

COMMUNITY FOUNDATION OF THE SOUTH OKANAGAN

INVESTMENT POLICY

Investment Philosophy

The CFSO is a public foundation, established to serve a broad range of charitable endeavors through the issuing of grants from a permanently endowed pool of capital. Given the long term nature of the CFSO our investment philosophy is centered on the conviction that a balanced mix of investment vehicles including cash, bonds and equities provides the best structure to offer value to donors and to meet the growing needs of the communities we serve.

Investment Objective

Guided by the stated Investment Philosophy, the CFSO's investment objective is to optimize total returns and maximize distributions, while at the same time providing sensible protection of the capital against the effect of inflation.

1. General Policy Statement

- 1.1. Responsibility for investment rests with the Directors, including:
 - the establishment of an overall Investment Policy, asset allocation guidelines and a structure of investment management;
 - the appointment or removal of Investment Managers and other advisors;
 - monitoring the performance of the Fund and its Managers;
 - minimum annual reporting on the status and operation of Fund assets.
- 1.2. The Directors may delegate their responsibilities with respect to the investment of the Fund to the Investment Committee (the "Committee"), which is a standing committee of the Board.
- 1.3. Except for the short term, the Committee will not invest Fund assets directly but will, subject to the approval of the Directors, employ an external professional Manager or Managers.
- 1.4. It will be the responsibility of the Committee, subject to approval by the Directors, to select the Manager (or Managers) and to work directly with the Manager(s) in the administration and application of this Policy.
- 1.5. Acting on the recommendations of the Committee, the Directors shall make such Manager changes from time to time as they deem in the best interest of the Fund and its beneficiaries.
- 1.6. Any Manager appointed to manage all, or a portion, of the Fund shall operate under specific written guidelines (the "Mandate") agreed to

between the Manager and the Directors, on the advice of the Committee.

2. Asset Allocation

- 2.1. The Board will establish for the Manager asset mix limits which will be reviewed by the Committee from time to time .
- 2.2. The asset mix limits will specify minimum and maximum holdings, based on current market value, for each permitted category of investment as herein later defined, as well as a target asset mix by which the Investment Manager's performance will be measured.
- 2.3. The asset mix limits are set out in Appendix A.

3. Permitted Categories of Investment

- 3.1. Subject to other provisions of this Policy, and the Bylaws of the Foundation, the Fund may be invested in any or all of the following types of investments:
 - common stock, convertible debentures, warrants, installment receipts, special warrants or preferred securities;
 - bonds, NHA mortgage backed securities, debentures, mortgages, notes or other debt instruments of government, government agencies, or corporations;
 - guaranteed investment contracts or equivalent of insurance companies, trust companies, banks or other eligible issuers;
 - terms deposits or similar instruments issued or unconditionally guaranteed by major trust companies or banks;
 - cash, or money market securities issued by government, government agencies or corporations;
 - mutual, pooled or segregated funds and limited partnerships
 - ("pooled funds") which may invest in any or all of the above instruments or assets.
- 3.2. The required quality of the investments identified above and certain limits which may apply in respect to the investment in individual instruments or assets are again set out in Appendix A and will be subject to review from time to time by the Directors at the recommendation of the Committee.

4. Fund Management

- 4.1. Subject always to this policy, the Manager will have full authority to manage all aspects of the investment of the Fund within the agreed to Mandate, including changes in the proportion of fund assets to be held

in each of the permissible classes of securities; the selection of securities; and the timing of asset transactions.

5. Valuation of Investment

- 5.1. Investments will be valued at their market value when that is available from regular public trading.
- 5.2. Investments in pooled funds comprising traded securities shall be valued according to the unit values published at least monthly by the pooled fund Manager.

6. Conflict of Interest

- 6.1. A conflict of interest, whether actual or perceived, is defined for the purposes of this Policy as any event in which the Fund, the Directors, an employee of the Foundation, and Manager or delegate, the Custodian or any person directly related to the foregoing, may benefit materially from knowledge or participation in, or by virtue of, an investment decision or holding of the Fund.
- 6.2. Should a conflict of interest arise, the person in the actual or perceived conflict, or any person who becomes aware of a conflict of interest situation, shall immediately disclose in writing the conflict to the Directors. Any such party will thereafter abstain from decision making with respect to the area of conflict, unless otherwise determined permissible by unanimous decision of the Directors. A written record of the conflict shall be maintained by the Directors.
- 6.3. The Directors will satisfy themselves that an appropriate policy regarding conflicts of interest exists and is followed by any Manager appointed by the Directors. As a minimum, The Code of Ethics and Standards of Professional Conduct adopted by the Association of Investment Management and Research applies.

7. Voting Rights

- 7.1. The responsibility of exercising and directing voting rights acquired through Fund investments shall normally be delegated to the Manager, who shall at all times act prudently and in the best interests of the Fund.
- 7.2. The Directors will assign to the Committee the right to direct the voting decision of the Manager, if in the view of the Committee, such action is in the best interests of the Foundation.
- 7.3. It is recognized, however, that the above constraints and policy on voting rights are not applicable to the extent that the Fund is invested in pooled funds.

8. Loans and Borrowing

- 8.1. No part of the Fund shall be loaned to any person, partnership or organization.
- 8.2. The Manager may not pledge, hypothecate, or otherwise encumber in any way, the assets of the Fund except to the extent that temporary overdrafts occur in the normal course of business.
- 8.3. The Manager shall not borrow on behalf of the Fund.

9. Monitoring the Manager's Performance

- 9.1. The performance of the Manager will be evaluated at least semi-annually on the basis of the results achieved in relation to the agreed upon benchmarks set out in Appendix A. Other service criteria, including reporting, accessibility, and responsiveness of the manager will also be considered in evaluating performance.

10. Written Reports

- 10.1. The Manager will provide quarterly written reports to the Committee on the Fund and related investment activities, as follows:
 - the securities held by the Fund;
 - security transactions during the quarter together with a summary statement of commissions paid;
 - investment outlook and forecast for the next quarter.

11. Investment Review Meetings

- 11.1. Meetings between the Committee and the Manager will normally be held semi-annually, or more frequently at such times as are mutually agreed to by the Committee and the Manager.
- 11.2. The Manager's report at these meetings will normally include:
 - a brief review of the security transactions (both asset mix and significant security transactions) since the last meeting in the context of the forecasts and strategy outlined at the previous review meeting;
 - a comparison of the investment results against the benchmark targets;
 - an analysis attributing the results between asset mix and security selection decisions;
 - the outlook for the economy and for capital markets, and
 - the investment and asset mix strategy the Manager intends to pursue up to the time of the next review meeting;

- a statement of proxy voting, and a statement of compliance with the Foundation Policy.

12. Other Communications

- 12.1. A copy of this Policy, and a copy of any changes from time to time approved by the Directors, will be sent promptly to each Manager and the Custodian of the assets.
- 12.2. The Manager will advise the Committee in writing of any significant changes in investment philosophies and policies; personnel; or organizations and procedures within the firm.

13. Information for the Directors

- 13.1. The Committee will make regular quarterly reports to the Directors on the status of the Fund and will keep the Directors fully informed on the substance of any meetings with the Manager and/or any issues which, in the view of the Committee, should be brought to the attention of the Directors in the proper discharge of its responsibilities.

14. Policy Review

- 14.1. This Policy will be reviewed by the Committee annually and be resubmitted to the Directors for their approval with any changes that may be recommended.
- 14.2. In determining whether changes in the Policy are required, the Directors will consider whether there has been:
 - a fundamental change in the time horizon, income requirements or risk tolerance of the Fund;
 - significant revisions to the expected long term trade between risk and reward on key asset classes, dependent upon basic economic, political and social factors;
 - shortcomings of the Policy that emerge in its practical operating or significant modifications that are recommended to the Directors by the Committee or by the Manager;
 - material changes in the costs of overall fund management

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INVESTMENT POLICY APPENDIX 'A'

Items 2.3, 3.2 and 9.1 of the text refer to specific criteria and performance goals by which the Manager will be governed in the exercise of the investment Mandate. The details are as follows:

15. Asset Mix Limits (at market value)

	<u>Minimum</u>	<u>Maximum</u>	<u>Target</u>
Cash & short term securities	0%	10%	5%
Bonds	30%	60%	40%
Canadian Equities	25%	45%	35%
Global Equities	10%	30%	20%
Total Equities	45%	65%	55%

*Note: Cash holdings may from time to time exceed the stated "maximum" in circumstances where the Investment Manager has received significant transfers from the Endowment Account and has yet to determine how these additional funds are to be invested. Such exceptions are expected to be of a short-term nature only and any decision by the Investment Manager to maintain cash holdings in excess of the stated "maximum" for an extended period must be approved in advance by the Investment Committee.

16. Performance Benchmark

The Manager is expected to achieve a rate of return (net of fees) that exceeds the return of the benchmark, measured annually over moving four year periods, using the following indices.

5.0%	Cash (DEX 91 Day T-Bill Index)
40.0%	Bonds (DEX Universe Bond Index and/or the DEX Short Index)
35.0%	Canadian Equity (S&P/TSX Composite Index)
20.0%	Global Equity (MSCI World Index, excluding Canada)

17. Quality of Assets

17.1. Securities acquired directly for the Fund shall meet the following quality standards:

<u>Short Term Securities</u>	
- minimum credit rating	DBRS R-1 low CBRS A-1
<u>Bonds & Debentures</u>	

The average credit quality rating of the bond fund holdings.	DBRS or CBRS "A"
<u>Preferred shares</u> - minimum credit rating	P3
<u>Mortgages</u> - minimum credit rating	NHA First Mortgages only - to 75% of market value of property, on good credit risks only
<u>Canadian Stocks</u>	Listed on TSE or MSE
<u>US Stocks</u>	Listed on NYSE, AMEX or NASDAQ
<u>EAFE Stocks</u>	Listed on recognized national exchange

Maximum Weighting by Issuer

- maximum aggregate holding in the securities of a single issuer other than Government, Government Agencies or a Canadian Chartered Bank is 10% of total fund.

Small Capitalization Maximums

- maximum Canadian equity holdings in common stocks with a market capitalization of less than \$250,000,000 - 10% of total Canadian equity holdings
- maximum non-Canadian equity holdings in common stocks with a market capitalization of less than \$250,000,000 - 10% of total non-Canadian equity holdings
- Securities held by the Investment Manager, which have had their credit designation diminished such that they no longer meet the minimum quality requirements as set out above, shall be brought to the attention of the Committee immediately. The Committee, in consultation with the Manager, will determine whether the securities involved should be retained or disposed of.