

**COMMUNITY FOUNDATION OF SOUTHEASTERN ALBERTA
EXTERNAL INVESTMENT MANAGERS (EIM) PROGRAM:
AN OVERVIEW**

Community Foundation of Medicine Hat & Southeastern Alberta (Community Foundation) is always looking for new ways to help donors in achieving their philanthropic goals and to work with professionals in the financial, estate and investment world in mutually beneficial relationships. As a result, the Community Foundation created the External Investment Managers (EIM) Program. Below is a brief overview of the Program.

What is the External Investment Managers Program?

The External Investment Managers Program allows assets gifted to a newly created fund to be invested outside of the Community Foundation's own Investment Fund, in a portfolio managed by the donor's recommended investment firm.

When coupled with a donor advised fund, the Program provides donors with an attractive alternative to a private foundation.

How does the External Investment Managers Program benefit investment firms?

A firm's book of business will not shrink when a client decides to make a substantial charitable gift. A firm may continue to manage the assets in the fund even after the donor's death if the firm's investment performance continues to meet Community Foundation's standards. In other words, the firm could potentially manage the assets indefinitely.

A firm will enhance its relationships with philanthropic clients and their families because it will be involved directly in decisions affecting the success of their philanthropy on an ongoing basis.

A firm will be assured of a key position within a client's estate and financial advisor network leading to increased opportunities for client referrals.

What advantages does the External Investment Managers Program provide for clients?

Clients can continue an existing relationship with a trusted portfolio manager.

Clients can have as little or as much involvement with the grant-making from their funds as they choose, and their level of involvement can change over time. The program allows clients maximum flexibility and adaptability to pursue their philanthropic goals.

Clients have access to grant-making expertise and philanthropic services that are unrivalled in Medicine and Southeastern Alberta.

Clients can consolidate all of their charitable giving through a single fund and achieve as much public recognition or privacy as they choose.

Clients can take advantage of the enhanced tax credit for donations of publicly listed securities and use more complex gift structures tailored to their business and family situations.

Why was the External Investment Managers Program created?

The Community Foundation has been paying attention to new philanthropic and business trends. There are two philanthropic trends at play:

- 1) A new generation of donors is demanding more engagement with their charitable giving. The days of “cheque book philanthropy” are drawing to a close. Donors want more options for and involvement with their giving.
- 2) Government funding reductions for social and other services means that organizations like the Community Foundation is facing increased pressure to step into the breach. There is a need to increase the financial resources to meet this pressure.

The Community Foundation recognizes that large gifts from investment portfolios have a direct impact on the livelihoods of portfolio managers. The Community Foundation is interested in testing ways to remove the business barriers to charitable giving. This means working with the business community to ensure that its needs and concerns are met as much as possible.

Financial institutions in the USA and Canada have begun to pursue business opportunities generated by their clients’ philanthropy. The External Investment Managers Program is one way the Community Foundation is responding to the market place.

How does the External Investment Managers Program work?

A simple fund agreement is used to create the donor’s fund at the Community Foundation. The donor has several types of funds to choose from. The minimum contribution to the fund under this program is \$100,000.

To qualify for a donation receipt under the Income Tax Act (Canada), the donor must transfer ownership and legal control of their asset of choice to the Community Foundation. The definition of a “gift” in the Act must be met to protect both the donor and the Community Foundation. This means that the investment firm’s contractual relationship shifts from the client/donor to the Community Foundation. However, the client/donor may remain as involved as desired with the Community Foundation and is entitled to receive copies of annual fund statements and other publications the Community Foundation.

General Policy Statement

Community Foundation (the “Foundation”) allows donors to establish permanent endowment funds that are invested outside of the Foundation’s Investment Portfolio if certain criteria are met. This investment option is called the External Investment Managers Program (the “Program”).

Minimum Fund Size

The minimum assets required for a fund manager to participate in this program are \$100,000. Assets managed by the portfolio manager will be for endowed funds only. Additional contributions to a Fund may be made at any time.

Ownership of Assets

The assets in any fund established through the Program are owned by the Community Foundation.

Investment Firm Eligibility Criteria

To be eligible to participate in the Program, an Investment Firm (the "Firm") must be approved by the Foundation's Investment Committee.

Eligibility will be determined using the following criteria:

- 1. Licensing with the Alberta Securities Commission.*
- 2. A report setting out the Firm's performance for the previous 5 years, such report demonstrating investment performance that meets the Community Foundation's benchmarks.*
- 3. A portfolio manager assigned to the Fund who:
 - a) is registered with the Alberta Securities Commission,*
 - b) is a member in good standing of an appropriate portfolio manager association, and*
 - c) has been licensed as a portfolio manager actively involved in discretionary investment management of segregated portfolios for a minimum of 3 years.**

Investment Management Fees

The Firm's fee should be comparable to fees charged to manage portfolios of similar size and asset allocation and approved by the Board of the Community Foundation.

Investment Objectives

The mission of the Foundation is founded on the growth and stewardship of endowment funds that support charitable activity throughout Southeastern Alberta. Therefore, a Fund must achieve a total investment return that:

1. achieves the disbursement rate of the Foundation,
2. recovers the cost of managing and administering the Fund,
3. protects the purchasing power of the Fund's capital, and
4. establishes retained earnings for future market declines.

The expected rate of return on the main Foundation portfolio (hereinafter referred to as the "Portfolio") is an investment objective which recognizes the nature of the Fund's requirements, time horizon and risk tolerance. The nature of the Portfolio's requirements may change over time, and accordingly the Portfolio's objectives will be reviewed by the Directors from time to time in view of the Portfolio's level of assets and purpose.

General Information

Minimum annual income needs – 5-6% annually, net of Investment Manager’s fee and exclusive of the Foundation’s administrative fee. Income is defined as interest, dividends, and realized and unrealized capital gains/losses net of capital losses.

Liquidity needs – There is no anticipated large cash withdrawals without more than adequate notice.

Tax rates – The account is non-taxable.

Long-Term Investment Policy

It will be the responsibility of the Investment Committee to recommend from time to time, allocations to each asset class. Once approved by the Board, such allocations shall be implemented by the fund manager. The Investment Committee, will conduct a quarterly review to ensure the Portfolio is properly diversified.

Performance Monitoring

The Firm must provide the Foundation with quarterly performance reports in a format acceptable to the Foundation. Such reports will be provided quarterly to the Foundation’s Investment Committee, which measure the Advisor’s performance against the Foundation’s benchmarks.

Performance Objectives and Asset Allocation

The performance objectives will be reported quarterly to the Community Foundation and are expected as a minimum to meet the return of the benchmark over a moving 4 year period. Individual asset classes will be measured against their respective benchmarks. The benchmark and asset allocation are calculated according to the following:

Asset Class	Target	Policy Range	Index
<u>Fixed Income</u>			
Canadian Fixed Income	40%	30 - 50%	DEX Universe Bond Index
Cash	7%	0 - 40%	DEX 91 Day T Bill
Total Fixed Income	47%		
<u>Equities</u>			
Canadian Equities	30%	15% – 35%	S&P/TSX Composite
US Equities	13%	10% – 30%	S&P 500
Global Equities	10%	10% – 30%	MSCI EAFE Net
Total Equities	53%		

A secondary objective is that the investment manager achieves at least comparable standing over rolling one-year periods based on the main investment portfolio.

Eligible Asset Classes / Constraints

7. No more than 20% of the total market value of the Canadian equity section shall be invested in equity or quasi-equity securities of companies within any one generally recognized industry group. For industry groups with a market weight greater than the 10% in the index, the Canadian equity section may invest up to a level of no more than the index industry group weight plus 10% (i.e. If the index industry group weight = 15%, Canadian equity section limit = 25%).

No more than 10% of the market value of the portfolio may be invested in one issuer across all asset classes with the exception of Government of Canada Bonds, Treasury Bills or pooled funds of the investment manager;

Pooled funds and exchange traded funds (non-leveraged) are permitted investments providing the Pool investment strategies meet these investment practices;

Marketable bonds, notes and debentures will be rated at least BBB or equivalent by a recognized bond rating service and the fixed income portfolio will have an average credit quality of at least A or better with no more than 10% rated on the BBB range of ratings. Investments can temporarily drop below specified credit thresholds without having to sell the investment. Investments can be bought just below approved credit grade to take advantage of a credit upgrade;

Cash or money market securities issued by governments or top quality corporate credits. All money market securities will be rated R1-low or better by a recognized rating services;

Utilization of margins is not permitted

Conflict of Interest

All investment activities must be conducted in accordance with the applicable securities commissions and the AIMR code of ethics.

Establishing a Fund

A Fund Agreement that sets out the terms on which the Foundation will administer the Fund will create a Fund.

Exit Strategy Guidelines and Policy

On an on-going basis, the Investment Committee will review quarterly and long term reports of the EIM investment returns compared to the Community Foundation's main portfolio, policy benchmarks, and minimum ROI required to the Investment Objectives.

Distribution of reports, comparing the EIM funds with the Foundation's CIF, policy benchmarks, and minimum ROI required will be made quarterly to the individual investment managers. Representatives of the Investment Committee will arrange, at least once a year, a face- to-face meeting with each EIM to review the historical investment results compared to the Foundation's benchmarks.

If the EIM ROI is:

Below or unreasonably exceeds the main pool investment returns on a four year moving average

Below or unreasonably exceeds the Foundation's policy benchmark on a four year moving average, and/or

Below or unreasonably exceeds the Foundation's minimum Investment Objectives on a four year moving average

Then, the Investment Committee, on a case-by-case basis, may recommend to the Board that the EIM fund be rolled into the main pool. The Investment Committee has the authority to recommend to the board an earlier end to the relationship, prior to the end of four years, if and when performance is materially lower than the aforementioned benchmarks above.

Termination of relationship

Any relationship between the Foundation and an EIM may be cancelled by either party with 30 days written notice.