



**DIOCESAN SYNOD OF FREDERICTON  
DIOCESAN CONSOLIDATED INVESTMENT FUND  
INVESTMENT POLICY STATEMENT**

**Approved By the Finance Committee**

**December 22, 2010**

# **Diocesan Synod of Fredericton Diocesan Consolidated Investment Fund Investment Policy Statement 2010**

**Approved by The Diocesan Finance Committee December 23, 2010**

## **1. PURPOSE**

This statement is to establish a clear understanding of the investment policies, guidelines, objectives and restrictions for the Diocesan Consolidated Investment Fund, which hereinafter will occasionally be referred to as the DCIF.

This statement will outline an overall philosophy that is specific enough for an investment manager to know what is expected, but sufficiently flexible to allow for changing economic and market conditions. The DCIF will provide realistic risk policies to guide the investment manager toward standards for evaluating investment restrictions to be placed upon the investment manager. The DCIF will also outline the procedures for policy and performance reviews. When the Finance Committee invests property, including trust property, in any kind of property, real, personal or mixed, it shall, subject to any express provision of a will or other instrument creating a trust and to such policies and standards as the Synod adopts, exercise the judgement and care that a person of prudence, discretion and intelligence would exercise as a trustee of the property of others. We expect the manager to observe and respect the tenets of our Christian faith in the selection of securities, specifically avoiding positions in companies that produce alcoholic beverages, tobacco products and armaments.

Lastly, this statement will require review and revision periodically to ensure that it continues to reflect Synod's attitudes, expectations and objectives.

## **2. BACKGROUND**

The Diocesan Consolidated Investment Fund serves to provide participating parishes, as well as endowment funds held by the Diocesan Synod of Fredericton, access to professional investment counsel. The day to day management and administration of the DCIF, is the responsibility of the Finance Committee. An Investment Committee has been appointed to carry out that function in an advisory capacity. The Investment Committee reports directly to the Finance Committee of the Diocese.

Other pertinent information such as custodian, consultant, manager detail can be found in Appendix A.

## **3. INVESTMENT POLICIES AND OBJECTIVES**

The investment funds of the DCIF are maintained to provide total return through appreciation, dividends and interest income from the fund's assets. The careful management of the assets is designed to insure a return necessary at least to preserve and, it is hoped, enhance (in real dollar terms) the principal of the funds, and at the same time support the activities of parishes and the Diocese. The management philosophy of this plan should be disciplined and consistent, taking into consideration all those events and occurrences considered reasonable and probable. Extreme positions and opportunistic styles do not fit the general philosophy and tone of this fund and are not acceptable.

The overall investment direction is to maximize the return consistent with the risks that the DCIF is willing to accept as stated herein. The Investment Committee recognizes that risk (i.e., the potential for variability of asset values), and the potential of loss in purchasing power (due to inflation) are present to some degree with all types of investment vehicles. The investment manager will be given full discretion in managing the funds within this investment policy statement.

Within the investment guidelines and constraints listed herein, the portfolio should be diversified so as to provide reasonable assurance that no single class of investment will have a disproportionate impact on the total portfolio.

#### **4. INVESTMENT PERFORMANCE GUIDELINES**

The goal will be to achieve a 3% average annual real rate of return on the DCIF's assets (or CPI plus 3%). Additionally, the performance will be measured against a flat 6% annual target. The objective will be measured over an annualized, rolling five and ten-year time frame in order to preserve the principal value of the assets and to appreciate the total value of the portfolio over time, exclusive of growth derived from non investment sources. In carrying out its duties and responsibilities hereunder in general and in relation to the acceptance of risk in particular, the investment manager shall be required exercise such competence and skill as may be expected of a careful, diligent investment manager in similar circumstances."

#### **5. ASSET ALLOCATION**

Asset mix is the primary determinant of the DCIF's portfolio performance. Asset mix may be changed from time to time, strategically or tactically, based on the economic and securities markets outlook, as well as income requirements. The overall risk level of the assets in terms of potential for price fluctuation should not be extreme. To pursue the foregoing objectives at an acceptable risk level, the asset allocation among common stocks, bonds, and cash reserves will be within the following assigned ranges at market values:

Asset Class	Target	Minimum	Maximum
Equities	45%	35%	55%
Fixed Income	55%	45%	65%

Should mutual funds or pooled funds become a part of this portfolio, the allocation of the fund or funds' assets will be reflected in the overall DCIF's portfolio asset allocation, and not as a separate "mutual fund" category. The benchmark index for the balanced account would be 45% Barra MSCI wORLD/55% DEX Universe Bond Total Return Index. For the portion where pooled or mutual funds are being used, the investment policy of the pooled fund supercedes this document.

#### **FIXED INCOME:**

Fixed income investments should provide a highly predictable and dependable source of income, reduce volatility of the market value of the total portfolio, and provide funds for other investments. The investments will be limited to government securities, government agencies, corporate bonds deemed by the manager to be appropriate. The credit rating of all fixed income investments must be at least BBB by Standard and Poor's or Baa2 by Moodys. An average rating of AA should be maintained.

## EQUITIES:

Equity investments should primarily provide appreciation of principal as well as current dividend income and growth of income, with the recognition that this requires the assumption of greater market volatility and risk. Industry and company investments will be based upon demonstrable analysis of prospects for above average return over a three-year period.

Investments shall be primarily in well-seasoned quality companies whose securities enjoy marketability adequate for the portfolio.

Investments will be chosen from internationally recognized exchanges. No privately held stocks nor letter stock shall be included .

## ALTERNATIVE INVESTMENTS:

Generally, the world of alternatives includes private equity, hedge funds, managed futures, and real estate. Alternatives are not to be included in the portfolio.

## CASH:

Cash equivalent short-term investments may also provide current income, but their main purpose is to store purchasing power when appropriate to fund long-term investments.

Cash reserves should be invested in interest-bearing securities, free of risk or loss, fluctuation, and should be instantly saleable.

## **6. CREDIT QUALITY AND RISK**

All assets must have readily ascertainable market value.

Preferred stocks must be rated a minimum of A3 by Moody's Investor's Service, Inc. or A- by Standard & Poor's Corporation or Pfd-3 by Dominion Bond Rating Service at the time of purchase.

Convertible securities can be appropriate when they appear to offer a better risk/return ratio than other equity securities. The same policies and standards of investment quality apply to both common stocks and convertible stocks.

## **7. INVESTMENT RESTRICTIONS**

In addition to the aforementioned statement concerning the expectations of the Diocese of respect for our Christian values in the selection of securities, investment restrictions include the following and will be strictly adhered to unless waived by the Diocesan Finance Committee or its appointees.

The restrictions are as follows:

- Commercial paper must be rated in the two highest quality classes by Moody's Investor's Services, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Not more than 5% of the voting securities of a corporation may be owned.
- No securities may be purchased on margin or leverage.
- No short sale transactions, other than covered call writing, will be made.
- Transactions in financial futures are prohibited.
- No more than 25% of the portfolio shall be invested in any one industry at market value.
- No more than 5% of the portfolio will be invested in the securities (including debt and

equities) of one corporation at market value.

- No privately held securities shall be included in the portfolio. An exception may be made where the deems it advisable to invest in "maple bonds"
- Investment in structured notes is prohibited.
- No unlisted investments in real estate shall be made.
- Option trading is prohibited except for covered calls or put hedges on a one- to-one ratio.
- Commodity trading including all futures contracts is prohibited.

## **8. SELECTION OF INVESTMENT MANAGERS**

The Finance Committee acting on behalf of the Diocesan Synod of Fredericton, upon recommendation from the Investment Committee, and with the assistance of a consultant, will select appropriate investment managers to manage plan assets. Managers must meet the following minimum criteria:

1. Be a bank, or an insurance company or investment management company.
2. Provide historical quarterly performance numbers calculated on a time weighted basis, based on a composite of all fully discretionary accounts of similar investment style.

Furthermore, performance data shall:

- a) Be of sufficient duration to include a variety of economic and capital market environments. For equity and fixed income managers, sufficient duration will be defined as five years of verifiable quantitative performance data reported by an objective and competent third party. The board retains the option to waive the minimum performance history requirements in certain cases where other attributes warrant further consideration of a specific manager.
  - b) Demonstrate a long-term record of performance superiority within the top quartile of institutional managers in their area of specialty.
  - c) Demonstrate a long-term record of performance superiority over applicable general market indices.
3. Provide performance evaluation reports prepared by an objective third party that illustrate the Risk/Return profile of the Manager relative to other managers of like investment styles.
  4. Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel. This information can be a copy of a recent Request for Proposal (RFP) completed by the Manager.
  5. Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
  6. Selected firms shall have no outstanding legal judgments or past judgments that may reflect negatively on the firm and should be confirmed so in the appendix of periodic statements.

## **9. CONTROL PROCEDURES**

The duties and responsibilities of the Manager retained by the DCIF include:

1. Managing the Plan assets under its care, custody, and/or control in accordance with the IPS objectives and guidelines set forth herein, and also expressed in separate written agreements when deviation is deemed prudent and desirable by the Investment committee.
2. Exercising investment discretion (including holding cash equivalents as an alternative) within the IPS objectives and guidelines set forth herein.

3. Promptly informing the Investment committee in writing regarding all significant and/or material matters and changes pertaining to the investment of Plan assets, including, but not limited to:
  - a. Investment strategy
  - b. Portfolio structure
  - c. Tactical approaches
  - d. Ownership
  - e. Organizational structure
  - f. Financial condition
  - g. Professional staff
  - h. Recommendations for guideline changes
  - i. All legal, material, IDA, and other regulatory agency proceedings affecting the firm.
4. Promptly voting all proxies received from the custodian and related actions in a manner consistent with the long-term interests and objectives of the Plan set forth herein. The Manager shall keep detailed records of said voting of proxies and related actions.
5. Utilize the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like Irrevocable Trusts with like aims in accordance and compliance with New Brunswick Pension Benefits Act and all applicable laws, rules, and regulations from local, provincial, federal, and international political entities as they pertain to fiduciary duties and responsibilities.
6. Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the IPS set forth herein, and as modified in the future.

#### **10. Monitoring of Investment Managers**

Quarterly performance will be evaluated to test progress toward the attainment of longer-term targets. It is understood that there are likely to be short-term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on peer-performance comparisons with managers employing similar styles.

On a timely basis, but not less than twice a year, the Investment committee will meet to review:

1. Manager's adherence to the IPS guidelines.
2. Material changes in the manager's organization, investment philosophy, and/or personnel
3. Comparison of the manager's results to appropriate indices and peer groups.

The risk associated with the manager's portfolio, as measured by the variability of quarterly returns (standard deviation), should not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group.

In addition to the information covered during the quarterly reviews, the Investment Committee will meet at least annually to review:

1. The manager's performance relative to managers of like investment style or strategy (peer group). The Manager is expected to perform in the top half of the manager's respective style universe.
2. The DCIF's investment performance results compared to the manager's overall composite performance figures to determine unaccounted for dispersion between the manager's reported results and the Plan's actual results.

The Investment Committee is aware that the ongoing review and analysis of investment managers is just as important as the due diligence implemented during the

manager selection process. Accordingly, a thorough review and analysis of the Manager will be conducted if:

1. The Manager performs in the bottom quartile of his or her peer group over a quarterly or annual period.
2. The Manager falls in the southeast quadrant of the Risk/Return scattergram for three- and/or five-year time periods.
3. The Manager has a five-year risk-adjusted return fall below that of the median manager within the appropriate peer group.

Furthermore, performance that may require the replacement of the Manager includes:

1. The Manager consistently performs below the 50% percentile of his or her peer group over rolling three-year periods.
2. The Manager consistently performs below the 50% percentile of his or her peer group over a five-year period.
3. The Manager produces a negative alpha for three- and/or five-year periods.

Major organizational changes also warrant immediate review of the Manager, including:

1. Change in professionals.
2. Significant account losses.
3. Significant growth of new business.
4. Change in ownership.

## **11. INCOME DISTRIBUTION POLICY**

One of the primary purposes of the DCIF is to provide a reliable income stream to the Diocese and to the various participating parishes.

To that end, the Finance Committee, on recommendation from its Investment Committee, establishes annually, a rate of interest that will apply to funds on deposit in the DCIF. In establishing this rate the Committee takes into consideration a desire for a full distribution of all interest and dividend income received in the portfolio, net of management and custodial fees.

The established interest rate is applied to the balance of each individual parish and diocesan account or fund. Interest is calculated monthly and paid out to the various participants semi-annually in June and December.

Any excess of interest and dividend income over fees paid amounts distributed, is held in a Retained Earnings Fund for future distribution. Similarly, any deficit of distributions and fees paid, over and above interest and dividend income received, is charged against the Retained Earnings Fund.

Net income from capital gains on trading of securities is transferred annually to the Retained Earnings Fund.

## **12. CAPITAL GAINS DISTRIBUTION POLICY**

All realized capital gains derived from the trading of securities are retained in the DCIF and accounted for in the Retained Earnings Fund. In an effort to provide a growth component to their investments, a portion of the realized gains is distributed among the participants.

To that end a capital bonus addition is declared annually, at a rate set annually, by the Finance Committee, on recommendation from its Investment Committee. In setting that rate the Committee considers the amount of gains realized in the current fiscal year, the general rate of inflation, and the amount, if any that is to be held for future distribution. The established percentage rate is then applied to the average balance of each individual parish and diocesan fund and added to the capital of each fund at the end of the fiscal year.

## **13. APPENDIX A**

The Custodian is Scotia Private Client / Scotia Trust.

**14. APPENDIX B:**  
DEFINITIONS

CPI: Consumer Price Index: a standard measurement of national and regional inflation rates, as compiled by Statistics Canada.

DCIF: The Diocesan Consolidated Investment Fund, containing both parish and diocesan assets as established in Canon Five 1(1)f.

Diocese: The Diocese of Fredericton as constituted by Letters Patent issued by Her late Majesty, Queen Victoria, dated April 25, 1845; the collective of Anglican parishes situated within the coterminous boundary of the Province of New Brunswick.

Finance Committee: The standing committee of the Diocesan Council as established under the Anglican Church Act, 2003, mandated in Canon Four and delegated authority and responsibilities as described in Canon FIVE.

Consultant: Any company, firm, or professional group providing management analysis and selection and measurement criteria.

Covered Calls: A strategy to enhance income by holding shares while selling options to buy the same asset.

Custodian: Any company or firm providing safekeeping and accounting services for the Diocesan investment portfolio.

DEX Bond Index: Formerly known as Scotia Bond Index.

Financial futures: A futures contract on short term interest rates.

Hedge Fund: Generally, an unregulated fund employing leverage, long and short derivative strategies for sophisticated investors.

Investment Committee: The sub-committee of the Finance Committee (to which it reports directly) and assigned to the tasks of providing advice on, and oversight of, Diocesan investments and investment practices.

Leverage: The degree to which an investor is utilizing borrowed money to buy securities or options

Long Term: A minimum of three years, generally over 5 years.

Manager: A company, firm, group or individual providing professional portfolio management.

Managed futures: An account in which positions in government securities, futures contracts and options on futures contracts are used to manage the portfolio

Margin: The practice of using assets for borrowing from an intermediary (broker) to buy securities or options.

MSCI Barra: Morgan Stanley Capital International. Barra is an analytical indexing firm.

MSCI EAFE: Morgan Stanley Capital International Europe Australasia Far East.

Put Hedges: Holding shares while buying Put options in the same security.

Short Sale: Borrowing shares and selling them with the expectation of share price decline and repurchase and subsequent return to the owner.

Structured notes: Debt instruments with embedded derivatives. Varied as to structure and risk.