

## **SECTION 2 – FINANCE**

Origin: TOTP Administration Committee

Status: Policy

Distribution: All Parishes

Approved: Coordinating Council

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### **2.6 Investment Policy**

#### **2.6.1 INTRODUCTION**

This policy has been developed to set out the global investment framework for all endowment or similar Funds under the control of The Territory of the People Anglican Church (TOTP); it is to be used as a general overall guideline for the Investment Committee and the manager of individual Funds.

Separate and distinct Funds may be established for specific or special purposes with Funds set aside for these purposes, The nature of these special Funds may require some modification to areas of the general investment policy such as, investment criteria or allowable spending rate of investment income. In these circumstances, separate policy documents may be developed with specific policies tailored to accommodate these distinct Funds. These documents will become addendums to the general policy and will, except as specified, be governed by the general policy.

Investment by TOTP in real estate which is to be used by Parishes, such as rectories, may be part of the overall investment strategies of TOTP, but in general, this type of investment decision will be made by Coordinating Council upon the recommendation of the Administration Committee.

#### **2.6.2 PURPOSE**

The purpose of this policy is to give guidance on the investment of Funds under the control of TOTP and the general use and allocation of income from these investments. This policy is expected to satisfy a high standard of prudence at the same time maximize the total return on investments consistent with an appropriate level of income to meet the requirements of annual expenses and grant distributions. Over a longer term this should result in the retention of sufficient Funds as capital to offset the effects of inflation to preserve as much as possible the purchasing power of Funds.

#### **2.6.3 GOVERNANCE**

Preservation of the Purchasing Power of Capital over the long-term shall be a major goal.

- a. All investments will be made in accordance with the Code of Ethics and Standards of Practice of the Institute of Chartered Financial Analysts, unless specifically approved by the Investment Committee and Audit and Finance Committee.
- b. TOTP's investments shall be administered in accordance with the Prudent Investor 'Rule', as described in the Standards of Practice Handbook of the Association for Investment Management and Research.
- c. The portfolios held in various Funds shall normally be maintained as 'Balanced - Moderate Risk' investments, with an equity range of 30-70%. This could be modified for a Fund designated for specific purposes.

Allowable Spending Rate of Investment income

- d. TOTP shall follow a spending policy based on total investment income not just dividends, interest and rents received. Total investment income will include:
  - Dividends, interest, and rents received during the period;
  - Realized capital gains less losses; and
  - Unrealized capital gains/losses to bring asset valuation to current market.
- e. Where appropriate TOTP shall reinvest sufficient investment income to maintain the purchasing power of each Fund.

Maintaining purchasing power is defined as ensuring that the balance in the Fund at the end of the period is equal to or greater than the original balance increased by the rate of general inflation.

The purchasing power may be measure over a period of years to allow for rational budgetary practices.

- f. TOTP shall apply a smoothing principle to mitigate the effects of short-term market volatility on allowable spending rates.

The smoothing principle should be developed to provide a spending rate that can be relied on for the fiscal year and is self-correcting such that section f. is adhered to over a multi-year period.

## **2.6.4 CONFLICT OF INTEREST**

### **Individuals Governed by Guidelines**

These guidelines apply to:

- a. Members Coordinating Council, Administration Committee, Investment Committee;
- b. The Professional Portfolio Manager
- c. The Trustee/Custodian; and
- d. Any employee or agent retained by those listed in a. through c. above to provide services related to investments under the Fund.

### **Conflict of Interest**

Any person listed above must disclose any direct or indirect association or material interest or involvement that would result in any actual, potential or perceived conflict of interest with regard to the selection of the investments of the portfolios.

Without limiting the generality of the foregoing, a conflict of interest arises when one of the individuals governed by the Guidelines has:

- Any material interest in any asset of the Fund;
- Receives a benefit from any assets held in the Fund, or a benefit from any actual or proposed contracts with the issuer of any securities which are, or will be included in the Fund;
- Membership on the board of directors of any company being considered as an investment for one of the portfolios;
- Significant holdings in the securities issued by companies being considered as an investment for one of the portfolios.

### **Procedure on Disclosure**

Any person listed above shall disclose the nature and extent of their conflict to the Chair of the Investment Committee in writing, upon the earliest of:

- i) First becoming aware of the conflict or potential conflict;
- ii) At the first meeting in which the matter in issue is disclosed; or
- iii) At the first meeting in which he/she knows or ought to have known that he/she has an interest in the matter discussed.

For the purposes of ii) above, the disclosure must be made orally if knowledge of the conflict arises in the course of a discussion at the meeting. The notification made by the party shall be considered a continuing disclosure on that issue, subject to any further notification, for the purpose of the obligations outlined by this Policy

If the party disclosing the conflict has the capacity to participate in or to make decisions affecting the selection of the investments of the funds, the party may only continue to participate with respect to the issue in conflict with the approval of Coordinating Council.

### **2.6.5 ADMINISTRATION & MANAGEMENT**

- a. It may desirable and appropriate to establish individual and separate Funds for specific reasons and or purposes.
- b. Each Fund will be under the control or guidance of the Investment Committee and the investments in each Fund are to be managed by a Professional Portfolio Manager or within a bank account of an accredited financial institution.
- c. The management of the Funds may be placed with one or more Professional Portfolio Managers, at the discretion of the Investment Committee, to better accomplish particular goals or needs of a specific Fund or to add greater diversification to the overall portfolio.

### **2.6.6 OBJECTIVES**

#### **Investment Philosophy**

- a. The overall investment philosophy of TOTP is to maximize the long-term real rate of return, subject to an acceptable degree of risk, consistent with the long-term goal of capital preservation and growth.
- b. TOTP's portfolios will be managed on a discretionary basis using a balanced investment strategy.
- c. To facilitate active management of the portfolios, the Portfolio Manager will employ the principles of diversification and liquidity as deemed consistent with TOTP's investment objectives.

#### **Investment Objectives**

The assets of the Fund will be managed with the primary objective of providing funding for a variety of activities including, but not limited to, Ministry and Mission projects and program support.

A secondary objective is to earn a long run investment return sufficient to ensure and enhance the real long-term capital value of the fund, net of payouts.

## **2.6.7 CALCULATIONS**

### **Rate of Return**

Market value calculations are to be used unless otherwise indicated and all calculations are to be made on a time-weighted basis.

### **Pay-out Rate**

A prudent pay out policy is to be established and maintained based upon conservative, projected returns and inflation rates. The Investment Committee, with advise from the Portfolio Manager and Investment Advisors, will set a pay-out rate (to be reviewed at least annually), which will be used to determine or calculate the amount to be paid to TOTP annually or semi-annually. This policy will provide a measure of assurance that the Funds are preserved and that a maximized and predictable income stream is provided.

Actual pay-out will be determined based on this annual pay-out rate applied to the following twelve (12) month market value of the Fund or portfolio.

## **GOVERNANCE PROCESS Policy**

### **Purchasing Power Formula**

Where applicable, a Purchasing Power Test will be applied to a Fund to establish an amount (if any), of the capital of a Fund that may be distributed to the beneficiaries of the Fund. This annual calculation is intended to help maintain the original capital of the Fund and preserve its purchasing power over time in light of changes in the Consumer Price Index (CPI). The original capitalization of the Fund (or in subsequent years the Opening Required Market Value), will be used as the base or starting point to calculate or recalculate the Required Market Value of the Fund.

The calculation is as follows:

- Opening Required Market Value plus, the result of the Opening Value multiplied by the annual CPI, plus any Capital additions to the Fund equals the Closing Required Market Value.
- This Closing Required Market Value is then compared to the Actual Market Value at the same closing date.
- If the Actual Market Value is more than the Closing Required Market Value there is in excess and this excess or a portion thereof may (on Investment Committee Approval), be paid out to the beneficiaries of the Fund.

## **2.6.8 PROHIBITED TRANSACTIONS**

**TOTP's investment portfolios will not engage in the following transactions:**

- Purchase of securities on margin.
- Short sales.
- Loans to individual parishes without the prior consent of Coordinating Council and the Fraser Basin Property Society.

## **2.6.9 INVESTMENT RESTRICTIONS**

### **Equities**

No more than 10% of the market value of the assets in the equity portfolio may be invested in the equity securities of any one company.

### **Fixed Income Fund**

TOTP's Investment Portfolios shall not purchase bonds that have a rating below triple "B" as determined by the Canadian Bond Rating Service. An exception to this requirement can be made at the recommendation of the portfolio manager when the bond holding of the investment are pooled, or held in common with a group of bonds and contain a limited amount of unclassified/rated bonds or bonds of lower than a triple "B" rating.

### **General**

The restrictions and ratios established herein are to be based on market values.

## **2.6.10 MONITORING**

### **Investment Reports**

The Professional Portfolio Manager shall provide a quarterly investment report containing the following information:

- Portfolio holdings at the end of the quarter.
- Portfolio transactions during the quarter.
- Rates of return for the portfolio with comparisons to relevant indexes or benchmarks.
- Commentary on investment returns.
- Market outlook and strategy.
- Commentary regarding any material changes with the Professional Portfolio Manager.

### **Compliance**

The Professional Portfolio Manager shall provide an annual confirmation of compliance with the requirements set out in this policy.

## **2.6.11 POLICY REVIEW**

### **Annual Review**

The Professional Portfolio Manager will meet with the Investment Committee and TOTP's Investment Advisors annually, usually convened after year-end. This meeting involves the Professional Portfolio Manager, TOTP's Investment Committee. At this meeting the following will be reviewed:

- Review the investment policy and strategy.
- Review the rates of return achieved by the portfolios and their benchmarks.
- Review capital market performance and expectations of future returns.
- Provide any information concerning new developments affecting the Professional Portfolio Manager or its services
- Establish a pay-out rate to be recommended to the Investment Committee for the next fiscal year.
- Comment on the continued appropriateness of the current policy and strategy.

**Periodic Review**

The Investment Committee will review the performance of the Professional Portfolio Manager relative to their peers at least every 5 years.

Whereas the main body of this document is intended to remain static, an appendix detailing specific investments and funds will be added, reviewed and when needed updated on an annual basis.

## **Territory of the People Anglican Church**

### **Specific Investment Policy**

#### **PURPOSE**

This policy is to give guidance on the following Funds:

#### **1. Capital Fund**

This fund is to be used for Capital projects. It could be used as low interest loans, seed money/match or outright grants. Applications accepted on an Annual basis. Administration Committee/Coordinating Council to decide merit of application and approve grants. Medium Aggressive, long term for income and growth.

90% of realized income will be used for grant applications; annual deadline for applications is April 30<sup>th</sup>.

#### **2. Ministry Trust Fund**

This Fund is for approved ministry projects outside of the day to day operation of the church/parishes with in TOTP. The intent of the fund is to use only net income, returning (10%) of income back to capital. Church/Parish would put forward a grant application that is reviewed by the Grants Committee/Coordinating Council for approval. Medium risk, long term for income and growth.

*Resolution from Assembly 2017:*

On an annual basis, the Administration Committee will make a recommendation to Coordinating Council to redirect 50% of the unused portion of the Ministry Fund Grant to what they deem an appropriate place, such as the Capital Fund, for future income generation.

#### **3. Parish Trust Fund**

This Fund is used to hold money in Trust for parishes. The Fund will be conservative, liquid in nature and is a short-term income bearing investment.

#### **Existing Funds as of December 31, 2010**

##### **TOTP General Fund**

Used for general operating revenue

##### **Moving Grant Fund**

To be used by Parishes to assist in the relocation of new Clergy.

##### **Special Education Fund**

Used for conferences and training events.

#### **Appendix #1**

#### **Signing Officers will include any two of the following:**

Bishop of the Territory of the People Anglican Church

Dean of the Cathedral

Regional Dean

Financial Officer