



POLICY: INVESTMENT POLICY STATEMENT

CREATION DATE: May 29, 2001

POLICY NO.: 1.00

EFFECTIVE DATE: May 29, 2001

REVISION DATE: June 2021

APPROVED BY:


Chair of the Board


Treasurer


Executive Director

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A. INTRODUCTION

1. Purpose

The purpose of this Investment Policy Statement ("IPS") is to outline the procedures and policies to effectively manage and evaluate the investment of the permanent endowment fund of the Fredericton Community Foundation ("Foundation").

2. Background & Mission

The Foundation is a Canadian, New Brunswick based charitable foundation created by statute "The Fredericton Community Foundation Inc. Act, being an Act of the Legislature of the Province of New Brunswick, "an Act to incorporate The Fredericton Foundation Inc., chapter 70 of The Acts of New Brunswick, 1956 and as amended by Bill 27 An Act To Incorporate The Fredericton Community Foundation Inc.". An Act of the New Brunswick Legislature 2000, Chapter 70.

The mission statement of the Foundation is:

"We help caring donors support community causes that enhance lives."

3. Funds

There are two main components of the Foundation's permanent endowment fund ("Fund"):

- (a) funds owned by the Foundation which are received primarily by way of gifts and bequests and which may include:
 - (i) Designated Funds (i.e. a qualified charity or charitable field-of-interest as specified by the donor), which funds may include the Foundation's administrative endowment fund, and
 - (ii) Community Funds, which are sometimes referred to as the "undesignated funds" (i.e. the Foundation has full discretion to choose the qualified charity); and
- (b) funds held on behalf of others under Managed Fund agreements (i.e. Managed Funds).

4. Other

The Foundation is subject to the requirements of the Income Tax Act (Canada) relating to public charitable foundations. Revenues are non-taxable.

The fiscal year-end of the Foundation is June 30th.

B. **OBJECTIVE**

The long-term objective of the Foundation's investment strategy is to allow the Foundation to fulfill its mandate into perpetuity

The Foundation's investment strategy is built on the following hierarchy:

- Sufficient funds from investment returns to support the Foundation in achieving its annual spending objectives for granting and administration as determined by the Board of Directors of the Foundation annually and in compliance with any and all requirements under the Income Tax Act (Canada). This includes compliance with the CRA's disbursement quota, currently at 3.5% per annum;
- Sufficient returns over the long-term to protect the original capital entrusted to the Foundation by its donors, and if possible, preserve part or all of the purchasing power; and
- Balance between the risk and reward potential in the selection of the asset mix allocations recognizing that a moderate level of risk is required to preserve the original capital and meet the granting requirements in the long term and to allow for an opportunity to preserve part or all of the purchasing power of the original capital, if possible.

Based on the above hierarchy, the Foundation will target long-term real rate of return (i.e., after inflation) net of investment management fees (i.e., after investment management fees) of greater than 4% - per annum. The real rate of return includes both realized return (namely, interest and dividend income and gains and losses incurred on disposal of investments) and unrealized gains and losses on investments due to market fluctuations. It is important to note that this rate of return may not be realized during any specific fiscal year or for certain economic cycles but is expected to be achievable on an annualized basis over the very long term. This target long term real rate of return may not be sufficient to allow for preservation of all of the purchasing power of the original capital.

C. ROLES AND RESPONSIBILITIES

1. Board of Directors

The Foundation is managed by the Board of Directors ("Board"). The Board is ultimately responsible for the investment of the Foundation's assets. The Board has a responsibility to:

- Act honestly and in good faith with a view to the best interest of the Foundation;
- Exercise the care, diligence, and skill that a reasonably prudent person would exercise in comparable circumstances;
- Determine the Foundation's annual spending objectives while considering the expected longer-term investment return.
- Review and approve the IPS;
- Select, engage, or dismiss the professional investment manager (the "Investment Manager"), or other financial advisors;
- Review the results of the Fund as prepared quarterly by the Investment and Audit Committee and the Investment Manager; and
- Appoint or dismiss members of the Investment and Audit Committee.

2. Investment and Audit Committee

The Investment and Audit Committee is established by the Board. As part of its duties, the Investment and Audit Committee shall monitor, review, and recommend to the Board changes in the Foundation's IPS. The Investment and Audit Committee has the responsibility to take all reasonable steps to ensure that the portfolio is properly administered and to ensure that the Foundation receives an appropriate return on its investments consistent with its objectives. The Investment and Audit Committee provides and frequently reports on, the following function for the Board:

- Maintain an understanding of legal and regulatory requirements and constraints applicable to the management of the Foundation's assets and spending policy;
- Review, on a regular basis, the Foundation's IPS and make appropriate amendments for the Board's consideration;
- Recommend to the Board to select, engage, or dismiss the professional investment manager (the "Investment Manager"), or other financial advisors;
- Monitor the Fund's performance on a quarterly basis;
- Monitor the Investment Manager's performance and compliance with the IPS as well as the Investment Manager's compliance with any specialized instructions and mandates given by the Investment and Audit Committee;
- Co-ordinate with the Executive Director, Board and Grants Committee to ensure availability of cash needed for operating expenses and grants; and
- Report the Investment and Audit Committee's activities to the Board.
- Advise the Board, annually, of the expected longer-term investment return.

3. Investment Manager

The Investment Manager will:

- Be independent of the Board and the Foundation;
- Invest assets of the Foundation according to applicable legislation and the investment guidelines defined by this IPS;
- Seek the input and advice of the Executive Director or Treasurer on administrative matters and when any unusual situation occurs such as inquiries and gifts received directly from outside organizations or individuals;
- Provide input and recommendations as requested by the Investment and Audit Committee for the review and update of the IPS; be fully aware of the contents of and amendments to the IPS;
- Seek the approval of the Investment and Audit Committee if any concern arises as to the acceptability of an investment;

- Provide advice and counsel with respect to the Fund when called upon to do so by the Foundation;
- Provide a review of the Fund performance as well as expectations on the economic and financial market outlook and related investment strategies on a quarterly basis as outlined in Section E;
- Ensure that the Investment and Audit Committee is knowledgeable about new asset classes or investment instruments and their impact on the Fund's objectives; and
- Exercise the care, skill and diligence that can reasonably be expected of a prudent person.

4. Management

The Executive Director will:

- Carry out all management functions with regard to the Investment Policy;
- Sit as an advisory, non-voting member of the Investment and Audit Committee.

D. **GUIDELINES AND INVESTMENT POLICY**

1. Time Horizon

Long-term with expected perpetual Foundation spending time horizon.

2. Risk Tolerance

The Foundation recognizes that some risk must be assumed to achieve the long-term total return investment objective; in that regard, the Foundation is prepared to tolerate short-term, negative total return fluctuations.

3. Asset Allocation

The following asset allocation has been determined to provide a diversified portfolio that should meet the long-term return expectations of the Foundation within acceptable levels of risk. It is important to note that returns may differ significantly from the long-term expectations over shorter time periods.

Classes:

	Strategic Allocation Target	Permitted Deviations	Benchmark
Cash/cash equivalents	5%	+/-5%	91-day Treasury-Bill
Fixed Income	45%	+/-10%	DEX Universe Bond Index
Equities	50%	+/-10%	
Total	100%		
Canadian Equities	25%	+/-10%	S&P TSX Composite Total Return Composite Index
US Equities	12.5%	+/-5%	S&P 500 Total Return Composite Index in \$C
International Equities	12.5%	+/-5%	MSCI EAFE Net Index in \$C

Permitted Deviations: Deviations from the strategic allocation targets are permitted to allow the Investment Manager to take advantage of relative pricing opportunities amongst asset classes to:

- strive to enhance returns; and
- limit potential capital losses.

Deviations have been set based on a determination of the levels needed to help the fund to achieve value added targets.

Benchmarks: Each of the benchmarks selected is recognized by the investment industry as an independent and credible representation of the investment opportunity.

New Asset Classes: The Investment and Audit Committee and the Investment Manager will explore the potential to add a new asset class that will increase the diversification of the Fund's assets without compromising return expectations. No new asset classes will be implemented without prior approval of the Board through an amended IPS.

Rebalancing: Any inadvertent drift outside the Permitted Deviations will be reported to the Treasurer within three working days along with a suggested re-balancing action plan. It shall also be reported to the Board of Directors at its next meeting. Upon consultation with the Treasurer, the Investment Manager shall re-balance the portfolio to bring the allocation within the Permitted Deviation range in a manner it considers prudently appropriate, which may include:

- (a) using any cash deposits or withdrawals that may occur,
- (b) selling portions of an asset class that has relatively "over-performed" and adding the sale proceeds to the asset class that has relatively "under-performed", and
- (c) Using expected proceeds from upcoming maturities to re-balance to the acceptable range, if these are expected to occur within 45 days following the drift.

4. Liquidity Requirements

Regular liquidity (i.e. cash) needs are required to provide operating funds for the Foundation. Such operating funds are required:

- (a) to cover day-to-day administrative expenses, and
- (b) to cover grant making and payments from the Community Fund, Designated Funds and Managed Funds.

The Foundation's income through donations is very difficult to predict and may be influenced by large one time donations from time to time. As a result, historical and expected donation income cannot effectively be considered as a reliable liquidity source. Instead, the Management, using information from the approved budget, will inform the Investment Manager of the expected liquidity requirements to cover administrative expenses and amounts paid out in grants taking into account expected cash from donations. For large one time donations, instructions to the investment manager should be accompanied with expectations for cash needs from this source, particularly in the near term in order to avoid unnecessary purchase and sale of medium to long term assets.

Subject to the CRA regulations, it may be necessary for the Foundation to withdraw some of the principal balance from either the Community or Designated Funds, to meet its obligations as outlined above. It may be further necessary for the Foundation to withdraw some or all of the principal balance from any Managed Fund, as may be directed from time to time by a contributor, on sufficient prior notice to the Foundation and, in turn, by the Foundation to the Investment Manager.

5. Spending Policy

The Foundation's spending policies, as approved by the Board, are integral to the Foundation's investment policies. The Foundation's spending rate, defined as the amount available for granting and administration, is determined by the Board of Directors. This investment policy was developed assuming a minimum disbursement rate of 2% in years where investment performance is below the long-term average objective and an average disbursement rate over the long term of at least 3.5% per annum.

6. Performance Expectations Target for Fund

While adhering to acceptable levels of risk, the Investment Manager will strive to achieve a time-weighted, nominal rate of return net of investment management fees (i.e., after investment management fees) to outperform by 25 to 50 basis points (1/4%-1/2%) the following market-based benchmark (being a composite index based on the following indices) over four year moving time periods. The Foundation recognizes that over shorter periods the Fund return may not achieve the long-term Performance Expectation Target.

Market Based Benchmark:

5.0%	91-day Treasury-Bill (cash and cash equivalents) plus
45.0%	DEX Universe Bond Index (fixed income) plus
12.5%	Standard and Poors 500 Total Return Composite in \$C(US equities) plus
25.0%	S&P TSX Total Return Composite Index (Canadian equities) plus
<u>12.5%</u>	MSCI EAFE Net Index in \$C (overseas equities Europe-Australia-Far East)
100%	

"Time-weighted" rate of return considers the period-by-period rate of return without regard to cash contributions to and withdrawals from the Fund.

7. Currency Exposure

Investing in equities outside of the Canada provides further diversification benefits to assist in meeting the Fund's objectives. Holding foreign investment in the Fund creates the potential for gains or losses from exposure to foreign currencies. Short-term currency movements may impact short term Fund performance. Over the long term, the impact of the currency exposure is expected to be neutral.

E. **SECURITIES GUIDELINES**

Generally, the "prudent investor" standard shall be followed in determining the eligibility of a security for investment: namely, that which a reasonable and prudent person would consider avoiding undue loss and to obtain a reasonable return.

Pooled funds, mutual funds, or exchange traded funds may be held at the discretion of the Investment Manager, and the agreement of the Investment and Audit Committee, with the understanding that the guidelines of the specific fund will supersede the guidelines outlined below. These funds must be managed within the "prudent investor" standard noted above and be consistent with the spirit of this Investment Policy.

1. Cash and Cash Equivalents
 - (a) At least R1 (using the rating of the Dominion Bond Rating Service ("DBRS"))
2. Fixed Income
 - (a) Notes, debentures, guaranteed investment certificates (GICs) that are guaranteed by the Canadian Deposit Insurance Corporation and other debt securities. The Investment Manager may invest in the securities of Issuers not included in the Benchmark, however, will maintain a Duration of the fund within 1.5 years of the Benchmark;
 - (b) Investment in preferred shares of investment grade corporations is allowed under the Fixed Income component of the investment portfolio when the yield on preferred shares has a yield of greater than or equal to 150 basis points above the DEX yield at the time of purchase.
 - (c) Pooled, segregated or both;
 - (d) Canadian fixed income portfolio guidelines:

The following guidelines are based on the composition of the portfolio benchmark on the Investment Policy revision date. The investment manager will provide the Investment and Audit Committee with quarterly updates on the underlying benchmark composition for future guideline consideration.

Issuer Type & Rating Scale	Limit in any Individual Issue	Aggregate limit for category
Federal		No limit
Provincial		45%
BBB+ / BBB / BBB- rated	2%	20%
A+ / A / A- rated	5%	35%
AA+ / AA / AA- rated or above	10%	45%
Municipals		10%
BBB+ / BBB / BBB- rated	2%	5%
A+ / A / A- rated	3%	8%
AA+ / AA / AA- rated or above	3%	10%
Corporates + GICs		75%
Corporates + Preferred Shares (excluding GICs)		50%
Preferred Shares		20%
BBB+ / BBB / BBB- rated	2%	20%
A+ / A / A- rated	3%	30%
AA+ / AA / AA- rated or above	5%	40%
Total Portfolio		
BBB+ / BBB / BBB- rated	2%	20%
A+ / A / A- rated	5%	50%
AA+ / AA / AA- rated or above	5%	No limit

NOTES:

- GIC's that the Investment Manager determines are insured against loss by the Canadian Deposit Insurance Corporation are not included in the individual issuer limit. The investment manager will provide the Investment and Audit Committee with a quarterly report which breaks down the GICs held by each issuer.

- If an Issuer rating is downgraded below BBB-, the Investment Manager will notify the Investment and Audit Committee and the bonds will be sold as soon as practicable
- Actual guideline weights may be wider by up to 0.25% due to security price changes

3. Equities

- (a) Publicly traded (i.e., listed on the Toronto Stock Exchange or other major stock exchanges) or an index of a major stock exchange (i.e., exchange traded funds for S&P 500 and MSCI EAFE), common or preferred equities, including securities convertible into same and warrants to purchase same;
- (b) Geographical;
 - (i) Canada and U.S. subject to the Asset Allocation Target and Permitted Deviations as outlined on Page 4 Section 4.D.3 of this document.
 - (ii) non-North American (EAFE markets only): subject to the Asset Allocation Target and Permitted Deviations as outlined on Page 4 Section 4.D.3 of this document.
- (d) No more than 5% of the market value of the equity portion of the Fund in a security of any one corporation or issuer. The actual guideline weight may be wider by up to 0.5% due to security price changes.
- (e) Total equity investments in any one industry sector, as identified by the Global Industry Classification Standard (GICS) may not exceed +/- 2.5 times the overall weighted average GICS benchmark index weights to a maximum of +/- 10%. The actual guideline weight may be wider by up to 0.5% due to security price changes
- (f) No derivatives for speculative trading or to create excess leverage.

F. CONTROL PROCEDURES

1. Reporting

The Investment Manager and/or custodian shall provide at least the following to the Investment and Audit Committee:

- (a) monthly statements to include, at least, the Fund's cost and market values and cash transactions;
- (b) quarterly (based on a fiscal year quarter) performance reports outlining, the Fund's rates of return, the benchmark rates of return and inflation rates (New Brunswick Consumer Price Index) for periods as the Foundation may consider appropriate; and
- (c) any necessary information that may be required for the preparation of the Foundations' annual financial statements.
- (d) In cases where the Investment Manager utilizes pooled funds, mutual funds, or exchange traded funds, the Investment Manager must provide the Investment and Audit Committee with an initial overview of the investment approach and an outline of the specific investment guidelines of that fund. The Investment Manager will advise the Investment and Audit Committee of any changes to the investment guidelines of the fund.

The performance measurements and reports shall be in accordance with the standards of the Association of Investment Management and Research (AIMR).

2. Monitoring

- (a) Quarterly (based on a fiscal year quarter) performance shall be evaluated to test progress toward the attainment of longer-term targets (with particular emphasis on four year moving time periods). Such evaluation shall include:

- (i) the Investment Manager's adherence to, and performance with respect to, this IPS;
 - (ii) the Investment Manager will provide a certification that any pooled funds, mutual funds, or exchange traded funds used in connection with section F.1.(d) above are in compliance with their specific investment guidelines.
 - (iii) comparison of the Investment Manager's performance to appropriate indices for each asset class and the benchmark index stated in this IPS; and
 - (v) comparison of the Investment Manager's performance with a universe of other investment managers that employ a similar investment style (i.e. balanced portfolios). And could include, but not necessarily be limited to:
 - i. comparison of the Investment Manager's performance on a risk adjusted basis for each asset class and the benchmark index stated in this IPS; and
 - ii. comparison of the Fund's performance with a universe of other community foundations that employ a similar investment style (i.e., balanced portfolios).
- (b) The Investment and Audit Committee and the Investment Manager shall personally meet not less frequently than annually to review the investment performance and to determine the continued feasibility of achieving the Fund's investment objectives and the appropriateness of this IPS for achieving those objectives.
- (c) This IPS shall be reviewed periodically by the Investment and Audit Committee and recommendations for change made to the Foundation in order that it continues to be appropriate. It is not expected this IPS will change frequently; in particular, short-term changes in the financial markets should not require adjustments to this IPS. It is the intention of the Foundation to ensure that this IPS is continually appropriate to the Foundation's needs and responsive to changing economic and investment conditions.

~ END OF POLICY ~