



# External Investment Managers Program: An Overview

Niagara 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 Niagara 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 Niagara Community Foundation's Consolidated 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 Niagara Community Foundation's standards. In other words, the firm could 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 Niagara.
- 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.

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## WHY WAS THE EXTERNAL INVESTMENT MANAGERS PROGRAM CREATED?

- Niagara 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 Niagara Community Foundation is facing increased pressure to step into the breach. There is a need to increase the financial resources to meet this pressure.
- Niagara Community Foundation recognizes that large gifts from investment portfolios have a direct impact on the livelihoods of portfolio managers. The 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 Niagara 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 Niagara Community Foundation. The donor has several types of funds to choose from; however, the most common fund type selected by today’s donors is a donor advised fund.
- The minimum contribution to the fund is \$1,000,000. Gifts under this amount will be considered on a case-by-case basis.

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



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## General Policy Statement

Niagara Community Foundation (the “Foundation”) allows donors to establish permanent endowment funds that are invested outside of the Foundation’s Consolidated Investment Fund (together the “CIF”) 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 \$1,000,000. Gifts under this amount will be considered on a case-by-case basis. 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 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 Ontario Securities Commission.
2. A report setting out the Firm’s performance for the previous 5 years, such report demonstrating investment performance that meets the Foundation’s benchmarks.
3. A portfolio manager assigned to the Fund who:
  - a. Is registered with the Ontario 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.



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## INVESTMENT OBJECTIVES

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

- Achieves the disbursement rate of the Foundation,
- Recovers the cost of managing and administering the Fund,
- Protects the purchasing power of the Fund's capital, and
- Establishes retained earnings for future market declines.

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

## GENERAL INFORMATION

- Minimum annual distribution: 4.5-5.5% annually, net of investment manager's fee. Distribution can be drawn from interest, dividends, and realized capital gains net of realized capital losses.
- Liquidity needs – There is no anticipated large cash withdrawals over the time horizon
- 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 Counsel, who reports to the Investment Committee, will review the portfolio quarterly to ensure the Fund is properly diversified.

## PERFORMANCE MONITORING

The Firm must provide the Foundation with monthly valuations and quarterly performance reports in a format acceptable to the Foundation. The Foundation's Investment Counsel will provide quarterly reports to the Foundation's Investment Committee, which measure the Advisor's performance against the Foundation's benchmarks.

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## PERFORMANCE OBJECTIVES AND ASSET ALLOCATION

The performance objectives will be reported quarterly to the Foundation and is expected 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	35%	30-50%	DEX Universe Bond Index (35%)
<b>Total Fixed Income</b>	<b>35%</b>	<b>30-50%</b>	
<u>Equities</u>			
Canadian Equities	25%	15% – 35%	S&P/TSX Composite Index Capped (25%)
US & Global Equities	40%	20% – 60%	S&P 500 Total Return (30%) MSCI EAFE TR (C\$) (10%)
Alternative Equities	0%	7%	
<b>Total Equities and Alternative Investments</b>	<b>65%</b>	<b>65-70%</b>	

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

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## ELIGIBLE ASSET CLASSES / CONSTRAINTS

- Shares of a corporation listed on a prescribed stock exchange in or outside Canada as recognized by CRA or convertible debentures. Shares of a public corporation
- Preferred securities with an average credit quality of P2 or higher (for the purposes of this policy, preferred securities are considered a fixed income asset);
- Private placement of equity where the issuer has committed to listing the shares publicly within a matter of months and is subject to a penalty for non-compliance;
- 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 bonds 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 corporations. All money market securities will be rated R1/A1/P1 or equivalent by a recognized rating services;
- Covered call writing programs which enhance returns, provide cash flow and reduce equity risk
- Utilization of margins is not permitted

## UNIQUE CIRCUMSTANCES

A request can be made to the Investment Committee by the fund manager to recommend a change in asset allocation. This request must be accompanied by the rationale for recommending the change.

## 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.

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## 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 CIF, 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

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