

THE DIOCESAN CONSOLIDATED INVESTMENT FUND (DCIF)

AN INVESTMENT OPPORTUNITY FOR PARISHES

The Diocese of Fredericton maintains and oversees a pooled investment fund which is available to the parishes as an investment vehicle.

The fund consists of bond and equity holdings in both the Canadian and American markets and is strategically balanced to provide the appropriate mix of income and capital growth.

Parishes with funds available for investment are encouraged to participate in this pooled fund in order to provide current income and capital growth, the combination of which is not always available through the local institutions, especially if the amounts involved are smaller.

Details on the fund follow:

INVESTMENT MANAGEMENT:

In any large portfolio there are day to day investment decisions to be made. Those decisions are based on complex and volatile investment markets and conditions. While the Finance Committee (through its Investment Sub-committee) has the Canonical responsibility for investments, the actual fund management is contracted to qualified professionals.

The Diocesan Pooled Investment Fund is managed by the management firm of Letko Brousseau and Associates. It is their responsibility to balance our income requirements, our investment restrictions and the requirements stated in our Diocesan Investment Policy Statement , with a view to ensuring that our Fund produces required income and capital growth.

The Diocesan Investment Policy Statement is available on the Finance Committee page of the Diocesan website.

The Diocese has engaged Scotia Trust of Saint John, to provide custodial services for the portfolio. It is their responsibility to ensure all investment transactions are properly recorded and that income is collected when due. It is also their responsibility to produce statements of account which are incorporated into our Diocesan Financial Statements.

By participating in the DCIF pooled fund, parish authorities are relieved of the significant workload involved in administering investments.

The fees charged for counselling and custodial services are charged against the income earned by the fund and are not a direct expense to the parish.

RATE OF RETURN:

Acting on recommendations from the Investment Sub-committee, the Finance Committee establishes the rate of return in conjunction with market conditions and input from investment counsel. The rate is set for one year at a time, normally in November, for the subsequent year. In 2011 the rate is set at 3.25%. (see the Appendix for recent history of returns). That rate is guaranteed to the end of June 2011 at which time it will be reviewed to ensure it is appropriate in the current investment market circumstances.

Interest is paid out semi-annually, in June and December by direct deposit to the individual parish bank accounts.

CAPITAL GROWTH:

There is a need to protect investment capital from inflation. In order that our portfolio provides that protection, our investment strategy calls for investments in bonds for security of income and in equities (stocks) for capital growth.

As capital gains are realized on the sale of investments, they are placed in reserve and subsequently used to fund "bonus" year end capital additions for participants. This bonus is over and above the regular rate of return referred to earlier and is added directly to the capital of each parish account. Please refer to the Appendix and related notes in regard to recent history around the year end capital gains additions.

It should be noted that the declaration of bonus capital additions depends entirely upon our ability to generate capital gains in the portfolio. For that reason the bonus is declared at year end, once final results are known. While there have been bonus additions in most years, the bonus cannot be guaranteed.

INTERNAL ADMINISTRATION:

Once a parish decides to participate in the DCIF, the capital to be invested is paid to the Diocese for the credit of the parish. An account or accounts are set up on the books of the Diocese as directed by the parish. These accounts are maintained by the Diocese and reported in the Synod Journal. Annual statements are provided and issued through the parish treasurer.

We do not account for parish investment balances at market value as that fluctuates daily. Instead all funds are accounted for as a total of the original and subsequent added amounts plus any capital bonus additions.

Currently there are 80 participating parishes with a combined total of over 750 individual accounts. The market value of the Fund is in the range of \$22 million.

There is no charge to the parish for participation in the Fund.

LIQUIDITY:

Investments in the Fund are not "locked in" for any specific term, and are available to the owners at any time. Depending upon the amount involved however, there may be a need for a notice period on withdrawals. This is a rare occurrence.

Parishes are urged to keep in mind that by participating in the portfolio, they are in fact purchasing a portion of a large and diverse investment fund. This is quite different from an investment in a GIC or savings account. The Diocese has a long term strategy of strong current yield combined with capital growth. The results have been good and there is no reason to think that cannot continue.

Any questions can be referred to the Investment Committee, through the Diocesan Treasurer.
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(Updated May 2011)

Appendix: Rates of Return

<u>YEAR</u>	<u>REGULAR INTEREST</u>	<u>BONUS ADDITION</u>	<u>TOTAL RETURN</u>
2010	3.25%	1.00	4.25%
2009	3.50%	0	3.50%
2008	4.50%	0	4.50%
2007	4.50%	2.00%	6.50%
2006	4.50%	2.00%	6.50%
2005	4.50%	2.00%	6.50%
2004	4.50%	2.00%	6.50%
2003	4.50%	2.50%	7.00%
2002	5.00%	2.00%	7.00%
2001	5.50%	3.00%	8.00%
2000	5.50%	5.00%	10.50%
1999	5.50%	3.00%	8.00%
1998	5.50%	4.00%	9.50%
1997	6.00%	3.00%	9.00%

NOTES:

Due to serious market downturns from July 2007 through to 2009, the market value of the portfolio decreased. While the DCIF fared better in this regard than many other similar funds, it was realized that the situation would have a long term effect on the ability of the fund to generate capital gains.

In that regard a decision was made in both 2008 and 2009 to suspend the year end bonus additions traditionally funded through realized capital gains, until such time as the markets become more stable and recaptured some of its lost capital value.

While recovery did begin to surface in 2009, the sought after stability remained elusive, thus negatively effecting the ability of the Fund to generate capital gains. However a decision was made to provide a 1% bonus addition to the capital of parish and diocesan account as of December 31, 2010.

Beginning in 2010 the "Regular" interest rate is being set for 6 month increments of time, and reviewed mid-year to ensure it is financially sustainable in the current investment climate.