

Statement of Investment Policies & Procedures

4-H FOUNDATION

Ontario 4-H Foundation



CANADA

4-H Ontario

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Background

The Ontario 4-H Foundation (the “Foundation”) is a registered charitable organization under the provisions of the Canada Not-for-Profit Corporations Act and as such is exempt from income tax. The Foundation was initiated in 1995.

The Foundation is the long-term fundraising body in support of 4-H programs in Ontario. The funds for investment are held in endowment accounts with stipulated annual disbursements or annual regulatory transfers to support 4-H activities in Ontario in accordance with the charitable mandate of the Foundation.

In addition, the Foundation invests funds over the long term on behalf of other organizations such as the Junior Farmer’s Association of Ontario and a number of Local Association and Regional 4-H Associations. These funds invested for others are pooled with the Foundation’s endowment funds for investment purposes.

The mandate of the Foundation is to receive and manage endowment funds, and to foster and encourage ongoing partnerships that will ensure the long-term sustainability of 4-H programs in Ontario. Trustees of the Foundation are committed to sound financial management and active fundraising initiatives to build a sustainable pool of endowment funds for the benefit of 4-H.

The Ontario 4-H Council (the “Council”) develops and delivers programs for 4-H in Ontario. The Foundation and Council work together in partnership to raise funds. The Foundation transfers funds annually to the Council in support of their programs. The Foundation has an established Distribution Policy governing the amount of the annual transfer to Council.

Section 1 – Purpose

- 1.1. The purpose of the Ontario 4-H Foundation Investment Fund (the 'Fund') is to invest capital for the purposes of generating income to fund various programs as identified and endorsed by the Board of Trustees (the 'Board'). The funds to be invested will originate from:
 - 1.1.1 Endowment funds donated to the Foundation for specific grants or purposes (in accordance with the wishes of the donor under a Gift Agreement);
 - 1.1.2 Non-specific uses, funds received from donors relating to capital campaigns;
 - 1.1.3 Short-term excess operating funds which will be invested to optimize short-term returns within the specified parameters; and
 - 1.1.4 Local associations or other entities investing their funds in the Fund for improved returns than available in their local market or for the size of their investment.
- 1.2 The Board, as sponsor and administrator of the Fund, is responsible for ensuring that the Fund is managed in a prudent manner. The primary goal of the Fund is to preserve the capital contained therein, and a secondary goal is to provide reasonable long-term investment rates of return on assets within prudent risk management guidelines.
- 1.3 This statement of investment policies and procedures (the 'Policy') addressed the manner in which the Fund shall be invested to achieve the aforesaid goals. Investments shall be selected in accordance with the criteria and limitations set forth herein.

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Section 2 – Allocation of Responsibilities

- 2.1 The Board is the administrator of the Fund and is responsible for its overall management. As part of the corporate governance framework within which the Foundation operates, the Board has delegated to the Finance Committee (the “Committee”) of the Board certain oversight and monitoring responsibilities relating to the Fund.

Finance Committee

- 2.2 Pursuant to the allocation of responsibilities, the mandate of the Finance Committee as it relates to the administration and monitoring of investments includes:
- 2.2.1 The review and approval of the Statement of Investment Policies and Procedures and the retainer of agents acting as portfolio managers (“Managers”), auditors, trustees and custodians in respect of the Fund;
 - 2.2.2 Monitoring compliance and reviewing performance of the Fund;
 - 2.2.3 The review and approval of all Fund transfers and withdrawals; and
 - 2.2.4 Receiving the necessary reports and information to oversee the performance of its delegates and reporting to the Board at each meeting of the Board, at least annually.

Investment Manager

- 2.3 The Investment Manager will:
- 2.3.1 Invest the assets of the Funds in accordance with this Policy and provide quarterly reports certifying the Funds are in compliance with the mandate or listing any exceptions;
 - 2.3.2 Notify the Committee in writing of any significant changes in the investment manager’s philosophies and policies, personnel or organization and procedures; and
 - 2.3.3 Meet with the Committee and Board as required, but at least annually, and provide quarterly written reports regarding their past performance, future strategies and other issues as requested.

Standards of Professional Conduct

- 2.4 The Manager is expected, at a minimum, to comply, at all times and in all respects, with the Code of Ethics and Standards of Professional Conduct as promulgated by the CFA Institute.
- 2.5 The 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. The Investment Manager will also use all relevant knowledge and skill that it possesses or ought to possess as a prudent investment manager.

Section 3 - Investment Considerations

- 3.1 In developing the Policy, the Board has considered factors such as the following:
- the net cash flow and financial position of the Foundation;
 - the investment horizon of the Fund;
 - historical and expected capital market returns;
 - the benefits of investment diversification; and
 - risk tolerances, as dictated by the goals of capital preservation and required stability of income yield on invested funds

Liquidity

- 3.2 Liquidity is the ability to maintain sufficient cash, or generate sufficient cash, through interest and dividends earned, the maturity of fixed income investments or sale of investments within the Fund in a time efficient manner. Given the Foundation's periodic income and capital requirements, the Fund should generally be invested in securities with sufficient market liquidity.
- 3.3 The Board will monitor the difference between income and net disbursements on an ongoing basis.

Investment Objectives, Time Horizon and Return Expectations

- 3.4 The Fund assets will be managed on a going-concern basis, with the objective of providing reasonable rates of return, consistent with available market opportunities, a quality standard of investment and moderate levels of risk.
- 3.5 The Foundation is intended to operate in perpetuity and the investment time horizon will be sufficiently long (>10 years) to account for this.
- 3.6 The disbursement objective of the Fund is to distribute 3.5% of the rolling 2-year average value of the endowed portion of the Fund, thereby implying a target rate of return of 3.5% after inflation and fees per annum over a complete economic cycle in order to maintain the real value of capital in the Fund. This is consistent with the overall investment risk level that the Fund wishes to assume, reflective of the current low levels of interest rates, and may be re-assessed from time to time. To achieve this goal while controlling investment risk, the Fund has adopted a balanced asset mix.

Measurement

- 3.7 Measure against performance objectives will normally be assessed over rolling four-year periods.
- 3.8 The primary benchmark of the Foundation is to earn an annual rate of return after inflation and fees of 3.5%. For example:

Revenue Benchmark

Distribution Minimum	3.5%
Core Consumer Price Index ¹	2.0%
Net Investment Manager Fees	0.55%

- 3.9 The **secondary** benchmark of the Foundation is to earn a gross rate of return (i.e. before all fees) that exceeds the total return from dividends, interest and capital gains derived from a weighted average of the Neutral asset mix weightings and the following component benchmarks over moving four-year periods:

Market Benchmark

Canadian Equity:	S&P/TSX Composite	25%
US Equity:	S&P 500 (C\$)	15%
International Equity:	MSCI EAFE Net Total Return USD Index	10%
Fixed Income:	FTSE Canada Universe Bond Total Return Index	45%
Cash & Equivalents:	FTSE 91 Day Treasury Bill Total Return	5%

¹ Core CPI is defined as the consumer price index (CPI) excluding energy and food prices. This method of measurement has become widely used because food and energy prices can be very volatile, and this wide amount of movement would unfairly bias the measure of inflation.

Section 4 – Risk and Asset Mix

Risk

- 4.1 Although equities have produced the best long-term returns, they have also produced the highest degree of volatility. That said, the Foundation has a moderate to high tolerance for risk given the perpetual nature of the Fund. It is agreed the maximum exposure to common equities will be 60% of the Fund.

Asset Mix Policy

- 4.2 The Manager is given discretion to establish the asset mix at levels deemed appropriate relative to the above return objective. The Manager may determine how the mix is distributed among these asset classes according to the following guidelines:

- 4.3 Investment Parameters:

<i>Asset Class</i>	<i>Minimum</i>	<i>Neutral</i>	<i>Maximum</i>
<i>Total Equities</i>	40%	50%	60%
<i>Canadian Equities</i>	20%	25%	30%
<i>Global Equities</i>	20%	25%	30%
<i>Fixed Income</i>	35%	45%	55%
<i>Investment Grade Bonds</i>	30%	40%	55%
<i>High Yield and Senior Loans*</i>	0%	5%	10%
<i>Cash</i>	0%	5%	20%

* subject to quality and quantity restrictions identified in Sections 4.7, 4.8, 4.15, 4.16, 4.17

- 4.3 No individual equity asset class, being Canadian, U.S. or International shall represent more than 30% of the total portfolio at any given time and the aggregate equity holdings must comply with the above table.
- 4.4 When the Committee becomes aware of a near-term need for capital from the Fund and they notify the Manager of this need, the capital related to this need may not necessarily comply with the above asset class parameters in order to supply the necessary near-term liquidity.

List of Permitted Investments by Asset Class

4.5 Canadian equities: (actively traded on North American recognized stock exchanges):

- Common and preferred stocks;
- Rights and warrants;
- Limited Partnership Units;
- REITs; and
- Mutual funds, ETFs and investment pools.

4.6 Foreign equities (including U.S. and international): (actively traded on major international stock exchanges):

- Common and preferred stocks;
- Rights and warrants;
- American Depository Receipts and Global Depository Receipts;
- REIT's; and
- Mutual funds, ETFs and investment pools

4.7 Fixed income instruments:

- Bonds;
- Debentures (convertible and non-convertible);
- Senior Loans; and
- Asset-backed securities (including mortgage backed assets).

4.8 Cash and Equivalents:

- Cash;
- Demand or term deposits;
- Short-term notes;
- Treasury bills;
- Bankers acceptances;
- Commercial paper; and
- Investment certificates issued by banks, insurance companies and trust companies.

- 4.9 **Pooled funds, closed-end investment companies and other structured vehicles** in any or all the above permitted investment categories are allowed. The Manager may hold any part of the portfolio in one or more pooled or co-mingled funds managed by the Manager, provided that such pooled funds are expected to be operated within constraints similar to those described in this Policy. Such funds are managed in accordance with the Manager's policy or the mutual fund prospectus, and not according to individual client needs or policies. It is recognized by the Committee that complete adherence to this Policy may not be entirely possible; however, the Manager is expected to advise the Committee in the event that the pooled fund exhibits, or may exhibit, any departure from this Policy.
- 4.10 **Derivative instruments** may be used for interest rate and foreign currency hedging purposes in pooled funds to facilitate the management of risk or to facilitate an economical substitution for a direct investment. Under no circumstances will derivatives be used for speculative purposes or to create leveraging of the portfolio.
- 4.11 **In-Kind Security Donations** : When the Foundation receives donations of securities-in-kind they will transfer such securities to a trading account managed by the Manager as expeditiously as possible and the Manager will sell such securities at market as soon as they are made aware of the securities and are able to transact.

Prohibited Transactions

- 4.12 The Fund will not engage in the following unless permitted in writing by the Committee:
- Purchase of securities on margin;
 - Loans to individuals or related parties;
 - Short sales;
 - Direct investments in real estate, venture capital, and/or resource properties; and
 - Investment in companies involved in the production or manufacturing of tobacco, alcohol or recreational cannabis.
- 4.13 **Borrowing** : The Funds will not be used to guarantee any borrowing except in the case of unanticipated overdrafts when cash is not sufficient to settle a purchase expected to occur.
- 4.14 **Securities Lending**: Should pooled funds be used, securities lending will be permitted through the Manager/Custodian of the Fund, subject to applicable legislation and provided that a minimum liquid, high quality collateral coverage of at least 102% of the current market value of the loaned securities is maintained at all times. Securities lending (if any) must always be in compliance with National Instrument 81-102.

4.15 Minimum Quality Requirements:

4.15.1 The minimum quality standard for individual Investment Grade bonds and debentures is 'BBB' or equivalent as rated by at least one Recognized Bond Rating Agency, at the time of purchase.

4.15.2 To the extent that a component of the bond portfolio is invested in High Yield and/or Senior Loan strategies, then the minimum average credit rating of this component shall be "B".

4.15.3 The minimum quality standard for individual short-term investments is 'R-1' or equivalent as rated by at least one Recognized Bond Rating Agency, at the time of purchase.

4.15.4 Asset-backed securities must have a 'BBB' rating from at least one Recognized Bond Rating Agency, at the time of purchase.

4.15.5 If a rating change causes the minimum quality constraint to be breached, the Manager will prudently return the portfolio to compliance (normally within 3 months). In the case of split ratings, the more conservative rating will be used.

4.16 Mortgage backed securities are allowed, provided that the mortgages are CMHC insured.



4.17 **Ratings Agencies:** For the purposes of this Policy, the following rating agencies shall be considered to be 'Recognized Bond Rating Agencies':

- Dominion Bond Rating Agency;
- Standard and Poor's;
- Fitch Ratings (foreign issuers only); and
- Moody's Investors Services.

4.17.1 Where one Recognized Bond Rating Agency differs significantly, either on 'investment grade' status (above or below BBB-) or a difference in rating of 3 grades or more, from the other Recognized Bond Rating Agencies, the Investment Manager will disclose the difference and justify the rating they are using in the quarterly compliance report.

4.18 **Maximum Quantity Restrictions:**

4.18.1 Exposure to any single corporate entity shall represent no more than 10% of the market value of the total portfolio;

4.18.2 Except for Canadian federal and provincial bonds (including government guaranteed bonds), no more than 10% of an Investment Manager's bond portfolio may be invested in the bonds of a single issuer and its related companies;

4.18.3 Except for Canadian federal and provincial bonds, no one bond holding shall represent more than 10% of the total outstanding market value of a bond issue;

4.18.4 Asset backed, and commercial mortgage backed securities shall represent no more than 10% of the total market value of the bond portfolio;

4.18.5 Securities with a credit rating less than "A" shall represent no more than 20% of the total market value of the Investment Grade bond portfolio;

4.18.6 Corporate bonds shall represent no more than 70% of the total market value of the bond portfolio;

4.18.7 No more than 10% of the total portfolio shall comprise High Yield and/or Loan strategies, and any such allocation must comprise at least 30 issuers; and

4.18.8 In the event of one or more ratings differing from the others, the majority rating will prevail. If there are only two ratings available, the most conservative rating will prevail.

Section 5 - Conflict of Interest Guidelines, Disclosure Requirements and Related Party Transactions Policy

5.1 **Individuals or other Bodies governed by the Guidelines:**

These conflict of interest guidelines apply to:

- 5.1.1 Any individual involved in the administration or decision-making process relating to the investments of the Fund; and
- 5.1.2 Any employee retained by those listed in section 2 to provide services to the Fund.

5.2 **Conflict of Interest:**

- 5.2.1 Any persons listed above shall not knowingly permit their interests to conflict with their duties and powers in respect of the Fund. Any such person shall disclose any direct or indirect material association or material interest or involvement in aspects related to his role with regards to the Fund investments that could result in any potential or actual conflict of interest. Activities, which are within the ordinary course of business, of the individuals governed by the guidelines shall not constitute a conflict of interest.
- 5.2.2 Without limiting the generality of the foregoing, a conflict of interest arises when one of the individuals governed by the guidelines receives a material benefit from any asset held in the Fund, or a material benefit from any actual or proposed transactions of any securities that are or will be included in the investments of the Fund.

5.3 **Confidentiality:**

The Manager will treat all information provided to it by the Foundation as confidential and will not disclose such information to third parties unless the Foundation has provided written permission to the Manager to do so, or unless the Manager is, by law, required or permitted to do so; the Manager is disclosing information needed by its service providers in order to assist the Manager in performing its duties; the Manager discloses the Portfolio's performance results within the Manager's composite performance results, provided that such composite performance results do not identify the Foundation in any way.

Section 6 - Policy Review

6.1 The Board and Committee shall review the Policy at least annually, taking into account whether any developments such as the following have occurred:

- governance changes;
- changing investment beliefs;
- changing risk tolerance;
- changed expectations for the long-term risk/return trade-offs of the capital markets;
- new investment products;
- changes to legislation;
- any significant change in the investment management firm; and
- any practical issues that arise from the application of the Policy.

