



## Investment Policy

Approved on: September 24, 2019

### Background:

The Community Foundation for Kingston & Area ("CFKA" or "the Foundation") is a public foundation established to serve a broad range of charitable purposes primarily within Kingston & Area. Because the Foundation is designed to operate in perpetuity, wise stewardship of the funds entrusted to it is essential to the Foundation's mission. To ensure its accountability to donors, as well as to provide guidance for the prudent and effective management of the Foundation's investment assets (collectively referred to as "the Fund"), CFKA's Board of Directors has adopted the following Investment Policy.

### Investment Policy Purpose

The purpose of the Investment Policy is to guide the Investment Committee and Investment Advisor on the primary goals of the portfolio and any constraints that it may face. These goals include the portfolio's return objectives and its allocation of risk. The Investment Policy provides a set of written and agreed upon guidelines for the management of the assets of the Foundation. The policy will be reviewed at least annually to ensure that its terms continue to meet the needs of the Foundation.

### Duties and Responsibilities

#### 1. Investment Committee

The Investment Committee, through its Chair or delegate, will report to the Board of Directors of the Foundation on the condition of the Fund at the request of the Board, but in no event shall such reporting happen less than semi-annually. Monthly investment summaries will be presented to the Executive Committee and be included as part of the consent agenda for each Board meeting.

At each meeting of the Investment Committee a full report on the condition of the Fund shall be reviewed. The review shall include such information as the Committee deems to be relevant to its needs but in any event shall include the time-weighted returns earned on the Fund for the most recent year to date, 12, and 36 month period. As well, the 3 and 5 year moving average return for the most recent quarter end and the most recent year end will be reported.

The decision as to whether or not to engage an outside Investment Advisor shall reside with the Board. The Committee will advise the Board, at least annually, on a recommendation for outside investment counsel. If an Investment Advisor is retained, the terms of reference as to investment policy, return expectations and contract terms, including remuneration of said Advisor, shall reside with the Board with input from the Committee.

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## 2. Investment Advisor

Each quarter, the Investment Committee will provide the Investment Advisor with a recommended asset allocation, which will be constructed within the Strategic Asset Allocation Guidelines. The purpose of the Strategic Asset Allocation Guidelines is to give the Investment Advisor direction on how to structure the portfolio. Specific investments, or sale of specific investments, will be recommended by the Investment Advisor to the Investment Committee for a decision. Where a decision is needed between meetings of the Investment Committee, the Chair of the Investment Committee or his/her delegate shall contact the members of the Investment Committee to consult. Decisions will be determined by majority rule.

## Investment Mandate, Objectives and Constraints

### *Mandate*

The long-term goal of the Investment Policy is to generate sufficient returns (consistent with the Trustee Act of prudent and professional portfolio management) to allow steady and reliable granting, support the Foundation's operations, and to preserve the endowed capital.

### *Objective*

- a. Attainment of a minimum total annual return, measured on a five year moving average basis, of 6.5%. This minimum return is informed by the Foundation's Spending Policy rate, operating cost assumptions, and capital protection.
- b. Maintain a portfolio consistent with a long term investment horizon. An investor with a long term investment horizon remains committed to a stated strategic asset mix through all economic and business cycles, and can tolerate short term volatility in a portfolio.
- c. Maintain a portfolio consistent with a moderate risk investor. A moderate risk investor believes in managing risk by balancing a portfolio through strategic asset allocation (a prudent blend of cash & equivalents, equities, and fixed income investments) and diversification of investments across geographies and business sectors. A moderate investor expects that there will be some volatility in the portfolio as a tradeoff for seeking returns in excess of the risk free rate.
- d. Maintain a low cost portfolio. When comparing investment choices that are similar, consideration should be given to costs of the investment so that rate of return may be enhanced.
- e. Ensure adequate liquidity to meet the periodic/projected spending needs of the Foundation.

### *Constraints*

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The Foundation is not to engage in active currency hedging. Consequently, its foreign equity positions should be unhedged. No additional hedging tools such as derivatives, will be used by the Fund.

### Investment Beliefs

The Investment Committee and this Policy subscribe to the following investment beliefs:

- a. Significant returns from tactical asset allocation (or market timing) are not reasonable given the objectives of the Foundation. Short term deviations from asset allocation targets that are motivated by perceived temporary mispricing should not be undertaken.
- b. Asset allocation rather than security selection is responsible for the majority of portfolio performance. Consistent with this belief, the size of the portfolio and the aim of keeping costs low, the Fund will devote limited resources to fundamental analysis of individual securities.
- c. Portfolio diversification is achieved by diversifying across asset classes and geographic location.
- d. The scale of the portfolio does not permit significant investment in alternative asset classes (including but not limited to real estate, commodities, private equity, and hedge funds) at this time.

### Strategic Asset Allocation, Risk Allocation, and Rebalancing Guidelines

Consistent with its investment objectives and constraints, the Foundation will adhere to the following strategic asset allocation ranges:

Asset Class	Minimum	Maximum
Cash & Cash Equivalents	0%	10%
Fixed Income	30%	50%
Equities	40%	65%

Sub components of the strategic asset allocation classes are contained in a 'Strategic Asset Allocation Guidelines' document. The Strategic Asset Allocation Guidelines document is determined by the Investment Committee and reviewed quarterly to ensure alignment with the Foundation's objectives. This Strategic Asset Allocation Guidelines may only recommend investments in those asset classes as defined under section 7, Permitted Investments.

The Foundation aims to achieve its objective of being a moderate risk investor primarily through its asset allocation. Asset allocation considers the individual risk associated with each asset class and their

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diversifying properties within the entire portfolio. Credit risk is addressed through the permitted investment guidelines.

Rebalancing of the portfolio will occur on a quarterly basis. When an asset class deviates from its recommended target asset class' allocation either by an absolute 5 percentage points or by 25% of the target allocation, whichever is less, rebalancing back to target proportions shall occur.

### Permitted Investments

#### *Cash & Cash Equivalents*

*Cash* means money that is on deposit with a Chartered Canadian bank, its affiliate, or a bank-owned Investment Dealer.

*Cash equivalents* will consist of purchased instruments issued by governments or corporations, with terms of maturity of less than 12 months, and include secondary market instruments originally issued with a term to maturity in excess of 12 months. For greater clarity, GICs are not considered Cash or Cash equivalents.

Cash equivalents originally issued with terms to maturity of less than 12 months will have a Dominion Bond Rating Service (DBRS) credit rating of R1(low) or an equivalent rating by another well-established rating agency at the time of purchase and thereafter.

#### *Fixed Income*

Fixed income investments have a term to maturity of 12 months or more and may consist of:

- a. Individual Bonds issued by the Government of Canada.
- b. Individual Bonds issued by any Canadian Province with a S&P credit rating of A- or higher, or an equivalent rating by another well-established rating agency at the time of purchase and thereafter.
- c. Individual Bonds issued by a Canadian municipality with a S&P credit rating of A- or higher, or an equivalent rating by another well-established rating agency at the time of purchase and thereafter.
- d. Individual Bonds issued by the Government of the United States
- e. Individual Corporate bonds with a S&P credit rating of A- or higher, or an equivalent rating by another well-established rating agency at the time of purchase and thereafter., Any single individual corporate bond issuer may not make up more than 20% of the corporate bond allocation.
- f. Exchange Traded Funds or Investment Funds that are investment grade.
- g. Guaranteed Investment Certificates (GICs). The aggregate total of GICs/Term Deposits issued by one institution must fall within CDIC limits, with the exception of Canada's six major chartered banks (RBC, TD, BNS, CIBC, BMO, NB). GIC's held within CDIC limits will be

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considered 'Government Bonds' for asset allocation purposes, while amounts in excess of CDIC limits will be considered 'Corporate Bonds'.

The sum total of corporate fixed income exposure may not represent more than 30% of the total fixed income allocation. This includes but is not limited to individual corporate bonds, ETFs or investment funds consisting of corporate bonds, and GICs in excess of CDIC limits.

### *Equities*

Equities may consist of:

- a. Exchange Traded Funds or Investment Funds based on the S&P/TSX Composite Index, or its components.
- b. Exchange Traded Funds or Investment Funds based on the S&P 500.
- c. Exchange Traded Funds or Investment Funds based on the Russell 2000 Index.
- d. Broad-based Exchange Traded Funds or Investment Funds representing International Developed Markets.
- e. Broad-based Exchange Traded Funds or Investment Funds representing International Emerging Markets.

Should an asset that is held in the portfolio no longer qualify as a permitted investment, the Investment Advisor shall, after consultation with the Chair of the Investment Committee or his/her delegate, dispose of the aforementioned asset.

## Taxation Status

The Foundation is registered as a charitable organization by Canada Revenue Agency, and as such is exempt from income tax provided it meets requirements enumerated in the Income Tax Act of Canada and associated regulations promulgated by the Canada Revenue Agency.

## Mission Based Investing

Consistent with the Foundation's goal of having a positive and enduring impact on the communities it serves, the Foundation may set aside a portion of its assets in a Mission Based Investing (MBI) Stream. The purpose of the Mission Based Investing Stream is to invest a portion of the Foundation's assets directly in the local community in a manner which is consistent with the overall mission of the Foundation. The Foundation may set aside up to 5% of their assets under administration to invest in MBI activities. Specific parameters related to the Mission Based Investing activities can be found in Appendix 1 to this document.

## Conflicts of Interest

Investment Committee members shall not permit his or her interest to conflict with the goals of the portfolio. If a Committee member becomes aware of an actual or perceived conflict, it should be reported to the Chair and recorded in the minutes of the Committee meetings, and the member will not seek to influence the decision of the Committee where a conflict of interest exists. All Committee members will be required to sign and abide by the terms of the Foundation's Confidentiality, Privacy and Conflict of Interest Undertaking.

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## Appendix 1

### Mission Based Investing

Investments made through the Mission Based Investing (MBI) Stream are made as part of the Foundation's overall obligation to diversify investments to an extent that is appropriate to the requirements of the Foundation and general economic and investment market conditions. These investments are also made as part of the Foundation's goal of increasing the impact of its activities by investing a portion of its assets directly in the local community.

Mission Based Investment will be managed through a separate Due Diligence Committee, established by the Foundation's Board with a set terms of reference. Prior to approving any investment, the Due Diligence Committee must consider and document any potential impact the investment may have on the reputation of the Foundation including the impact of pursuing any collection activities.

Mission Based Investing is accomplished through two distinct streams.

### Mission Related Investments (MRI Stream)

The Due Diligence Committee will have the discretion to make loans to or invest funds in Qualified or Non-Qualified Donees for the purpose of generating income to support the charitable purposes of the Foundation. Any loans or investments must be considered "straight investments" and must conform to the conventional investment requirements of the Foundation. To be considered a straight investment, the rate of return on any loan or investment must be at or above market rates. The Due Diligence Committee must also be satisfied that the loan or investment does not confer an undue benefit on any Non-Qualified Donee. The Due Diligence Committee must consider the following factors in deciding whether or not to make a loan of investment as part of the MRI Stream:

- the degree of flexibility in terms of repayment and term of the investment;
- whether the debt can be supported by appropriate security;
- whether the loan or investment is commercially reasonable;
- MRI investment must support the mission of the Foundation by generating a positive social, environmental or community impact; and
- an MRI is fundamentally a financial investment, and must meet applicable prudent investor standards similar to conventional investments.

MRI opportunities may exist across asset classes in cash, fixed income, public equity, private equity and venture capital and real estate.

### Program Related Investments (Charitable Use Stream)

All loans and program related investments made to Qualified and Non-Qualified Donees pursuant to the Charitable Use Stream must meet the Canada Revenue Agency's Charitable Guidelines CG-014<sup>1</sup>. In particular:

- The loan or program-related investment must directly further a charitable purpose of the CFKA (¶ 6, 8, 11, 30, 31).

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<sup>1</sup> All paragraph references are to Canada Revenue Agency's Community Economic Development Activities and Charitable Registration Guidance – reference number CG-014 (as of September 1, 2013 or such subsequent guidance as is appropriate).

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- The Committee must be satisfied that the recipient of a loan or program related investment is an eligible beneficiary pursuant to the following criteria (¶12, 34).
- The loan or program related investment made to a Non-Qualified Donee must be used for a program over which CFKA maintains ongoing direction and control within the “own activities” requirements of the *Income Tax Act* (¶ 45, 47, 48, 50).
- The Due Diligence Committee must be satisfied that the private benefit resulting from the loan or program related investment is incidental to the resulting public benefit (¶ 10, 35, 49).
- The Committee must ensure that it has in place appropriate exit mechanisms to allow it either: (a) to withdraw from the loan or program-related investment or (b) to convert the loan or program related investment into a straight or regular investment, if the loan or program-related investment no longer furthers any of the Foundation’s charitable purposes. If the loan or program-related investment is converted to a straight investment, then that specific loan/program-related investment may be transferred from the Charitable Use Stream to the Mission Investment Stream (¶ 33, 51, 52).
- Prior to approving any loan or program-related investment, the Committee must consider and document any potential impact the loan may have on the reputation of the Foundation including the impact of pursuing any collection activities.

All loans and program-related investments must meet any conditions imposed on charitable public foundations under applicable government legislation.

When program related investments no longer meet the conditions outlined above, the terms of the investment must provide that either the balance of the investment must be repaid in full or the terms of the investment must be adjusted to market rates to ensure that recipient does not receive an undue private benefit.

Prior to an application being approved, the terms of all program related investments provided under the charitable use stream must provide for the following:

- Where applicable, the terms must include a policy to determine when a start-up business has become viable and no longer needs support (¶ 34).
- The terms must provide rationale and justification to show that its investment, loans or guarantees do not exceed the amount needed to achieve its charitable purpose (¶ 36).
- The terms must include documentation explaining the relationship of the program-related investment to CFKA’s charitable purposes (¶ 53).

## Risk

The Board recognizes that there are both financial and reputational risks associated with investments. The Foundation recognizes that the investment of funds in Mission Based Investments creates a higher degree of risk than investing in bond & equities markets. However, the Foundation believes that the benefits of diversifying its entire investment portfolio, combined with the investment of a portion of its funds directly in the community, will outweigh the potential risks associated with these investments (i.e. the potential loss of capital of the Fund). If any action is required to collect on an investment, the Board, after receiving guidance from the Due Diligence Committee, will determine what, if any, steps will be taken.

**Investment Policy**

Approved by: Board of Directors

Date:\_\_\_\_\_

Signed: President

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Secretary

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