

Friends of the Central Experimental Farm - Investment Guideline Policy

Having a comprehensive up-to-date investment policy is necessary to demonstrate a standard of care in the governance and management of a non-profit organization such as Friends of the Central Experimental Farm (FCEF) when it comes to its investments.

On an annual basis, the FCEF may require income from an investment portfolio to help support programs and administrative overhead. A key challenge is striking the right balance between capital preservation while also focusing on income generation.

Objectives

Investment objectives represent the goals that the FCEF Board of Directors set out for the organization when it comes to investing funds.

The primary investment objective for the FCEF is preservation of capital accompanied by a target investment return of 2 to 3% annually.

Investment objectives include:

- Capital preservation while also attempting to preserve the purchasing power of invested funds.
- A reasonable rate of return.

Investment Criteria

Although the Ontario *Trustee Act*¹ does not define "prudent investor", it states that in planning investment of trust property, a trustee must consider certain criteria. There are seven factors that an organization can consider when making investment decisions which are useful whether an organization is required to follow the *Trustee Act* or not:

- 1) General economic conditions;
- 2) Possible effect of inflation or deflation;
- 3) Any expected tax consequences of investment decisions or strategies;
- 4) The role that each investment or course of action plays within the overall portfolio;
- 5) The expected total return from income and the appreciation of capital;
- 6) Needs for liquidity, regularity of income and preservation or appreciation of capital; and,
- 7) An asset's special relationship or special value, if any, to the purposes of the charity or to one or more of the beneficiaries.

Liability

The FCEF Board of Directors maintains full authority and responsibility for the overall investment plan. It must ensure that the plan is followed and the plan may be revised as necessary.

An external Investment Adviser will make decisions regarding investments based on the FCEF's Investment Guideline Policy and direction from the FCEF Board of Directors.

¹ Not for profit organizations operating in Ontario could be bound by the investment powers contained in the Ontario *Trustee Act R.S.O. 1990, c., T.23* where the non-profit holds monies in trust for charitable purposes.

Performance Monitoring and Reporting

The Board of Directors is responsible for monitoring the performance of the Investment Adviser. The Investment Adviser will provide monthly investment reports and meet at least once annually with the Board of Directors to review the investment portfolio. These reporting requirements will enable the Directors to monitor performance, compliance with the Investment Policy and to consider any required revisions to investment planning for the future.

The Board of Directors will periodically re-evaluate the competence and services offered by any outside investment manager and/or brokerage firm. If the advisor/firm is not giving the FCEF adequate attention, the FCEF should evaluate whether a competitor would be more suitable.

The FCEF Investment Policy is the first step in demonstrating standard of care and effective risk management. It supports the investment objectives and the objectives of the organization as a whole and is the first step in demonstrating to FCEF stakeholders that managing investment risk is taken seriously.

Sound Investment Strategies

An independent income stream is not risk-free. Good risk management with regard to an investment strategy requires the FCEF to balance three, sometimes-competing goals: 1) minimizing investment risk, 2) obtaining access to the funds when needed, and 3) earning a reasonable rate of return. To manage and control these complex issues, a non-profit organization such as FCEF should:

Determine a suitable asset allocation. Several types of investments may be needed to diversify the portfolio and reduce the impact of market, inflation and interest rate risks. Over time it will be necessary to re-evaluate the asset allocation for investment type and for the percentage of the portfolio, and make appropriate readjustments to diversification and asset allocation.

Investment Guidelines

1. Fixed Income investments should have a good investment credit rating from an established credit rating service such as Standard and Poor's or DBRS.
2. Purchases of GICs, or investment in high interest savings accounts, should not exceed the amount covered by the Canadian Deposit Insurance Corporation (currently \$100,000 per issuer).
3. Exchange Traded Funds which hold investment grade bonds may be purchased for the fixed income allocation of FCEF investment funds.
4. Investment in Canadian large cap equity dividend paying Exchange Traded Funds should not exceed 34% of the overall investments at the time of purchase.
5. Administrative fees should be taken into consideration.

Diversification. The FCEF will maintain a reasonable diversification of investment assets between asset classes and investment categories. Investments within the investment portfolio should be readily marketable. The investment portfolio should not be a blind pool; each investment must be available for review.

Asset allocation. An asset allocation policy for FCEF may be predicated on the following factors:

- Historical performance of capital markets adjusted for the perception of the future short and long-term capital market performance.
- The correlation of returns among the relevant asset classes.
- The perception of future economic conditions, including inflation and interest rate assumptions.
- Liquidity requirements for the projected income.
- The relationship between the current and projected assets of the FCEF and projected liabilities.

ALLOCATION RANGE

Asset Allocation Range	Target	Lower/Upper Limit
Cash & Equivalents (High interest savings account)	33%	20 - 33%
Fixed Income (Bonds) - Exchange Traded Funds	33%	20 - 33%
Exchange Traded Funds: Domestic Large Cap dividend paying	34%	20 - 34%

Rebalancing shall be done on an annual basis or more frequently if deemed necessary.

Restrictions and Constraints

The Board of Directors should avoid investments whose structure might cause unnecessary confusion and complexity in year-end reporting.