INVESTMENT POLICY AND OBJECTIVES

LUTHERAN CHURCH - CANADA FINANCIAL MINISTRIES
(operating as Lutheran Foundation Canada)
Board Approved August 23, 2018

Investment Philosophy

Since the Foundation expects to operate in perpetuity, wise stewardship of the assets entrusted to it is essential to the Foundation's mission. To insure accountability to members, donors, beneficiaries, and the Synod, the Board of Directors has adopted the following investment policies.

The *mission* of the Foundation's asset management policy is to support the distributions of the Foundation and in part its current operations through a flow of interest and dividend income. The support of future distributions and operations will be a combination of the flow of interest income, growing dividends, and realized capital gains.

The Foundation invests in a manner that provides reasonable safety and preserves the current purchasing power of the Foundation's investment funds, while achieving rates of return attainable by a knowledgeable and prudent investor through income, dividends and capital growth.

Investment Oversight

There are three (3) levels of oversight with respect the Foundation's investments, those being:

a) **The Finance Committee** – responsible for general oversight of the Foundation's investments and its financial operations, including recommendations to the Board on the selection of Investment Consultants and Managers.

b) **The Investment Consultant** – responsible for assisting in the selection of Investment Managers through whom to invest, recommending specific funds in which to invest, and for consolidating investment statements provided by the various Investment Managers into useful reports for the Foundation's Board.

c) **The Investment Managers** – responsible for ensuring the various pooled funds for which they are responsible, either meet or exceed the respective benchmark indices for that fund.

Finance Committee

1. **Authority:** The Finance Committee is a committee of the Board, operating under its general guidance and authority to <u>oversee</u> the Foundation's investments and operational budgets.

2. **Membership:** Members of the Finance Committee will be chosen for their business and financial management experience and expertise, as well as knowledge of the annual disbursement requirements of a Foundation. The Treasurer of the Foundation will serve as the Chair of the Finance Committee, with other members being appointed by the Board as needed.

3. **Committee Role**: Specifically, the Finance Committee shall:

a) Review the Foundation's assets, status of its investment accounts, and monitor the Foundation's financial performance in relation to established goals and budgets.
b) Use competitive processes where appropriate, to approve the selection of investment institutions, managers, consultants and custodians.
c) With advice and council from professional advisors, determine asset classifications and risk assumptions for each investment manager, and specify any financial and moral objectives or restrictions.
d) Monitor performance in comparison to investment objectives, industry benchmarks, and compliance with morally responsible guidelines, through periodic written reports and meetings with investment managers.
e) Recommend to the Board for approval the services of one or more investment managers who possess the necessary specialized research facilities and skills to meet the investment objectives of the asset categories of the Foundation. The Foundation requires that selected investment managers be duly registered with the appropriate securities regulators.
f) With approval of the Board, contract and engage administrative services for the monitoring and the reporting on the status of all the Foundation's investments and financial operations. Investment Managers will be authorized to provide quarterly investment reports to those providing these administrative services.
g) The Finance Committee shall ensure there are quarterly investment performance reports for each investment manager, and for each class of fund invested by the Foundation, as well as financial reports for the Foundation's general operations.

Categories of Funds and Investment Goals

This section outlines the broad guidelines that each investment manager is expected to follow in developing its investment strategy for the type of fund it manages on behalf of the Foundation.

Endowment Funds and Designated Funds

These funds are created by gifts received by the Foundation, which, based upon the intention of the donor, will generate sufficient income (interest, dividends, capital gains) from which annual distributions can be made, while preserving the original principal, and for the fund to grow in order to fund distributions in future years. The Foundation and its fund advisors acknowledge the principal amounts of gifts to these funds will remain in the fund for a minimum of ten (10) years, unless stipulated otherwise by the donor. The emphasis of these funds is to provide a stable income stream for annual distributions, preservation of original capital, and reasonable growth. The investment portfolio shall be comprised of equity securities, alternative investments, fixed income, and cash or cash equivalents.

Custodial Funds

These funds belong to other LCC organizations that have entered into a Custodial Fund Agreement requesting the Foundation manage and invest funds on their behalf. These funds are invested in accordance with the Foundation's asset mix mandates, unless directed otherwise by the fund owner, as outlined within the Custodial Fund Agreement. The investment portfolio may be comprised of equity securities, alternative investments, fixed income, and cash or cash equivalents.

Operating Fund

These funds are the repository of all unrestricted gifts received by the Foundation from which investment income earned will be used to support the annual operating program.

The investment objectives are:

1. To maintain a stable cash-flow stream,
2. To maintain liquidity,

3. To meet or exceed morally responsible investment objectives, and
4. To optimize the investment return within the constraints of the policy.

These funds are invested within the 'Balanced Mandate' asset mix.

Overall Objective for the Foundation's Assets

The overall assets of the Foundation should earn a total annualized rate of return over a four-year moving time period which is in excess of the annualized increase in the Consumer Price Index over the same periods, plus 3%.

Objective of Investment Manager

The objective of the Investment Manager is to obtain a rate of return over a four-year moving time period equal to or greater than its respective passively invested benchmark portfolio for each asset class.

Performance Analysis of Investment Manager

The time period used for determining whether or not a Manager has met the return objective will be a rolling four-year time horizon; however, the Board may review a Manager if the Manager underperforms its passively invested benchmark portfolio return by more than 2% in any 12- month time period.

In conducting a performance analysis of the Managers, the following indices will be used:

- FTSE TMX Canada 91 Day T-Bill
- FTSE TMX Canada Universe Bond
- FTSE TMX Canada + 3%
- S&P/TSX Composite Total Return Index
- S&P 500 Total Return in Canadian Dollars
- MSCI World Index Total Return in Canadian Dollars

The S&P/TSX Composite Total Return Index is uncapped.

Diversification

The Managers may invest the assets of the Foundation among the following asset classes:

- Cash and Cash Equivalents
- Canadian Bonds and Debentures (notes, preferred securities, asset-backed securities and/or other debt securities with a fixed interest rate coupon and a maturity date)
- Alternative Investments – target return funds, mortgages, and mortgage backed securities
- Canadian Equities and Index Participation Units and Convertible Debentures
- Foreign Equities and Index Participation Units, including both U.S. and Non-North American Equities

The Managers may invest in any of the above classes through the use of pooled funds. The guidelines and restrictions as outlined within the “Prospectus” or “Offering Circular” of the pooled funds into which funds are invested, will supersede the investment policy and objectives as contained herein. However, within each asset class the Managers will ensure there is appropriate diversification for the asset class.

Quality Restrictions

- *Cash & Cash Equivalents*- The Manager may invest only in chartered bank certificates of deposit of the six leading Schedule A or Schedule B banks, short-term bank notes, treasury bills, banker's acceptance notes, and R-1 rated trust company, finance company, credit union and corporation notes.
- *Bonds-* A minimum quality standard for individual Canadian bonds and debentures, shall be an BBB rating as measured by the Canadian Bond Rating Service or the Dominion Bond Rating Service, and the overall portfolios should carry an average rating of no less than A. United States bonds and debentures must have a BBB rating or better as measured by Moody's or Standard and Poor's Bond Rating Service.
- *Equities-* All Canadian equity holdings must be listed on the S&P/TSX Composite Index. All non-Canadian equity holdings must be listed on a recognized stock exchange or regularly traded through an organized facility upon which market prices are readily available. The equity portfolio should have good marketability and reflect diversification by industry and sector.
- *Mortgages-* If mortgages are utilized, they may only be invested within a pooled fund.
- *Liquidity-* The overall investment portfolio of the plan must reflect the level of liquidity needed to meet the demands of the fund.

Constraints

The Manager should recognize the morally sensitive nature of some types of investments for the Board and should consult with the Board before investing directly in any investment that may be considered morally sensitive.

The Manager shall not, without written permission of the Board:

- Invest more than 5% of the value of non-fixed income assets (and 10% of fixed income assets) under management in the securities of any one issuer, or related group of issuers, except securities issued by the Canadian Government or its agencies;
- Invest in the equity securities of any company which has a record of less than 3 years continuous operation including the operation of any predecessor;
- Invest in equity securities unless such securities are listed on the New York or American Stock Exchange, NASDAQ, Toronto Stock Exchange, CDNX, or Aequitas NEO Exchange, or unless such securities are issued by a major Canadian or foreign corporation and are highly marketable;
- Invest for the purpose of exercising control of management;
- Invest in letter stock;
- Purchase securities on margin;
- Mortgage, pledge or hypothecate securities;
- Make loans;
- Invest in working oil and gas wells;
- Participate in "puts", "calls" or "straddles";
- Invest in warrants to purchase stocks unless they are purchased for the purpose of acquiring the stock issued on a prefunded and/or awaiting formal regulatory approval;
- Purchase "derivative" securities other than publicly traded, mortgage backed securities; however, to the extent that mutual funds are used by the Foundation, the mutual funds owned may buy or sell derivatives for the purposes of managing portfolio risk;
- Purchase securities for which the manager cannot price and account for under International Financial Reporting Standards (IFRS).
- Purchase partnerships or limited liability companies, other than those, which are publicly traded;

- Lend out securities.

Fund Asset Mix Targets and Ranges

In accordance with the Board's requirement to invest the various funds under our control at an acceptable level of risk, and in keeping with the specific fund's goals and time horizons, three mandates have been defined, namely, a "Balanced Mandate", a "Conservative Mandate", and a "Concordia Mandate". Investment managers will be directed to invest specific funds under their control using one of the three investment mandates.

Each mandate will have a targeted percentage of Equities, Fixed Income, and Alternative investments, as determined by their market value. Additionally, each asset class within a mandate will have a specified allowable range percentage, to accommodate fluctuations in asset class values due to varying economic environments, and to allow for the rebalancing of the asset classes, purchasing, or selling investments to reach the stated investment goals. It will be the responsibility of the Executive Director to instruct the Investment Manager(s) to buy or sell specific funds as needed.

"Equities" are a combination of Canadian, US, and International equities at the investment manager's discretion, within the stated minimums and maximums. "Fixed Income" investments may include cash or cash equivalents (1 year or less), and bonds. "Alternative Investments" include targeted return funds, private debt, mortgages, and mortgage backed securities. The investment mix is based on the investment manager's discretion, within the stated minimums and maximums.

Balanced Mandate	**Target**	**Minimum**	**Maximum**
Canadian Equities	25%	15%	35%
Global Equities (excluding Canada)	25%	15%	35%
Fixed Income	40%	30%	50%
Alternative Investments	10%	0%	15%

Conservative Mandate	**Target**	**Minimum**	**Maximum**
Canadian Equities	20%	0%	25%
Global Equities (excluding Canada)	15%	0%	20%
Fixed Income	65%	60%	100%

Concordia Mandate	**Target**	**Minimum**	**Maximum**
Canadian Equities	15%	10%	30%
Global Equities (excluding Canada)	15%	10%	30%
Canadian Bonds	35%	25%	50%
Alternative Investments	35%	25%	50%

Delegation of Voting Rights

All voting rights acquired through ownership of securities under the Foundation shall be the responsibility of the Investment Manager, to be voted upon as the Manager feels appropriate.

Conflict of Interest

If a member of the Board, or any agent of or advisor of the Board, or any person employed in the investment or administration of the Foundation has, or acquires any material interest, direct or indirect, in any matter in which the Foundation is concerned or may benefit materially from knowledge of, participate in, or by virtue of an investment decision or holding of the Foundation, the person shall as soon as practicable disclose this conflict of interest to the Chair of the Board. The chair shall then immediately advise all members of the Board, that said individual be excluded from all decision making with respect the area of conflict, unless otherwise determined by unanimous decision of the remaining members of the Board.

Policy Review

It is the intention of the Board to reassess this policy at least every two years. However, if at any time the Investment Manager feels that the objectives cannot be met, or that the guidelines or restrictions are imprudent, or that the policy restricts performance objectives, the Board should be notified in writing.