

## **ABBOTSFORD COMMUNITY FOUNDATION**

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<b>Created:</b>  <b>Dec., 2011</b>	<b>Last Review Date:</b>  August 2018	<b>Review:</b> Annually <b>Next Review Date:</b> August 2019

### **Purpose and Background**

The purpose of this Investment Policy Statement (IPS) is to assist the Board of Directors (the Board) of The Abbotsford Community Foundation (the Foundation) in effectively supervising, monitoring, and evaluating the investment of the Foundation's pool of capital. The Foundation's investment program is defined in the various sections of the IPS by:

- Stating in a written document the Board's attitudes, expectations, objectives, and guidelines for the investment of the Foundation's capital.
- Providing guidelines that control the level of overall risk and liquidity assumed in the portfolio.
- Encouraging effective communications between the Board and the investment manager.
- Establishing formalized criteria to monitor, evaluate and compare the performance results achieved by the investment manager on a regular basis.
- This policy does not cover capital assets of the Foundation that are not held for investment.

The Foundation has a permanent pool of capital from which charitable disbursements are made to enhance the quality of life in Abbotsford. The Foundation is a charitable foundation as defined in the Income Tax Act of Canada and as such is not subject to income tax on its investment income. The Foundation is not subject to regulations with respect to foreign securities. Under the Income Tax Act, the Foundation is required to maintain a minimum amount of disbursements based on the fair market value of its assets.

### **Statement of Objectives**

The prudent and effective management of this portfolio has a direct impact on the Foundation's ability to meet current funding needs. Our return objective is to exceed our chosen benchmark. The funds are held in perpetuity and therefore the investment portfolio will also need to ensure that its capital is preserved on an inflation adjusted basis.

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It is appropriate that the Foundation take a total return approach to earning investment income. Total return includes interest, dividends and realized and unrealized capital gains. Taking a total return approach means that the Foundation would not look only to interest and dividend income to meet its funding level and administrative expenses. There would be an expectation that capital gains would also contribute to what could be disbursed. Interest and dividend income is relatively predictable on a short-term basis, investment income from capital gains is not predictable and, in some periods a loss may be incurred. The ability to make distributions each year will be based in part on the total rate of return earned by the Foundation. Modest volatility in the rate of return is tolerable. Sufficient flexibility to make any specific income withdrawals is also desirable.

### **Guidelines and Investment Policy**

#### **Time Horizon**

The Foundation's funds will be held in perpetuity, thus the investment time horizon is extremely long.

#### **Risk Tolerance**

The Foundation is a conservative investor. The Board recognizes that some risk must be assumed to achieve the Foundation's long-term investment objectives and that, in some years, due to market conditions, losses may occur. The Foundation would prefer relatively stable investment returns rather than achieve the higher returns that might be possible with a portfolio with higher volatility and therefore seeks to minimize risk. It is appropriate to limit risk exposure through prudent diversification.

#### **Income Requirement**

The Foundation requires an annual income from this portfolio to accommodate current funding requirements as determined by the Spending Policy. On the advice of the Investment Committee, the Board of Directors will set the annual spending limit for the Abbotsford Community Foundation.

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### **Asset Allocation**

The risk and return profile of the Foundation's portfolio will largely be determined by the asset class mix of the portfolio. Each asset class has had distinct long- term (30 years) performance characteristics with short-term fixed income investments having the most stable but also the lowest return while foreign equities have had the highest returns but also the most volatility.

The Asset Allocation is guided by the following table.

Asset Class	Minimum	Benchmark	Maximum
Canadian Equities	10%	20%	40%
Global Equities	10%	35%	40%
Total Equities	40%	55%	65%
Fixed Income	35%	45%	60%
Alternative Assets	0%	0%	10%
Cash	0%	0%	15%
		100%	

### **Investment Constraints**

#### **Equities**

- Investment in the shares of any single company shall not exceed 5% of the equity value of the portfolio.
- Preferred securities should be rated P2 or better.
- The cumulative Canadian domestic equity investment in one industry sector should not exceed 150% of the S & P & TSX composite industry sector weights or + or -3%. The cumulative Global equity investment in one industry sector should not exceed 150% of the MSCI World industry sectors or industry sector weights or + or - 5%

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- No equity investments will be made in any company with a market value capitalization of less than \$50 million.

### **Bonds**

- Investment in the bonds or debentures of a single issuer shall not exceed 10% of the total bond portfolio except for Government of Canada and Provincial issues, and their guarantees.
- Bonds must have an average credit rating of BB+ or an equivalent investment grade rating by a rating agency such as the Canadian Bond Rating Service.
- Foreign bonds may be used with the same average credit quality as noted above. Hedging the foreign exchange exposure is considered prudent.
- Short-Term Investments - all corporate instruments will have a rating of not less than R -1 as rated by the Canadian Bond Rating Service  
Any investment falling outside the guidelines set out above, shall not exceed 5% of the total portfolio at cost.
- Pooled Funds - The investment manager may use pooled funds for the investment of any asset class or part thereof where the pooled fund assets are invested according to the guidelines outlined herein.

### **Reporting and Review Procedures**

Formal lines of communication between the Investment Manager and the Board will include the following:

- Monthly transaction statement.
- A written, quarterly investment review which will include a general economic and capital market overview, performance of the portfolio for the quarter and the performance of the customized index or benchmark, a summary of the previous quarter's investment activity and a list of holdings in the portfolio showing book and market value.

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- Semi – annual meetings may be held at a time and place to be determined by the Fund Investment Committee of the Foundation (the Investment Committee). Additional meetings at the discretion of the Investment Committee may supplement these meetings.
- In addition to the formal lines of communication, consultations between the Investment Committee and the Investment Manager will take place from time to time by informal contact, as circumstances require.
- The Investment Committee will conduct a comprehensive Investment Manager search at least every five (5) years. A formal RFP will be conducted and at least 5 proposals will be requested from institutionally driven investment management firms.

### **Performance Benchmark**

A benchmark for the portfolio serves as a tool for evaluating the performance of the investment manager. The benchmark is a passive alternative to actively managing the portfolio. The following blend of indices would be used as the benchmark.

0% DEX 9`1-Day T Bills

45% DEX Canadian Bond Universe

20% S&P TSX Index

35% MSCI World Index C\$

The Board recognizes that periods of underperformance may occur. It is understood that there are likely to be short-term periods during which performance deviates from market indexes. During such time, greater emphasis shall be placed on peer-performance comparisons with other investment managers.

It is the intention of the Board to review this Investment Policy Statement annually to ensure that the objectives and policies continue to be appropriate to the Foundation’s needs.

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