a fund of funds, as deemed appropriate by the Investment Committee, from time to time.

5.3 Fixed Income Investments

The purpose of fixed income investments is to provide diversification, a predictable source of income, a reduction in the risk of the total portfolio and a hedge against deflation.

The purpose of investment in real return bonds is to provide a hedge against inflation.

Investments in fixed income will include bonds (including inflation-indexed bonds), debentures, mortgages, notes or other debt instruments of government, government agencies and corporations as well as money-market securities, including cash, Treasury Bills, Banker’s Acceptances, Guaranteed Investment Certificates, commercial paper and certificates of deposit. Investment in exchange-traded (ETFs) funds is permitted.
Section 6: Securities Lending

Securities lending is permissible as part of the investment program subject to prior approval of the Investment Committee in accordance with the following guidelines:

a) endowment investments are only to be loaned to approved brokers for the purpose of generating revenue for the MIP;

b) such loans must be secured by cash and/or readily marketable government bonds, treasury bills and/or letters of credit, discount notes and/or banker’s acceptances of Canadian banks and equity securities. The amount of collateral taken for securities lending should reflect best current market practices. The determination of the market value of the securities lent must be done on at least a daily basis;

c) the terms and conditions of any securities lending program will be set out in a contract with the custodian or other provider of securities lending services. The custodian or other provider of securities lending services shall, at all times, ensure that Office of Investments staff has a current list of those institutions that are approved to borrow the MIP’s investments. Where the MIP is invested in a pooled fund, securities lending will be governed by the terms and conditions set out in the pooled fund contract.

Section 7: Derivatives

Derivatives may be used as a substitute for more traditional investments, subject to prior review and advance written approval from the Committee, if such use is based on and consistent with attaining the investment objectives of the MIP, including hedging and management of its asset mix policy. Derivatives may include bond, stock and commodity futures contracts, commodity index swaps, currency forward contracts, options, interest rate and equity swaps and combinations of these instruments.

7.1 Currency Hedging

Given that the endowment liabilities are in Canadian dollars and the significant exposure of the portfolio to the U.S. dollar, it is appropriate to minimize the effect of such U.S. dollar exposure by implementing a currency hedge with respect to the U.S. dollar with reference to currency hedging bands through the use of currency forward contracts and other appropriate instruments.

Currently Held Trading Bands

<table>
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<tr>
<th>FX CAD Rate (1 CAD = USD)</th>
<th>Hedge Ratio of USD</th>
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<tbody>
<tr>
<td>1.00 +/- 0.05 &lt; CAD</td>
<td>25% (+/-10%)</td>
</tr>
<tr>
<td>0.70 &lt; CAD ≤ 1.00</td>
<td>50% (+/-10%)</td>
</tr>
<tr>
<td>CAD ≤ 0.70 +/- 0.05</td>
<td>75% (+/-10%)</td>
</tr>
</tbody>
</table>

In order to allow for the volatility of the hedge ratio caused by market movement, the hedging ratio could vary within +/-10% without requiring a rebalancing.

Section 8: Socially Responsible Investing

While the primary purpose of the management of the MIP is to optimize the real rate of return on the fund’s assets with an acceptable level of risk, the Committee will follow the instructions of the Board of Governors, pursuant to the recommendation of the Committee to Advise on Matters of Social Responsibility.
Section 9: Investment Managers and Service Providers

The Committee allocates assets to individual managers and from time to time may withdraw funds from or reallocate funds between managers. At the time of appointment, each new manager will be provided with an investment management agreement ("IMA") and a copy of this Statement. Manager performances will be compared on a regular basis (not less than quarterly) with the performance of appropriate market indices and with other funds managed by peer group managers (similar investment styles and objectives). Investment return objectives consistent with the overall objectives for the MIP established in the Statement will be established with each manager at the time of hiring and will be reflected in the respective Mandates.

Mandates for the custody of securities, performance measurement services, consultants and other service providers will be granted by the Investment Committee or its designate. These mandates will be reviewed annually.

Service providers, including consultants, where applicable are expected to exercise the degree of care, diligence and skill which a prudent and diligent service provider or consultant would exercise in similar circumstances.

History:

Revised, Board of Governors, March 15, 2004 (minute 14)
Revised, Executive Committee, July 10, 2006 (minute 12)
Revised, Board of Governors, September 22, 2008 (minute 6.3)
Revised, Board of Governors, May 25, 2010 (minute 7.1)
Revised, Executive Committee, June 18, 2013 (minute 5.1)
Revised, Executive Committee, June 25, 2014 (minute 8.2)
Revised, Executive Committee, June 11, 2015 (minute 6.1)
Revised, Board of Governors, November 26, 2015 (minute 12.2)
Revised, Board of Governors, April 21, 2016 (minute 13.5.1)
Revised, Executive Committee, October 28, 2016 (minute 5.1)