

Investment Policy



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Section 1 – Definitions and Goals and Purpose

Definitions

I. In this policy:

- a) **Benchmark Portfolio** means the portfolio described in Appendix A and Appendix B of this Statement.
- b) **Board** means the Board of Directors of the Foundation.
- c) **Consolidated Investment Fund** means the aggregate of the assets which the Foundation holds as investment capital or as re-invested Investment Earnings in each individual endowment fund.
- d) **Custodian** means the custodian(s)/trustee(s) appointed by the Foundation to hold the Consolidated Investment Fund.
- e) **Foundation** means The Community Foundation of Nova Scotia Society.
- f) **Investment Committee** means a sub-committee of the Foundation's Board.
- g) **Investment Earnings** means the gross return on investment obtained on the Consolidated Investment Fund including interest and dividends received, accrued interest, and realized and unrealized capital gains/losses, net of transaction and custodial fees, applied on a proportional basis to each endowment fund.
- h) **Manager(s)** means the Fund Manager(s) appointed by the Foundation to manage the Consolidated Investment Fund.
- i) **Statement** means this Statement of Long-Term Investment Policies and Goals.

Goals & Purpose

- 1.1 The primary goal of the Foundation is to provide its beneficiaries with a reasonably stable flow of income that maintains its purchasing power over the long term.
- 1.2 This Statement applies only to the Foundation's Consolidated Investment Fund and addresses the manner in which the Consolidated Investment Fund shall be invested. The Foundation has prepared this Statement to ensure continued prudent and effective management of the Consolidated Investment Fund. Investments shall be selected in accordance with the criteria and limitations set forth herein and in accordance with all relevant legislation. This Statement also defines the management structure and other procedures adopted for the ongoing operation of the Consolidated Investment Fund.

Section 2 – Fund Governance, the Investment Committee, Manager(s) & Custodian(s)

Fund Governance

- 2.1 The Foundation is responsible for the overall management of the Consolidated Investment Fund. The Foundation acts through its Board in discharging its duties. The Board has delegated tasks to an Investment Committee which, in turn, has delegated tasks to employees of the Foundation and to various agents retained to assist in carrying out its duties in respect of the Consolidated Investment Fund. The Board, however, retains overall responsibility for the Consolidated Investment Fund. The Board has allocated its responsibilities in respect of the Consolidated Investment Fund as set out below.

The Investment Committee

- 2.2 The Investment Committee shall:
 - a) Establish and adopt the Statement;
 - b) Review the Statement at least bi-annually, and confirm or amend it as needed;
 - c) Recommend to the Board a Custodian to hold the Consolidated Investment Fund;
 - d) Recommend to the Board a Manager to manage the Consolidated Investment Fund;

- e) Periodically review and evaluate the Manager(s) and its performance, including:
 - (i) A bi-annual evaluation of the rates of return achieved and a comparison of them to the objectives established;
 - (ii) A bi-annual evaluation of the degree of risk assumed in the pursuit of investment returns; and
 - (iii) At least every three years a review of the Manager(s) in the context of the criteria used for its appointment;
- f) Delegate tasks relating to the overall management of the Consolidated Investment Fund to select employees of the Foundation and/or to select agents retained for that purpose; and
- g) Report to the Board regarding the completion of its responsibilities at least semi-annually.

The Manager(s)

2.3 The Manager(s) shall:

- a) Manage the Consolidated Investment Fund, subject to all relevant legislation and the constraints and directives contained in this Statement and in any supplementary document provided by the Investment Committee;
- b) Provide quarterly written reports of investment performance results with a minimum of bi-annual meetings;
- c) Submit annual certificates attesting to its compliance with the Statement, and notify the Investment Committee if, at any time, an investment or group of investments does not comply with this Statement; and
- d) Identify provisions in this Statement that may need to be revised due to new investment strategies or changes in the capital markets.

The Custodian(s)

2.4 The Custodian(s) shall:

- a) Perform the regular duties required of a Custodian(s)/trustee(s) by law;
- b) Perform the duties required of a Custodian(s) pursuant to agreements entered into from time to time with the Foundation;
- c) Provide the Investment Committee with periodic portfolio reports of all assets of the Consolidated Investment Fund and transactions during the period; and
- d) Be governed by the Code of Ethics and Standards of Professional Conduct of the CFA Institute.

Section 3 - Foundation Overview and Investment Implications

Foundation Overview

3.1 The Foundation is a registered charity as defined in the *Income Tax Act*. The Foundation utilizes a disbursement formula (see Disbursement Policy), as may be amended periodically, in order to provide grants to certain beneficiaries perpetually into the future. Generally it is expected that this disbursement formula will be based on the expected investment return net of inflation, applied to the Consolidated Investment Fund (see Section 4.2). Under this arrangement current and future beneficiaries bear the investment risk.

Investment Implications

3.2 The level of volatility of disbursements to beneficiaries will depend on the volatility of returns and the disbursement formula (see Disbursement Policy) that is used. Therefore, to assess the risk tolerance of the Foundation, it is important to consider the risk tolerance of its beneficiaries and any risk mitigating

impact that the disbursement formula may provide. In addition, consideration needs to be given to the preferences of the donors. The asset mix is expected to reflect the risk tolerance of a range of beneficiaries and the expectations of a range of donors, given the asset mix outlined in Appendix A and Appendix B (as relevant to the manager). The Investment Committee has undertaken to invest the Consolidated Investment Fund in conformity with this Statement, and neither the Board nor the Foundation will be responsible to the donors or the beneficiaries for any loss suffered by the Consolidated Investment Fund so long as the Investment Committee invests and manages the Consolidated Investment Fund in conformity with this Statement, exercising the care, skill, diligence and judgement that a prudent investor would exercise.

Section 4 - Fund Objectives, Beliefs, and Benchmark

Fund Objectives

- 4.1 The Investment Committee shall manage the Consolidated Investment Fund on a “going concern” basis with the primary objective of maximizing risk-adjusted returns of the Fund and annual cash flow management consistent with accepted risk tolerance levels.
- 4.2 To preserve in real dollar terms the capital of fund assets.
- 4.3 The Investment Committee targets the Consolidated Investment Fund to earn at least 4.0-5.0% net of inflation, over a 4-year rolling period for the portfolio to accommodate the Foundations annual income disbursement.

Investment Beliefs

- 4.4 The Investment Committee will from time to time review and confirm its investment beliefs. Currently, the Investment Committee believes that:
 - a) Equity investments provide greater long-term risk-adjusted returns than fixed income investments, although with greater short-term volatility;
 - b) It is prudent to diversify the Consolidated Investment Fund across the major asset classes;
 - c) Investment managers with active mandates can enhance risk-adjusted returns through security selection and asset allocation strategies;
 - d) Investment managers with active balanced mandates can reduce portfolio risk below the risk of a portfolio with a static asset mix and should add value through security selection and asset allocation strategies;
 - e) The committee has the resources and skill to identify and recommend investment managers to the Board; and
 - f) The committee considers asset management fees as part of the overall investment decision-making process.

Benchmark Portfolio

- 4.5 The Investment Committee believes that a portfolio (the “Benchmark Portfolio”) invested in the relevant target or benchmark asset mix (based on market value) described in Appendix A or Appendix B of this Statement can, over the long term, achieve the stated investment objectives.

Section 5 – Manager Structure and Evaluation

Fund Manager Structure

- 5.1 The Investment Committee has retained a Manager(s) and shall invest in the Manager’s pooled funds (the

“Pooled Funds”) to achieve the Consolidated Investment Fund’s rate of return objectives. Copies of the Manager’s investment policy statements for the Pooled Funds are attached as Appendix A or Appendix B, and the Investment Committee adopts the guidelines of those statements.

Quantitative Evaluation

- 5.2 The primary, overall performance objective for the Manager(s) shall be to exceed the returns that could have been earned by passively investing in the component benchmark indices of the relevant Benchmark Portfolio over a four-year rolling period.
- 5.3 For the purpose of measuring rates of return of the Consolidated Investment Fund, all returns shall be measured before investment management fees, but after transaction costs, and over a rolling four-year period. All index returns shall be total returns. All foreign index returns shall be Canadian dollar returns.

Qualitative Evaluation

- 5.4 The Committee shall evaluate the Manager(s) on qualitative criteria with the following frequency:
- a) Overall adherence to this Statement; Bi-annually
 - b) Consistency of the Manager’s portfolio activities, style and philosophy with its stated style and strategy; Bi-annually
 - c) Retention of the Manager’s professional staff and replacement of the Manager’s staff lost by retirement, resignation, etc.; Annually
 - d) Quality of communication with the Investment Committee; Annually
 - e) Competitiveness of fees; Every three years
 - f) Characteristics of the Manager’s firm (e.g., ownership, growth in assets under management, client retention/loss, etc.); Annually
 - g) Consistency of key personnel and their role in investment decisions. Annually

Section 6 - Asset Mix and Rebalancing Policies

Asset Mix Policy

- 6.1 The Asset Mix policy shall be as stated in Appendix A or appendix B of this Statement.

Rebalancing Policy

- 6.2 The manager(s) shall have discretion to rebalance within specific ranges within the Investment Guideline Asset Mix, Appendix A or Appendix B. It is not necessary for the Committee to rebalance the Fund.

Section 7 - Conflict of Interest Policy

Those Governed

- 7.1 This policy applies to the Foundation, the Board, the Investment Committee and other sub-committees of the Board, the Manager(s), the Custodian, and any employee, agent, or third party retained by any of the foregoing to provide services to the Foundation.

Conflict of Interest

- 7.2 Any person or group listed above may not exercise their powers in their own interest or in the interest of a third person, nor may they place themselves in a situation of conflict or potential conflict between their

personal interest and their duties with regard to the investment of the Consolidated Investment Fund.

- 7.3 Any person or group listed above shall 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 investments of the Consolidated Investment Fund. Without limiting the generality of the foregoing, this would include material benefit from any asset held in the Consolidated Investment Fund, or any significant holding, or the membership on the boards of other corporations, or any actual or proposed contracts with the any agent of the Foundation.

Procedure on Disclosure

- 7.4 Any person or group listed above shall disclose in writing the nature and extent of his or her interest to the Foundation immediately upon first becoming aware of the conflict. The disclosure must be made orally if the knowledge of the conflict arises in the course of discussion at a meeting.
- 7.5 If the party disclosing the conflict has the capacity to participate in or to make decisions affecting the investment of the Consolidated Investment Fund, the party may only continue to participate with the approval of the Foundation. The party may elect not to participate with respect to the issue in conflict. If the party disclosing the conflict has voting powers, the party may continue to participate with respect to the issue only with the unanimous approval of the other participants with voting rights. The party's notification shall be considered a continuing disclosure on that issue for purposes of the obligations outlined by this policy.

Section 8 - Miscellaneous

Lending of Securities

- 8.1 The Consolidated Investment Fund itself may not enter into securities lending agreements, although the Pooled Funds may do so if their policies so permit.

Derivatives

- 8.2 The Consolidated Investment Fund itself may not invest directly in derivatives, although the Pooled Funds may do so if their policies permit.

Liquidity

- 8.3 The Funds are to be invested in strategies that are valued daily and are highly liquid, with the exception of investments allocated to alternatives with a quarterly evaluation and liquidity event.

Voting Rights

- 8.4 The Custodians of the Pooled Funds exercise all voting rights acquired through the investments of the Pooled Funds.

Valuation of Investments

- 8.5 The Custodians of the Pooled Funds shall value the Pooled Fund units.

Section 9 - Statement Review

9.1 The Committee shall review the Statement at least bi-annually, taking into account whether any developments such as the following have occurred:

- a) Governance changes;
- b) Changing investment beliefs;
- c) Changing risk tolerance;
- d) Changed expectations for the long term risk/return trade-offs of the capital markets;
- e) New investment products;
- f) Changes to legislation; and
- g) Any practical issues that arise from the application of this Statement.

APPENDIX A

Appendix “A” (as reviewed by Jarislowsky Fraser, external Investment Managers, and approved by both the Investment Committee and Board of Directors)

Investment Objectives

The primary objective in investing the assets of the **Community Foundation of Nova Scotia** shall be the preservation and enhancement of the value of the trust capital through prudent diversification of high-quality investments, currencies and asset classes.

The benchmark portfolio shall be broken down as follows:

22%	S&P/TSX
16%	S&P 500
16%	MSCI EAFE
40%	Dex Universe
6%	T-Bill

The indexes listed above are to be measured on a Total Return basis (including dividends and interest).

Investment Guidelines – Asset Mix

- a) The investment policy is based on a balanced approach, with a diversified mix of equities and fixed income securities and cash. The permitted asset categories are defined as follows:

Equities: Listed Canadian, U.S. and non-U.S. shares

Fixed Income: Federal and Provincial bonds, high quality corporate bonds, high yield bonds and high quality preferred shares.

Cash: Short term deposits and money market instruments, treasury bills, government bonds with term to maturity of less than one year.

Cash & Equivalents	0% - 20%
Bonds	30% - 50%
International Equities	0% - 30%
US Equities	5% - 35%
Canadian Equities	15% - 50%

- b) The use of pooled funds is permitted.

Investment Strategy

Equities

- No more than 20% of the total market value of the equity section shall be invested in equity or quasi-equity securities of companies within any one generally recognized industry group. For industry groups with a market weight of greater than 10% in the index, the Foundation may invest up to a level of no more than the index industry group weight plus 10%.
- No more than 10% of the total market value of the equity section shall be invested in the equity or quasi-equity securities of any one company.

Short-term Securities

- Investment of cash reserves in short-term paper shall be confined to securities of federal or provincial governments, chartered banks, major trust companies, or top-quality corporate credits (Ratings will be R1-low or better).

Fixed Income

- No more than 10% of the total market value of the fixed income section shall be invested in a debt securities of any single issuer.
- The bond section may be invested up to 100% in corporate issues.
- Not more than (20%) of the total market value of the bond section shall be invested in any one generally recognized industry group, except utilities (40%) and finance (40%).
- Not more than (20%) of the total market value of the bond section shall be invested in private placements.
- Not more than (20%) of the total market value of the bond section shall be invested in foreign currency issues.
- Based on bond quality rating agreed upon by the Investment Committee and Investment Counsel.
 - a) The **average** quality rating of all of the bond holdings shall be A

Varia

- The investment manager is delegated the responsibility of exercising all voting rights acquired through the Trust's investments.
- The investment manager will meet with the Investment Committee bi-annually to review fund performance and objectives as compared to that of the benchmark portfolio. The Foundation's Investment Committee will review the investment policy and objectives every year in consultation with the Manager.
- The investment Manager will certify compliance with the Investment Policy Guidelines on a quarterly basis.

APPENDIX B

Appendix “B” (as reviewed by Connor, Clark & Lunn, external Investment Managers, and approved by both the Investment Committee and Board of Directors)

Investment Objectives

The primary objective in investing the assets of the **Community Foundation of Nova Scotia** shall be the preservation and enhancement of the value of the trust capital through prudent diversification of high-quality investments, currencies and asset classes.

The benchmark portfolio shall be broken down as follows:

20%	S&P/TSX
40%	MSCI World
36%	Dex Universe
4%	T-Bill

The indexes listed above are to be measured on a Total Return basis (including dividends and interest).

Investment Guidelines – Asset Mix

- c) The investment policy is based on a balanced approach, with a diversified mix of equities and fixed income securities and cash. The permitted asset categories are defined as follows:

Equities: Listed Canadian, U.S. and non-U.S. shares

Fixed Income: Federal and Provincial bonds, high quality corporate bonds, high yield bonds and high quality preferred shares.

Cash: Short term deposits and money market instruments, treasury bills, government bonds with term to maturity of less than one year.

Cash & Equivalents	0% - 10%
Bonds	30% - 50%
Global Equities (US & International)	30% - 50%
Canadian Equities	10% - 30%
Alternative Investments	0% - 10%

- d) The use of pooled funds is permitted.

Investment Strategy

Equities

- No more than 20% of the total market value of the equity section shall be invested in equity or quasi-equity securities of companies within any one generally recognized industry group. For industry groups with a market weight of greater than 10% in the index, the Foundation may invest up to a level of no more than the index industry group weight plus 10%.
- No more than 10% of the total market value of the equity section shall be invested in the equity or quasi-equity securities of any one company.

Short-term Securities

- Investment of cash reserves in short-term paper shall be confined to securities of federal or provincial governments, chartered banks, major trust companies, or top-quality corporate credits (Ratings will be R1-low or better).

Fixed Income

- No more than 10% of the total market value of the fixed income section shall be invested in a debt securities of any single issuer.
- The bond section may be invested up to 100% in corporate issues.
- Not more than (20%) of the total market value of the bond section shall be invested in any one generally recognized industry group, except utilities (40%) and finance (40%).
- Not more than (20%) of the total market value of the bond section shall be invested in private placements.
- Not more than (20%) of the total market value of the bond section shall be invested in foreign currency issues.
- Based on bond quality rating agreed upon by the Investment Committee and Investment Counsel.
 - b) The **average** quality rating of all of the bond holdings shall be A

Varia

- The investment manager is delegated the responsibility of exercising all voting rights acquired through the Trust's investments.
- The investment manager will meet with the Investment Committee bi-annually to review fund performance and objectives as compared to that of the benchmark portfolio. The Foundation's Investment Committee will review the investment policy and objectives every year in consultation with the Manager.
- The investment Manager will certify compliance with the Investment Policy Guidelines on a quarterly basis.