



Edmonton
Community
Foundation

**ASSET MANAGEMENT PLAN
AND
INVESTMENT POLICIES AND GUIDELINES**

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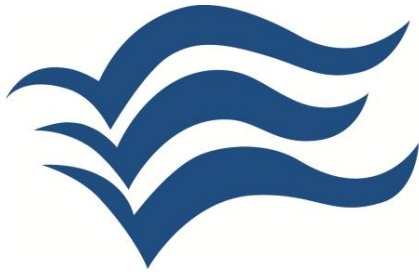
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Edmonton
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ASSET MANAGEMENT PLAN

1. OVERVIEW

1.1 The Edmonton Community Foundation is a registered charitable public foundation. It exists to help the people of Edmonton and area by encouraging philanthropy and funding charitable activities.

1.2 Through contributions from donors, the Foundation assembles and administers permanent pools of capital so the returns can be perpetually reinvested in our community.

1.3 Vision

A 21st century vision for the Edmonton Community Foundation:

- *Trusted by donors as the first choice to create endowments;*
- *Recognized by charities as the primary source for grants that meet community needs, enrich people's lives and build an enduring legacy of positive change;*
- *Acknowledged by community leaders as the right place for innovative and prudent investments in Edmonton's future.*

1.4 Values

The Edmonton Community Foundation values:

- *Its relationships with the community including donors, grantees, volunteers and staff;*
- *Its role as a catalyst for building and strengthening our community;*
- *The integrity, autonomy and independence of others;*
- *Openness, honest, accessibility, fairness and mutual respect;*
- *Community leadership, visionary thinking and innovation;*
- *Fiscal prudence through efficient and strategic practices.*

1.5 Governance of the investments is required to maintain the purchasing power of funds entrusted to the Foundation to achieve maximum returns consistent with prudent investing and to ensure sound investment management practices so that the legacies created by donors are respected in perpetuity.

- 1.6 The strategies the Foundation has adopted in pursuit of governance include the asset management plan (“the Plan”) which describes the processes put in place for the management of the Edmonton Community Foundation’s investments. It documents policies, guidelines and management practices that are currently in effect. The Plan is strictly concerned with investment related matters; it does not deal with spending policy.
- 1.7 The purpose of the Plan is to ensure that the Foundation’s investments are managed effectively, prudently and in compliance with all applicable requirements. It identifies the roles and responsibilities of all parties involved and promotes the co-ordination and integration of their respective contributions.
- 1.8 The Plan is an internal document prepared by the Investment Committee (“the Committee”) and approved by the Board of Directors (“the Board”) of the Edmonton Community Foundation. Each new board and committee member receives an updated version of the Plan. A summary of the Plan is available to the public upon request, but should be checked for recent amendments.

2. LEGAL CONTEXT

- 2.1 The management of the investments must satisfy all applicable legal requirements. The Plan provisions should never be construed as suggesting that legal requirements are not to be strictly satisfied.
- 2.2 The management of the investments must comply with the provisions of the following, as amended from time to time:
 - a) the Edmonton Community Foundation Act;
 - b) the Edmonton Community Foundation policy by-laws;
 - c) the Alberta Trustees Act; and
 - d) the Income Tax Act of Canada.

3. THE INVESTMENT COMMITTEE

- 3.1 The Investment Committee is responsible to the Board of Directors of the Edmonton Community Foundation. The Committee is responsible for reviewing the investment policies and recommending to the Board the appropriate changes for the Board's approval. The Committee will then monitor the policies and review the performance of the fund custodians and investment managers, reporting the results to the Board in a timely and effective manner.

4. DUTIES AND RESPONSIBILITIES OF AGENTS AND ADVISORS

- 4.1 The Committee recommends retention of the services of one or more investment managers, a custodian, an asset management consultant. The Committee may also retain the services of one or more other advisors on an ad hoc basis.
- 4.2 The role of the investment managers includes:
- a) allocating assets amongst asset classes in which they are authorized to invest;
 - b) selecting investments within such asset classes;
 - c) initiating transactions to give effect to investment decisions;
 - d) reporting to the Committee on their past performance;
 - e) explaining their expectations concerning the economy and financial markets, along with their strategy under such circumstances; and
 - f) providing advice with respect to the management of the investments when called upon do to so by the Committee.

4.3 The role of the custodian includes:

- a) safekeeping the assets;
- b) collecting contributions and paying expenses as directed by the Foundation;
- c) collecting coupons, maturities, and other cash distributions attached to securities;
- d) exercising other privileges tied to securities or disclosing their existence to those having the responsibility to exercise them and acting as directed;
- e) processing transactions as directed by the Foundation or the investment managers;
- f) making payments regarding transaction-related charges and taking action to recover sums owed to the Foundation such as withholding taxes;
- g) informing the investment managers of cash available for investing and non-cash contributions available for trading;
- h) processing cash withdrawals requested by the Foundation;
- i) providing the investment managers and the asset management consultant with agreed upon information required to execute their mandate;
- j) maintaining a record of all transactions; and
- k) providing periodic reports of transactions and holdings.

4.4 The role of the asset management consultant includes providing investment information and advice in areas such as:

- a) investment policies and guidelines;
- b) investment management structure;
- c) selection and supervision of the investment managers; and
- d) evaluation of investment returns.

5. SELECTION AND SUPERVISION OF AGENTS AND ADVISORS

5.1 In the event that a new investment manager must be selected or additional investment manager added to the existing investment managers, the Committee will undertake an investment manager search. When the Committee engages in a selection process for agents or advisors, it maintains a written record of at least the following:

- a) request for proposal;
- b) candidate criteria;
- c) people or organizations called upon to submit a proposal;
- d) candidates whose proposals were discarded for lack of conformity to the terms of the request for proposal and the elements of non-conformity; and
- e) factors taken into account in the final selection process.

5.2 Factors considered in the selection process include the following:

- a) organization and business plan;
- b) candidate's philosophy/strategy;
- c) experience with similar mandates;
- d) key personnel and personnel assigned to the portfolio;
- e) performance; and
- f) fees.

5.3 The Committee may engage the services of agents or advisors without issuing a formal request for proposal where the parties have provided current information as potential candidates for a specified mandate. Under such circumstances, the written record, referred to above, will address the following:

- a) mandate;
- b) candidate criteria;
- c) people or organizations satisfying such candidate criteria;
- d) people or organizations satisfying candidate criteria who indicated an interest in the proposed mandate;
- e) factors considered in selecting the finalists; and
- f) factors taken into account in the interview of finalists.

- 5.4 The Investment Committee shall recommend a custodian and investment managers to hold, or manage the Foundation's investments or a portion thereof in such manner and in such proportions and portfolio accounts as the Committee may deem proper, and may recommend appointment of monitors to evaluate performance.
- 5.5 The Committee shall monitor the actions of its agents and advisors. At least once a year, the Committee will receive a written report and meet with the investment managers and the asset management consultant. The Committee will review their services taking into consideration the following factors, where appropriate.
- a) compliance with Committee directions and terms of reference;
 - b) compliance with Committee directions and terms of reference;
 - c) satisfaction of agreed-upon objectives;
 - d) competence, ability to communicate, and availability of personnel assigned to the account;
 - e) quality and timeliness of presentations and written reports;
 - f) flexibility, innovation and problem solving ability;
 - g) co-operation with other agents and advisors; and
 - h) developments at the firm (reputation, personnel turnover, new services).
- 5.6 If an agent or advisor is deemed unsatisfactory, then the Committee may recommend to the Board that:
- a) the services of the agent or advisor be terminated, or
 - b) the agent of advisor be requested to provide to the Committee, within sixty (60) days, an acceptable remedial action plan.
- 5.7 The Board will make the final decision on terminating the services of the agent or advisor. Where a remedial action plan is implemented, the Committee will provide a follow-up report to the Board.

6. INVESTMENT POLICIES AND GUIDELINES

- 6.1 The Board maintains written investment policies and guidelines that provide direction to the Committee and/or its agents and advisors in a companion document to this Plan entitled **Investment Policies and Guidelines** (“the Policy”).
- 6.2 The Policy is periodically reviewed and revised, when necessary. The Committee and its agents must conform with its provisions, including those dealing with conflicts of interest. A copy of the Policy and changes thereto is provided to the investment managers, the custodian, the asset management consultant, and other concerned agents and advisors.
- 6.3 The Policy takes into account:
- a) the investment horizon;
 - b) investment objectives and liquidity needs;
 - c) risk controls;
 - d) target asset allocation; and
 - e) performance evaluations.
- 6.4 The Committee provides the investment managers with customized written manager mandates. A copy of the manager mandate and changes thereto is provided to the investment manager involved, the custodian, the asset management consultant and other concerned agents and advisors. Amongst other issues, the manager mandate addresses:
- a) manager objectives;
 - b) permitted investments;
 - c) asset allocation; and
 - d) risk factors such as diversification, liquidity, leverage, credit and currency.
- 6.5 The manager mandates will not address the use of derivative products as such use would only be contemplated where the manager brings a recommendation forward for consideration in order to mitigate existing risks. In such rare circumstances, the Committee may approve the recommendation, subject to the approval of the Board.

- 6.6 At least on a quarterly basis, each investment manager is required to confirm in writing, its compliance with the provisions of the Policy and its manager mandate. Inadvertent violations shall be reported immediately to the Chief Executive Officer or the Director of Finance and Information Systems and action shall be taken to remedy the situation.

7. MONITORING THE INVESTMENTS

- 7.1 The Committee monitors the investments. It is concerned with asset returns and investment-related expenses. Each quarter, each investment manager's rate of return earned on each asset class is compared to those of other comparable investment managers in Canada and an index-based benchmark specified in the Policy. Annually, the Committee reviews a detailed investment-related expense report indicating amounts, recipients and services provided.
- 7.2 Semi-annually, Management shall determine the percentage that the market value of each major asset class comprises of the total market value of the investments. If any of the four major asset classes are outside the target asset allocation by more than 3%, the investments shall be re-balanced to the target asset allocation. All re-balancing will be reported to the Committee.
- 7.3 The Investment Committee, to fulfill its responsibility of monitoring and reviewing the investment managers, shall review the following on an ongoing basis:
- a) the investment manager's financial stability, staff turnover, consistency of style and record of service;
 - b) the investment manager's current economic outlook and investment strategies;
 - c) the investment manager's compliance with the Policy; and
 - d) the investment performance of the assets of the Foundation in relation to the rate of return expectations outlined in the Policy.
- 7.4 On a quarterly basis, each investment manager will provide a performance report to the Committee and strategy review for the asset class or classes under his/her management. At least once every year, each investment manager will make a formal presentation to the Committee providing an assessment of the rates of

return obtained. Rates of return are broken down by investment manager and by asset class. They are compared to those obtained by other investment managers having a similar mandate, to pertinent market indices and other agreed-upon benchmarks established by the Committee and set out in the Policy.

7.5 Reasons for considering the termination of the services of an investment manager include, but are not limited to, the following factors:

- a) performance results which, over a reasonable period of time, are below the stated performance benchmarks;
- b) changes in the overall structure of the investments such that the investment manager's services are no longer required;
- c) changes in personnel, firm structure and investment philosophy, style or approach which might adversely affect the potential return and/or risk level of the portfolio; and/or
- d) failure to adhere to this Plan or the Policy.

8. CONFLICT OF INTEREST

- 8.1 The Edmonton Community Foundation's conflict of interest policy shall apply. A conflict of interest, whether actual or perceived, includes any event that the Foundation's Board of Directors, Investment Committee members, employees and volunteers of the Foundation, may benefit materially from the knowledge or participation in, or by virtue of, an investment decision.
- 8.2 Should a conflict of interest arise, the person in the actual or perceived conflict of interest shall immediately disclose the conflict in writing, with all the relevant details, to the Chief Executive Officer or the Chair of the Investment Committee who, in turn, discloses it to all Committee members at the appropriate time. Any such party will thereafter abstain from decision making with respect to the area of conflict.
- 8.3 Any person having discretionary authority over the investments is a fiduciary. This generally includes, but is not limited to, the Board of Directors, a member of the Investment Committee or any employee, agent or advisor of the Edmonton Community Foundation.
- 8.4 The Edmonton Community Foundation expects that each of their professional agents and advisors shall have an internal conflict of interest policy that their employees must abide by.

9. RELATED PARTY TRANSACTIONS

- 9.1 The Investment Committee, on behalf of the Foundation, may not enter into a transaction with a related party unless:
- a) the transaction is required for the operation or administration of the Foundation and the terms and conditions of the transaction are not less favourable to the Foundation than market terms and conditions;
 - b) the securities of the related party are acquired at a public exchange; or
 - c) the combined value of all transactions with the same related party is nominal or the transaction(s) is immaterial to the Foundation.

- 9.2 A related party to the Edmonton Community Foundation includes any officer, director or employee of the Edmonton Community Foundation, or any person who is a member of the Investment Committee. It also includes the investment manager and any employee, spouse, child or entity that is directly or indirectly controlled by the previously named parties.
- 9.3 Under the conflict of interest guidelines, it is incumbent to notify the Chief Executive Officer if a conflict arises. Such conflict includes related party transactions.
- 9.4 No part of the investment assets shall be loaned to any Director, Committee member, employee of the Foundation or to any person directly related thereto.

10. VOTING RIGHTS

- 10.1 The Investment Committee has delegated voting rights for the Foundation's investments to the custodian, to be exercised in accordance with the investment managers' instructions. The investment managers are expected to vote all proxies in the best interests of the Foundation. The Investment Committee, however, may take back voting rights for specific situations.
- 10.2 The investment managers should disclose their proxy voting policies and report annually whether:
- a) all eligible proxies were voted on the Foundation's behalf, and
 - b) the proxy voting policies were followed, disclosing any deviations therefrom.

11. VALUATION OF SECURITIES NOT REGULARLY TRADED

- 11.1 Investments shall be valued at their fair market value when that is available from regular public trading. Investments in pooled funds comprising publicly traded securities shall be valued according to the unit values published by the pooled fund manager(s). Unit values shall be published at least monthly. Listed securities shall be valued at the last sale price on the valuation date, or if no sales took place on the valuation date, the last known trade price. Unlisted securities shall be valued at the mean between bid and asked quotations, if any, on the valuation date. Securities for which no quotations are available and all other investments shall be valued at their fair market value as determined by the Custodian, in consultation with the Committee.

12. DIRECTED BROKERAGE COMMISSIONS

- 12.1 The Foundation does not use directed commissions (i.e. soft dollars) to pay for any goods or services. The investment manager may use soft dollars to pay for research and other investment-related services with disclosure to the Investment Committee, provided they comply with the Soft Dollar Standards promulgated by the Association of Investment Management and Research.



INVESTMENT POLICIES AND GUIDELINES

1. OVERVIEW

- 1.1 The Investment Policies and Guidelines will be reviewed periodically by the Committee so that they may be assured that the managers to whom the Foundation's monies are entrusted are performing their function within the framework of these policies and guidelines and that the policies and guidelines remain appropriate.
- 1.2 Investment Policies and Guidelines (the "Policy") applies to the investments held by the Foundation. It contains investment objectives, investment guidelines, and monitoring procedures. This Policy does not pertain to investments contributed to the Foundation by donors or contributions by donors with specific investment instructions until those investments or contributions are allocated to an investment manager subject to this Policy.
- 1.3 The investments will be managed in accordance with all applicable legal requirements notwithstanding any indication to the contrary which might be construed from the Policy.
- 1.4 Definitions provided in the Asset Management Plan, the companion document to this Policy, of the Edmonton Community Foundation (the "Foundation") apply to the Policy.

2. RESPONSIBILITIES

- 2.1 The responsibility for the investments and approving this Policy lies with the Board Directors of the Foundation ("the Board") and its Investment Committee ("the Committee") as set out in the Asset Management Plan.

- 2.2 The Committee may delegate some of its responsibilities to agents and advisors. In particular, the services of a custodian and of one or more investment managers are retained. The Committee maintains an active role with respect to the following:
- a) formulation of the Investment Policies and Guidelines and manager mandates;
 - b) appointment and monitoring of agents and advisors; and
 - c) evaluation of performance.
- 2.3 Any person to whom the Committee delegates responsibilities with respect to the Foundation's investments must adhere to the provisions of the Policy and the Plan.
- 2.4 The investment managers have full discretion in the selection of securities, portfolio structure and asset allocation subject to the constraints of this Policy, the Plan and of the respective manager mandates.

3. INVESTMENT OBJECTIVES

3.1 General Objectives

- 3.1.1 The Foundation's goal is to provide for grant making in perpetuity. In order to attain this goal, the Foundation must earn sufficient investment returns to allow disbursements according to the spending policy, to pay the Foundation's administration expenses, and to grow the asset base so as to maintain the purchasing power of the investment portfolio. The Foundation's spending policy is currently 3.5% of the prior year's market value of all of the Foundation's funds. The Capital Policy Committee and the Board of the Foundation may determine other amount from time to time. The Foundation's net administrative expenses are ranging between 1 to 1.5%% of the Foundation's assets. (*Updated on March 22, 2010*).
- 3.1.2 Investment returns are maximized given the level of the risk deemed appropriate by the Committee. At the same time, investment returns shall provide for income and/or capital gains that are reasonable and fairly predictable given the Foundation's spending policy and administrative funding needs.

- 3.1.3 Investment decisions shall be made without distinction between principal and income; the decisions to realize investment gains or losses are strictly based on the investment factors involved.
- 3.1.4 The Foundation's second objective is for the Pooled Investments to achieve total investment performance results that rank above median over moving four-year periods in the SEI Pooled Fund Survey sample universe.
- 3.1.5 A further objective of the Foundation is that the overall investment returns for the Pooled Investments shall achieve, over four-year moving periods, at least 1% value added per annum over a passive benchmark return that could have been achieved by investing solely in the subject indices that make up the benchmark. This benchmark shall consist of:
- a) 25% S&P/TSX Capped Composite Index
 - b) 20% S&P 500 Index (CDN \$)
 - c) 20% MCSI EAFE Index (CDN \$)
 - d) 30% DEX Universe Bond Index
 - e) 5% IPD Canadian Real Estate Index
 - f) other suitable benchmarks for appropriate asset classes as they become available

3.2 **Specific Return Objectives**

- 3.2.1 **Overall Fund** – The long-term average real rate of return, as measured over moving 10-year periods, is expected to be a minimum of 5.5%.
- 3.2.2 **Equities** – Relative results, as measured over moving 4-year periods, are expected to exceed median returns relative to comparable portfolios. At most, one fourth quartile performance year shall be tolerated.
- 3.2.3 **Fixed Income** – Similar criteria as equities.
- 3.2.4 These return objectives are to be reviewed on an annual basis.

4. PERMITTED INVESTMENTS

4.1 The Foundation is authorized to invest any money of the Foundation in such investments as would be appropriate for a prudent investor. The Foundation may invest in the following asset categories:

- a) cash;
- b) demand or term deposits;
- c) short-term notes;
- d) treasury bills;
- e) bankers' acceptances;
- f) commercial paper;
- g) investment certificates issued by banks, insurance companies or trust companies;
- h) bonds and non-convertible debentures;
- i) mortgages and other asset-backed securities;
- j) convertible debentures;
- k) common and preferred stocks;
- l) real estate;
- m) infrastructure;
- n) pooled funds, closed-end investments and other structured vehicles invested in any or all of the above asset categories.

4.2 The Foundation may hold derivative financial, commodity or currency-related instruments such as forward contracts, options, futures or swaps in accordance with a program accepted in writing by the Committee and approved by the Board. The use of leverage in holding these instruments will not be permitted.

4.3 Borrowing on behalf of the Foundation is not permitted. Investments may not be used to guarantee any borrowing. However, unanticipated temporary overdrafts when cash is not sufficient to settle a purchase may occur. An investment manager or the custodian may not lend securities held by the Foundation except in accordance with a program of securities lending approved by the Committee.

4.4 Each new investment in the following categories will require the approval of the Board:

- a) investments in private placement equities;
- b) investments in real estate through open or closed-end pooled funds;
- c) investments in units of investment trusts (e.g., REITS or resource trust units),
- d) investments in infrastructure; and
- e) investments in hedge funds.

5. ASSET ALLOCATION

5.1 The following overall target asset allocation is adopted with effect from June 10, 2009, to be implemented over an appropriate time frame:

Canadian equities	20%
United States equities	20%
Other international equities	20%
Fixed income	20% *
Private equity	10%
Global infrastructure	5%
Direct Canadian real estate	5%

**Only Canadian investments or US Treasuries and includes up to 3% in mortgage funds and moving to long term bonds at opportune times. (Revised on March 22, 2010)*

5.2 Additionally, up to 5% may be invested in hedge funds, with the allocation being made from the appropriate equity class. For example, a 2% investment in European hedge fund would reduce the publicly-traded international equity component to 18%.

5.3 The target asset allocation is based on the returns that would have been generated had the major asset classes been invested in passive index funds according to the target asset allocation weighting.

5.4 Fixed income investments include all bonds and mortgages having a maturity of one year or more when issued.

- 5.5 All eligible equities must be traded on a recognized exchange identified by the investment manager and approved by the Committee except for private equity placements.
- 5.6 Canadian equities include common stocks and convertible securities of Canadian issuers.
- 5.7 U.S. equities include common stocks and convertible securities of U.S. issuers.
- 5.8 Other international equities include common stocks and convertible securities of non-Canadian and non-U.S. issuers.
- 5.9 Non-Canadian investments shall be restricted to 50% of the market value of the Fund.
- 5.10 Securities held in a pooled fund are classified on the basis of the assets comprising the major portion of such pooled funds.
- 5.11 The private equity geographic allocation is to be 50% North America and 50% rest of the world, with a +/- 10% deviation range. *(Approved by the Board on April 14,2010)*
- 5.12 Derivative instruments, where specifically approved by the Committee in writing, along with any collateral held thereon, are included in the asset class comprising the securities whose return or price serves as the basis for the pricing of such derivative instruments.

6. INVESTMENT RISK

6.1 Diversification within Asset Classes

6.1.1 Diversification between asset classes is provided through the asset allocation guidelines set forth in this Policy. Diversification is also achieved by limiting the amount invested in a group of equities that are expected to have highly correlated return characteristics. No more than 5% of the market value of the Pooled Consolidated Trust Fund Investments or 10% of the market value of the investment manager's holdings will be invested in the securities of a single issuer, excluding federal or provincial government issued bonds.

6.2 Volatility Objectives

6.2.1 **Equities** – The risk associated with the equity investments, as measured by the annualized standard deviation, will be below the median risk of managers as reported by an appropriate measurement service over moving 4-year periods. The maximum deviation above the median is 15% of the median standard deviation.

6.2.2 **Fixed Income** – Similar criteria as equities except that the maximum permitted deviation is 10% of the median standard deviation.

6.3 Liquidity Risk

6.3.1 Liquidity is achieved by limiting the amount invested in closed-ended funds.

6.3.2 Written permission from the Committee is required in advance of the purchase of:

- a) private placements not expected to become publicly traded within six months of purchase; or
- b) securities that do not trade on a recognized exchange.

6.4 **Quality**

- 6.4.1 Short-term investments will have a minimum credit rating of R-1¹ or its equivalent when purchased.
- 6.4.2 Bond investments will have a minimum credit rating of BBB² or its equivalent when purchased. Up to 15% of the bond portfolio may have bonds with a BBB rating. The weighted average credit rating of the bond portfolio will be maintained at or above A. The investment managers will notify the Committee and take immediate action to correct the situation when:
- a) more than 5% of the market value of short term securities has a credit rating lower than R-1 or its equivalent; or
 - b) more than 15% of the market value of bond portfolio investments has a credit rating lower than A or its equivalent.
- 6.4.3 Unrated bonds will be assumed to fail all of the credit rating referred to in this section. However, the investment manager may hold up to 3% of the market value of the bond portfolio in these bonds.
- 6.4.4 Notwithstanding other provisions of this section, the investment manager will be entirely responsible for establishing the credit-worthiness of issuers. Defaults cumulatively over one year exceeding 3% of the Fund's market value will lead to a formal review of the services provided by the investment manager. This review may lead to a dismissal.

6.5 **Currency Risk**

- 6.5.1 Currency risk is controlled by limiting the investments in foreign equities as specified in the asset allocation guidelines set forth in the Policy.
- 6.5.2 The foreign equity investment managers will not hedge foreign currency exposure without the written permission of the Committee. Bond managers with foreign pay bonds may hedge the currency risk, with a maximum 15% limit of non-Canadian dollar exposure.

¹ Credit ratings used by the Dominion Bond Rating Service.

² Credit ratings used by the Canadian Bond Rating Service.

7. MONITORING AND CONTROL

7.1 Delegation of Responsibilities

7.1.1 Overall responsibility for the Foundation's investments rests with the Board of Directors. The Board of Directors is also charged with ensuring investments conform to legislation and with monitoring investment performance.

7.1.2 In completing the above duties, the Board has delegated a number of responsibilities:

7.1.2.1 **The investment managers will:**

- a) invest the assets of the Foundation in accordance with this Policy;
- b) notify the Investment Committee in writing of any significant changes in the investment managers' philosophies and policies, personnel or organization and procedures;
- c) reconcile their own records with the custodian at least monthly;
- d) meet the Investment Committee as required and provide written reports regarding their past performance, their future strategies and other issues as requested; and
- e) file quarterly compliance reports.

7.1.2.2 **The custodian will:**

- a) maintain safe custody over the assets of the Foundation;
- b) execute the instructions of the Investment Committee, as delegated to any investment manager appointed to manage the assets of the Foundation; and
- c) record income and provide monthly investment reports as required.

7.1.2.3 **The Investment Committee will:**

- a) review and monitor the Foundation's investment performance;
- b) review the Investment Policies and Guidelines at least annually; and
- c) advise on other investment-related issues as required.

7.1.2.4 **The asset management consultant will:**

- a) assist in the development and implementation of this Policy and provide related research;
- b) monitor the Foundation's investment performance and the performance of the investment managers on a regular basis;
- c) support the Committee on matters relating to investment management and administration; and;
- d) meet with the Committee as required.

7.2 **Performance Measurement**

7.2.1 The investment performance shall be measured quarterly and return calculations shall be as follows:

- a) time weighted rates of return with geometric linking of period returns; and
- b) total returns, including realized and unrealized gains and losses and income from all sources; and
- c) that the investment managers provide performance risk statistics, including, but not limited to: alpha, beta, sharpe ratio, treynor ratio and R2.

7.2.2 For the purpose of evaluating the investments and the investment managers, performance will normally be assessed over moving four-year periods.

7.3 **Total Fund Benchmark**

7.3.1 An objective for the Foundation is to earn a rate of return that exceeds the rate of return earned on a benchmark portfolio. The benchmark consists of the following market indices' total returns, weighted as indicated:

Total Fund Benchmark	
S&P/TSX Capped Composite Index	25%
S&P 500 Index (Cdn \$)	20%
MSCI EAFE Index (Cdn \$)	20%
DEX Universe Bond Index	30%
IPD Canadian Real Estate Index	<u>5%</u>
	100%

7.3.2 The benchmark performance objective for the investment manager is tailored to the specific mandate established. Accordingly, the performance objective may change over time. Currently, the asset class objectives are as follows:

Canadian equities	= S&P/TSX Capped Composite Index
U.S. equities	= S&P 500 Index (Cdn \$) total return
Other international equities	= MSCI EAFE Index (Cdn \$) total return
Bonds	= DEX Universe Bond Index total return
Real estate	= IPD Canadian Real Estate Index
Mortgages	= DEX Short Term Bond Index
Private equity	= to be determined
Infrastructure	= to be determined

7.3.3 The market indices referred to in this section may be changed to match the specific investment mandates for the investment managers selected to manage the Foundation's investments, recognizing that at all times the investments must be managed in accordance with the asset allocation guidelines set out in previous sections of this Policy.

7.4 **Reporting by the Investment Managers**

7.4.1 On a quarterly basis, each investment manager will provide a performance report and a strategy review for the portfolio under his/her management.

7.4.2 Also, each investment manager is required to complete and sign a compliance report each quarter. The compliance report should indicate whether or not the manager's portfolio was in compliance with this Policy during the quarter. Copies of the compliance reports must be sent to the Investment Committee and to the Foundation's asset management consultant.

7.4.3 In the event that an investment manager is not in compliance with this Policy, the investment manager is required to advise the Investment Committee immediately, detail the nature of the non-compliance and recommend an appropriate course of action to remedy the situation.

7.4.4 If an investment manager believes the asset allocation guidelines are inappropriate for anticipated economic conditions, the investment manager is responsible for advising the Investment Committee that a change in guidelines is desirable and the reasons therefore.

7.4.5 The Foundation may invest in pooled funds, which have separate investment policies. Should a conflict arise between the provisions of this Policy, and the provisions of the pooled fund's investment policy, the investment manager is required to notify the Investment Committee immediately in writing, detailing the nature of the conflict and the manager's recommended course of action.

7.5. **Standard of Professional Conduct**

7.5.1 Each investment manager is expected to comply, at all times and in all respects, with the Code of Ethics and Standards of Professional Conduct as promulgated by the Association for Investment Management and Research ("AIMR"). Each investment manager shall attest to compliance with the AIMR Code of Ethics and Standards of Professional Conduct in the compliance report.

7.5.2 Each investment manager will manage the assets with the care, diligence and skill that a prudent person skilled as a professional investment manager would use in dealing with institutional assets. Each investment manager will also use all relevant knowledge and skill that he/she possesses or ought to possess as a prudent investment manager.

7.6 **Investment Manager Early Warning System**

7.6.1 Each investment manager shall be measured quarterly on a points system as follows:

- a) Measurement relative to an appropriate asset class index on an **annual** basis as follows:
 - i) Bonds shall be compared with the Scotia Capital Markets Universe Bond Index.
 - ii) Canadian equities shall be compared with the S&P/TSX Capped Composite Index.
 - iii) U.S. equities shall be compared with the S&P 500 Index (CDN\$).
 - iv) Other international equities shall be compared with the MSCI EAFE Index (CDN\$).
- b) Measurement relative to an appropriate asset class index on an **4-year rolling** basis as follows:
 - i) Bonds shall be compared with the Scotia McLeod Capital Markets Universe Bond Index.
 - ii) Canadian equities shall be compared with the S&P/TSX Capped Composite Index.
 - iii) U.S. equities shall be compared with the S&P 500 Index (CDN\$).
 - iv) Other international equities shall be compared with MSCI EAFE Index (CDN\$).
- c) Measurement relative to similar investment managers on an annual basis.
- d) Measurement relative to similar investment managers on a 4-year rolling basis.

7.6.2 **Asset Class Index Comparisons (Annual)**

Points are awarded to an investment manager as follows for each year of results up to a maximum of 4 years based on the differential between the manager's time weighted annual return and the corresponding index return.

FIXED INCOME	
Differential	Points
Less than -1.0%	-2
Less than 0%, but greater than or equal to -1.0%	-1
Less than +0.5%, but greater than 0%	0
Less than +0.75%, but greater than or equal to +0.5%	+1
Greater than or equal to +0.75%	+2

EQUITY	
Differential	Points
Less than -3.0%	-2
Less than 0%, but greater than or equal to -3.0%	-1
Less than +1.25%, but greater than 0%	0
Less than 2.5%, but greater than or equal to +1.25%	+1
Greater than or equal to +2.5%	+2

7.6.3 Asset Class Index Comparisons (4-Year Rolling)

Points are awarded to an investment manager as follows based on the 4-year rolling return differential measured over the most recent four-year period between the manager's annualized time-weighted rate of return and the corresponding index return.

FIXED INCOME	
Differential	Points
Less than -0.75%	-2
Less than 0%, but greater than or equal to -0.75%	-1
Less than +0.25%, but greater than 0%	0
Less than +0.50%, but greater than or equal to +0.25%	+1
Greater than or equal to +0.50%	+2

EQUITY	
Differential	Points
Less than -1.5%	-2
Less than 0%, but greater than or equal to -1.5%	-1
Less than +1.0%, but greater than 0%	0
Less than 2.0%, but greater than or equal to +1.0%	+1
Greater than or equal to +2.0%	+2

7.6.4 **Manager Relativities (Annual)**

- a) For each year the investment manager was in the top quartile, credit 1 point;
- b) For each year the investment manager was in the bottom quartile, deduct 1 point; and
- c) For 2 consecutive years the investment manager the investment was above the median, credit 1 point; and
- d) For 2 consecutive years the investment manager was below the median, deduct 1 point.

7.6.5 **Manager Relativities (4-Year Rolling)**

- a) For cumulative results (more than 1 year) the investment manager was in top quartile, credit 1 point;
- b) For cumulative results (more than 1 year) the investment manager was in 2nd quartile, no points;
- c) For cumulative results (more than 1 year) the investment manager was in 3rd quartile, deduct 1 point; and
- d) For cumulative results (more than 1 year) the investment manager was in 4th quartile, deduct 2 points.

7.6.6 **Manager Rating**

- a) In the case of an equity manager, the total equity points are used. In the case of a fixed income manager, the total fixed income points are used.
- b) The investment manager's total points at time of review (normally quarterly) determine the on-going status of the investment manager. If the investment manager's points at the time of review are greater than or equal to zero, the manager is endorsed to continue under normal review criteria. If the investment manager's points at the time of review are negative but greater than or equal to -4, the investment manager should automatically come under closer scrutiny on a quarterly basis.

- c) If the investment manager's points at time of review are less than -4, the investment manager will be required to attend a specially called meeting of the Investment Committee to explain the reasons for the poor performance and to discuss the measures which will be undertaken to bring his/her results back in line with expectations.

APPENDIX A INVESTMENT COMMITTEE TERMS OF REFERENCE (MANDATE)

A. Overview and Purpose

The Investment Committee (the "Committee") is responsible to the Board of Directors (the "Board") of The Edmonton Community Foundation (the "Foundation"). The Committee is responsible for reviewing the investment policies and recommending to the Board the appropriate changes for the Board's approval. The Committee will then monitor the policies and review the performance of the fund custodians and investment managers, reporting the results to the Board in a timely and effective manner.

B. Membership and Attendance at Meetings

1. There shall be a minimum of five (5) members appointed to the Committee by the Board on the recommendation of the Governance Committee to serve for a one-year renewable term expiring on the date of the annual meeting of the Foundation or until their successors are appointed. At least two members shall be members of the Board.
2. Committee members may serve for a maximum of six consecutive years.
3. Committee members shall normally be resident in the greater Edmonton community.
4. Non-Board members may be appointed to the Committee. They are to have voting status at the Committee level.
5. In addition to the members appointed to the Committee in B.1. above, the Chair of the Board is an ex-officio, voting member of the Committee.
6. The Chair of the Committee shall be designated by the Board.

7. Attendance by invitation at all or a portion of Committee meetings is determined by the Committee Chair or its members, and would normally include the Chief Executive Officer, Director of Finance and such other officers or support staff as may be deemed appropriate.
8. If a member of the Committee misses three (3) consecutive meetings without approval or being excused, he/she will be deemed to no longer be a member of the Committee.

C. Duties and Responsibilities

1. To ensure that the investment policies of the Board are followed and to make recommendations for any changes deemed necessary or appropriate to the Board for approval.
2. To recommend the appointment or dismissal of custodians and investment managers to the Board for approval, including the terms of their engagement and the fee structure.
3. To ensure the custodians and investment managers are apprised of the investment policies of the Foundation and to monitor that such investment policies are being adhered to.
4. To review the investment transactions and performance of the investment managers on a quarterly basis and report thereon to the Board.
5. To consider any other investment-related matters which, in the opinion of the Committee or at the request of the Board, would assist the directors to meet their responsibilities.
6. To review annually the terms of reference for the Committee and to recommend any required changes to the Board.

D. Meetings

1. Meetings of the Committee are held as required and, at minimum, four times each year.
2. Meetings may be called by the Committee Chair or by a majority of the Committee members, and usually in consultation with the management of the Foundation.
3. Meetings are chaired by the Committee Chair or, in the Chair's absence, by a member of the Committee who is a member of the Board.
4. The Chair of the meeting may establish rules of procedure to be followed at meetings of the Committee.
5. A quorum for the transaction of business at any meeting of the Committee is a majority of the appointed members including at least one Committee member from the Board.
6. Recognizing that the Committee functions by use of a consensus model, decisions requiring a vote will be made by a simple majority of the Committee members present.
7. The Committee Chair shall advise the Board of any dissenting votes on important matters that have come before the Committee.
8. Management of the Foundation shall provide for the delivery of notices, agendas and available related materials to the Committee members no later than the day prior to the date of the meeting; however, it should be a standard practice to deliver the agenda and materials for consideration at the meeting at least five (5) days prior to the meeting except in unusual circumstances.
9. Meetings may be conducted with members present or by telephone or other communications facilities, which permit all persons participating in the meeting to hear or communicate with each other.

10. A written resolution signed by all Committee members entitled to vote on that resolution at a meeting of the Committee is as valid as one passed at a Committee meeting.
11. Management of the Foundation shall ensure that a secretary is available to keep minutes of the proceedings of all meetings of the Committee.
12. Minutes of the meetings of the Committee, prepared in draft, shall be distributed to all members of the Committee within ten working days of each meeting, and shall be submitted for approval at the next regular meeting of the Committee and shall be provided to the Board.

Last Revised: April 2004
Last Reviewed: June 3, 2010

**APPENDIX B
SAMPLE REPORT CARD**

EDMONTON COMMUNITY FOUNDATION INVESTMENT FUND						
PH&N Investment Results						
As At March 31, 2004						
Candian Equity Results						
31-Mar YEAR	S&P/TSX	PH&N Can.Equity	SEI QUARTILE BREAKS			Rating 10
			1ST	MEDIAN	3RD	
3 Month	4.86%	5.10%	5.48%	4.72%	3.93%	2nd Q
2004	37.70%	36.30%	40.58%	37.49%	34.18%	3rd Q
2003	-17.60%	-14.00%	-14.19%	-16.88%	-18.28%	1st Q
2002	4.87%	10.60%	13.28%	8.31%	4.96%	2nd Q
2001	-18.60%	3.78%	7.49%	-3.19%	-15.59%	2nd Q
4 YEAR	-0.79%	7.70%	9.32%	5.33%	1.72%	2nd Q
STD DEV	26.40%	20.85%		0		2
Fixed Income Results						
31-Mar YEAR	SCM Bond Univ.	PH&N Fixed Inc.	SEI QUARTILE BREAKS			Rating 6
			1ST	MEDIAN	3RD	
3 Month	3.14%	3.00%	3.28%	3.12%	2.97%	3rd Q
2004	10.80%	10.70%	11.48%	10.87%	10.50%	3rd Q
2003	9.20%	10.00%	9.64%	9.13%	8.60%	1st Q
2002	5.09%	5.40%	5.60%	5.26%	4.96%	2nd Q
2001	8.70%	9.18%	9.15%	8.75%	8.50%	1st Q
4 YEAR	8.43%	8.80%	8.83%	8.52%	8.28%	2nd Q
STD DEV	2.41%	2.36%		0		1