

VANCOUVER SCHOOL OF THEOLOGY FOUNDATION (VSTF) INVESTMENT POLICY

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1. INTRODUCTION

The Vancouver School of Theology Foundation's investment policy is rooted in the theological ethos of stewardship of resources and excellence in theological education, research and Christian church leadership.

This policy has been developed to set out the global investment framework for all Funds under the control of Vancouver School of Theology Foundation.

Investment by VSTF in real estate that is to be used as part of an ancillary operation, such as student-faculty housing, may be part of the overall investment strategies of VSTF.

2. PURPOSE

The purpose of this policy is to give guidance on the investment of Funds under the control of VSTF and the general use and allocation of income from these investments.

3. GOVERNANCE

Preservation of the Purchasing Power of Capital over the long-term shall be a major goal.

- a. All investments will be made in accordance with the Code of Ethics and Standards of Practice of the Chartered Financial Analyst Institute (CFA), unless specifically approved by the VSTF Board of Directors.
- b. VSTF's investments shall be administered in accordance with the Prudent Investor Rule, as described in the Standards of Practice Handbook of the Chartered Financial Analyst Institute.
- c. The VSTF Board of Directors are responsible for reviewing and accepting the policies of the individual fund parameters of the Professional Portfolio Manager.
- d. The portfolios held in various Funds shall normally be maintained as 'Balanced – Moderate Risk' investments. Investments are held for two purposes: operating assets and long-term investment. This is monitored on a quarterly basis.
- e. Long Term Investments Fund is maintained to provide long-term funding needs for VST in perpetuity.
- f. Review of VSTF's investment policy and all asset investments will occur on an annual basis.

Allowable Spending Rate of Investment Income

- g. VSTF shall follow a spending policy, consistent with the standards of accreditation (9.2.1.3) of the Association of Theological Schools (i.e. not greater than 5% on the average market value of the funds over the previous 3 years), based on total investment income not just dividends and interest. Total investment income will include:
 - Dividends and interest received during the period;
 - Realized capital gains less losses; and
 - Unrealized capital gains/losses to bring asset valuation to current market.
- h. VSTF aims to transfer to VST in quarterly installments of 4% of the General, MacMillan, **UCC** and Specified Trust funds' capital **based on a 3-year rolling average**. The 4% is in excess of inflation as measured by the Consumer Price Index (CPI) to protect the capital in perpetuity. A specified

amount to cover the annual salary, benefits, some travel etc. of the faculty member named as the Butler chair, is to be transferred in quarterly installments from the Butler Fund. **(rev: Board motion 20180418)**

- i. VSTF aims to reinvest sufficient investment income to maintain the purchasing power of each Fund (i.e. balance in the fund at the end of the period is equal to or greater than the original balanced increased by the rate of general inflation.)

4. CONFLICT OF INTEREST

Individuals Governed by Policies

This policy applies to:

- a. A member of the VSTF Board of Directors;
- b. The Professional Portfolio Manager
- c. Any employee or agent retained by those listed in a. or b. above to provide services related to investments under the Fund.

Conflict of Interest

Any person listed above must disclose any direct or indirect association or material interest or involvement that would result in any actual, potential or perceived conflict of interest with regard to the selection of the investments of the portfolios.

Without limiting the generality of the foregoing, a conflict of interest arises when one of the individuals governed by the Policy:

- Has any material interest in any asset of the Fund;
- Receives a benefit from any assets held in the Fund, or a benefit from any actual or proposed contracts with the issuer of any securities which are, or will be included in the Fund;
- Is a member of a Board of Directors of any company being considered as an investment for one of the portfolios;
- Has significant holdings in the securities issued by companies being considered as an investment for one of the portfolios.

Procedure on Disclosure

Any person listed above shall disclose the nature and extent of their conflict to the Chair of the VSTF Board of Directors in writing, upon the earliest of:

- i) First becoming aware of the conflict or potential conflict;
- ii) At the first meeting in which the matter in issue is disclosed; or
- iii) At the first meeting in which he/she knows or ought to have known that he/she has an interest in the matter discussed.

For the purposes of ii) above, the disclosure must be made orally if knowledge of the conflict arises in the course of a discussion at the meeting. The notification made by the party shall be considered a continuing disclosure on that issue, subject to any further notification, for the purpose of the obligations outlined by this Policy.

If the party disclosing the conflict has the capacity to participate in or to make decisions affecting the selection of the investments of the funds, the party may only continue to participate with respect to the issue in conflict with the approval of the VSTF Board of Directors.

5. ADMINISTRATION & MANAGEMENT

- a. It may be desirable and appropriate to establish individual and separate Funds for specific reasons and or purposes.

- b. Each Fund will be under the control of the VSTF Board of Directors. The investments in each Fund are to be managed by a Professional Portfolio Manager.
- c. The management of the Funds may be placed with one or more Professional Portfolio Managers, at the discretion of the VSTF Board of Directors, to better accomplish particular goals or needs of a specific Fund or to add greater diversification to the overall portfolio.

6. OBJECTIVES

Investment Philosophy

- a. The overall investment philosophy of VSTF is to maximize the long-term real rate of return, subject to an acceptable degree of risk, consistent with the long-term goal of capital preservation and growth.
- b. The Foundation's portfolios will be managed on a discretionary basis using a balanced investment strategy.
- c. To facilitate active management of the portfolios, the Portfolio Manager will employ the principles of diversification and liquidity as deemed consistent with VSTF's investment objectives.
- d. Participation of the Portfolio Manager's Company in the United Nations Principles of Responsible Investing will be posted on the Foundation's website, in addition to the Foundation's Investment Policy.

Portfolio Purpose & Objectives

The primary purpose of the fund is to provide predictable annual financial support to the Vancouver School of Theology. A second purpose of the fund is to provide bursaries, scholarships and endowed professorial support. Finally, the VSTF Board of Directors may also determine to use a portion of the funds to make extraordinary grants to the Vancouver School of Theology.

The prudent investment management of the funds' assets will have a direct impact on the achievement of the fund's purpose.

Accordingly, the primary investment objectives for the portfolio, in order of importance, are:

- Capital - Preserve capital in perpetuity.
- Satisfactory total return will be judged in the context of recognized benchmarks.
- Transfer of funds to VST is set by the VSTF Board of Directors annually in consultation with VST.

7. TRANSACTIONS OVERSIGHT

VSTF's investment portfolios will not engage in the following transactions:

- Purchase of securities on margin.
- Short sales.
- Loans to individuals without the prior consent of the VSTF Board of Directors.

8. BALANCED PORTFOLIO – ASSET MIX

Constraints

	Operating Assets	Long-term Fund
Spending Policy	As needed for the ongoing operation of VSTF.	See section 3 (Allowable Spending Rate of Investment Income)
Time Horizon	Short term (< 1 year)	Long term (>15 years)
Liquidity	Mostly liquid	Very low liquidity requirements
Risk Tolerance*	<ul style="list-style-type: none"> ▪ Very low ▪ 0% tolerance to risk 	<ul style="list-style-type: none"> ▪ High ▪ A maximum of 15% loss tolerance in any one year period
Return Requirement	Commensurate with 91 Day T-Bill	Net return goal is to achieve the rate of inflation plus 4.0% and exceed the benchmark return on a 4-year rolling return basis.

* Investments should be structured and managed to provide for the generation of the targeted rate of investment return while assuming only the minimum, necessary amount of risk. Risk will be measured in terms of the downside risk (or risk of loss) of the investment. As appropriate, investments will maintain minimum levels of diversification in order to reduce overall risk which may include diversification by asset class, industry sector and geography.

Asset Mix

Asset allocation or mix refers to the allocation of funds among the major asset classes, including but not limited to, cash, domestic bonds, and domestic and international equities. Since the asset mix of a fund tends to determine its risk and return characteristics, control of the fund's asset mix is VSTF's principal means of defining the fund's risk and return parameters. Asset classes, allocation targets and permissible ranges are detailed below.

Operating Assets

The portfolio is to be invested in 100% Canadian dollar denominated money market.

Long-term Fund

Due to the long-term nature of these funds and higher risk tolerance, a heavy allocation to equities is warranted.

From approval of this Investment Policy until initiation of Private Infrastructure (est. March 31, 2019)

Ranges:

Asset Class	Minimum	Target	Maximum
Canadian Equities	20%	25%	30%
Foreign Equities	20%	30%	40%
Total Equities	40%	55%	70%
Investment Grade Bonds	25%	35%	45%
Sub Investment Grade Debt	3%	7%	10%
Money Market	0%	3%	5%
Total Fixed Income	28%	45%	60%

Once Private Infrastructure is funded (est. March 31, 2019) onward:

Ranges:

Asset Class	Minimum	Target	Maximum
Canadian Equities	10%	21%	30%
Foreign Equities	20%	30%	40%
Total Equities	35%	51%	65%
Investment Grade Bonds	20%	32%	35%
Sub Investment Grade Debt	3%	7%	10%
Money Market	0%	3%	5%
Total Fixed Income	25%	42%	55%
Private Infrastructure	0%	7%	15%

Performance Evaluation Benchmarks

Primary Benchmark of the **Long-term Fund** will be to meet the cost of inflation plus 4%.

The secondary benchmark of the **Long-term Fund** can be thought of as representing a theoretical passive alternative to active management. The various asset classes and benchmarks are as follows:

Asset Class	Comparable Benchmark Index
Money Market	FTSE 91-day T-Bill index
Investment Grade Bonds	FTSE TMX Universe Bond index
Sub Investment Grade Debt	BAML BB/B index
Private Infrastructure	CPI + 5%
Canadian Equities	S&P/TSX index
U.S. Equities	S&P 500 (C\$)
International Equities	MSCI EAFE (C\$)

A portfolio benchmark return can be calculated using the neutral weighting of the above noted indices and should be included with the Investment Manager's quarterly reporting. This equation will be used as a basis for comparison to the total return of the entire portfolio. Portfolio return should be calculated on a Time Weighted basis and should include realized and unrealized gains as well as income from all sources. Measurement against performance objectives will normally be assessed over four-year rolling periods.

Security Guidelines

General guidelines for each asset class are as follows:

1. Money market investments

Investments may include Government, Agency obligations, Corporate issues, Commercial paper, Bankers acceptances, GICs, Cash and other such instruments as deemed prudent by the investment manager. The minimum credit quality per issue shall be R1L as rated by a respected agency and maturities to be less than one year.

2. Investment Grade Bonds

- i) Investments may include Government, Agency obligations and Corporate issues. The minimum quality rating per issue shall be BBB (limited to 20% of asset class) as rated by a respected bond rating agency* with an overall bond portfolio rating of A. Should a rating downgrade occur that takes the rating of any bond held below investment grade, the manager is not required to sell this bond but cannot purchase more while the bond is rated non-investment grade;
- ii) The number of individual Government of Canada and Provincial bond holdings will not be subject to any limitations. Other bonds or debentures of a single issuer shall not exceed 10% of the total bond portfolio at the time of purchase;
- iii) Corporate issues are not to exceed 70% of the bond portfolio.

*Recognized Fixed Income Rating Agencies:

- a) Dominion Bond Rating Agency;
- b) Standard and Poor's;
- c) Fitch (foreign issuers only) and
- d) Moody's Investor Services.

3. Sub Investment Grade Debt

- i) The Fund may invest in securities issued by both Canadian and international corporations and government bonds, including (but not limited to) fixed coupon bonds, step-up bonds, sinking funds and amortizing bonds, callable and puttable bonds, preferred shares, convertible bonds and bonds with other equity features attached, senior loans and other similar securities.
- ii) Minimum average credit rating (market value weighted) "B"
- iii) Debt quality ratings refer to average of Dominion Bond Rating Service (DBRS), Moody's, Standard & Poors, Fitch, or equivalent, unless explicitly rated otherwise by the manager. If a **rating change** causes the minimum average credit rating parameters to be violated, **the Manager will normally return the portfolio to compliance within 3 months. In the case of split ratings, the more conservative** rating will be used.

4. Canadian Equities

- i) Investment in the shares of any single company should not exceed 10% of the total equity value of this asset class or pool;
- ii) The number of individual equity holdings is a minimum of 20;

iii) Equity securities to be listed on the Toronto Stock Exchange.

4. US Equities

- i) Investment in the shares of any single company should not exceed 10% of the total equity value of this asset class or pool;
- ii) The number of individual equity holdings is a minimum of 20;
- iii) Investment in American Depository Receipts (ADRs) are permitted up to a maximum of 10% of the total asset class or pool;
- iv) Equity securities should be listed on a major stock exchange.

5. International Equities

- i) Investment in the shares of any single company should not exceed 10% of the total equity value of this asset class or pool;
- ii) The number of individual equity holdings is a minimum of 40;
- iii) Investment in emerging markets is permitted up to a maximum of 15% of the total asset class or pool;
- iv) Equity securities should be listed on a major stock exchange.

5. High Yield (Board motion 20181204) -

The strategy is to invest in predominantly below investment grade securities issued by both Canadian and foreign corporations and governments, including but not limited to fixed income coupon bonds, amortizing bonds, preferred shares, convertible bonds, (senior) loans, floating rate notes and other similar securities. All currency hedged to Canadian dollars.

6. Private Infrastructure (Board motion 20181204) -

Investment in private assets include non-publicly traded real estate and infrastructure assets. The fund may invest in either or both, but any such investment must be well diversified by geography and industry.

7. MONITORING

Investment Reports

The Professional Portfolio Manager shall provide a quarterly investment report to the VSTF Board of Directors containing the following information:

- Portfolio holdings at the end of the quarter.
- Portfolio transactions during the quarter.
- Rates of return for the portfolio with comparisons to relevant indexes or benchmarks.
- Commentary on investment returns.
- Market outlook and strategy.
- Commentary regarding any material changes with the Professional Portfolio Manager.

8. POLICY REVIEW

Annual Review

The Professional Portfolio Manager will meet with the VSTF Board of Directors, usually convened after year-end. The purposes of this meeting are to:

- Review the investment policy and strategy.
- Review the rates of return achieved by the portfolios and their benchmarks.
- Review capital market performance and expectations of future returns.
- Provide any information concerning new developments affecting the Professional Portfolio Manager or its services
- Comment on the continued appropriateness of the current policy and strategy.

Compliance

The Professional Portfolio Manager shall provide an annual confirmation of compliance with the requirements set out in this policy.

Periodic Review

The VSTF Board of Directors will review the performance of the Professional Portfolio Manager relative to their peers at least every 5 years.

**VANCOUVER SCHOOL OF THEOLOGY FOUNDATION
Specific Investment Policy**

PURPOSE

This policy is to give guidance on the following Funds:

1. H.R. MacMillan Trust Fund

This is an external Trust established by a Trust Deed in 1965. It is governed by these investment policies, if not otherwise specified in the Trust Deed.

2. Specified Trust Fund

This is an internal Fund established to invest Funds received by VSTF from time to time for various purposes or otherwise set aside by the VSTF Board of Directors for long-term investment. This portfolio will be governed by these policies.

3. General Fund

One or more Funds may be established over time from the net proceeds of property development activities including sale of leasehold interests held by VSTF. Separate Funds may be established to allow greater flexibility in investment strategies for individual Funds and to provide, in some cases, for a payout strategy more appropriate to the School's short-term operating and capital asset requirements.

4. Butler Endowment

This is an endowed fund to support the salary, benefits, support and research of the professor fulfilling the responsibilities of the chair of Homiletics and Bible Interpretation. While the aim is to preserve the fund capital, the annual fund transfer to VST on quarterly basis will be established by VST according to the terms of the appointment.

5. United Church Fund

This fund exists to provide support for a robust United Church of Canada presence in the faculty and programming of VST. Any encroachment on the capital (\$500,000) or use of the income for another purpose requires the permission of the BC Conference of the UCC.