

# INVESTMENT INFORMATION AND OVERVIEW



## Investment Information and Overview

Since 1921, the objectives of the community foundation movement is to invest donations and annual income generated would be used to distribute as grants to the community.

In most cases, donations to the Community Foundation of Northwestern Alberta (CFNWAB) are endowed. That means they are permanently invested for long-term growth. This is the power of endowment: your initial gift grows through investment to provide ongoing support forever.

The CFNWAB is fundamentally a collection of more than 130 trust funds. These endowment funds were created by people from all walks of likes who share a common dream that future generations in our region should enjoy a sustainable quality of life. By contributing capital to any given endowment fund, these donors have invested in the future of Northwestern Alberta.

Each fund has its own terms of reference. Some support the community generally; others are focused on particular fields of interest. Still others are designated to benefit specific charities or special purposes like student awards.

The documentation that sets out the “trust” conditions varies widely among these funds. This is partly because we are a growing foundation with a 20 year history. Language and context have changed.

Some funds have simple agreements while others are customized to suit specific needs. With all endowments, the expectation is that the Board of the CFNWAB, as a trustee, will pursue goals: protect the capital; support the community.

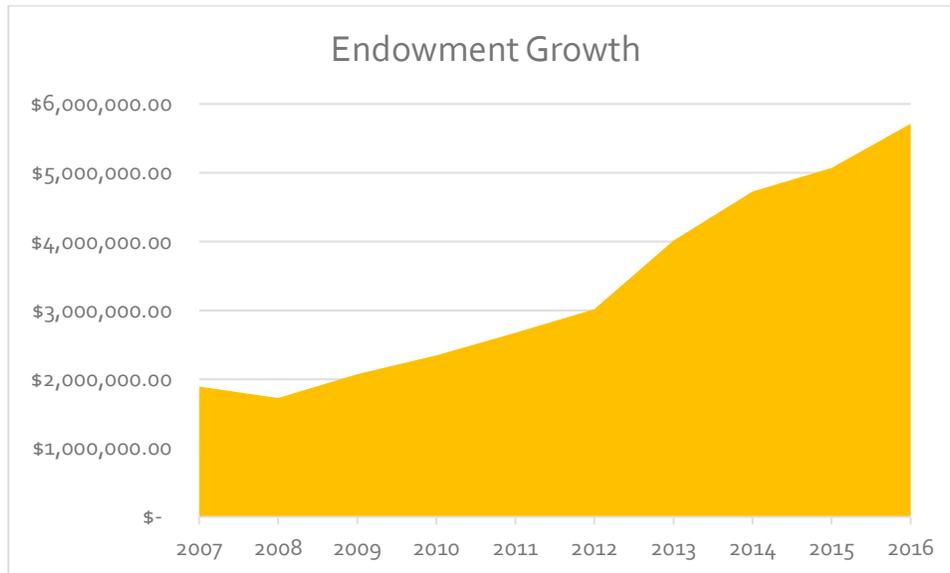
## Protecting the Capital

The CFNWAB accounts for every fund individually and the experience of funds can vary significantly because of the timing of the gifts. For example, two gifts of \$10,000 one given on March 31<sup>st</sup> 2008 and the other March 31<sup>st</sup> 2009 will have a very different market values. In our experience the value of the gift when it was given is an easy and significant reference point. A gift of \$10,000 whether it was given this year or a decade ago will always be remembered as a \$10,000 gift. This is the historical benchmark useful in conversations when defining capital.

As already noted, a fundamental objective of any endowment is to protect the capital. In our view, this also really means protect the purchasing power of the capital over time.

A \$10,000 gift made twenty years ago upon the creation of the CFNWAB needs to have a greater market value today if it is to generate the intended community impact. Accordingly, protecting the capital is not about retaining the historical gift or reacting to constantly changing capital values, rather it is about carefully monitoring the purchasing power of the original gift with a view of assuring the intent of the donor can be fulfilled for years to come.





## Business Model

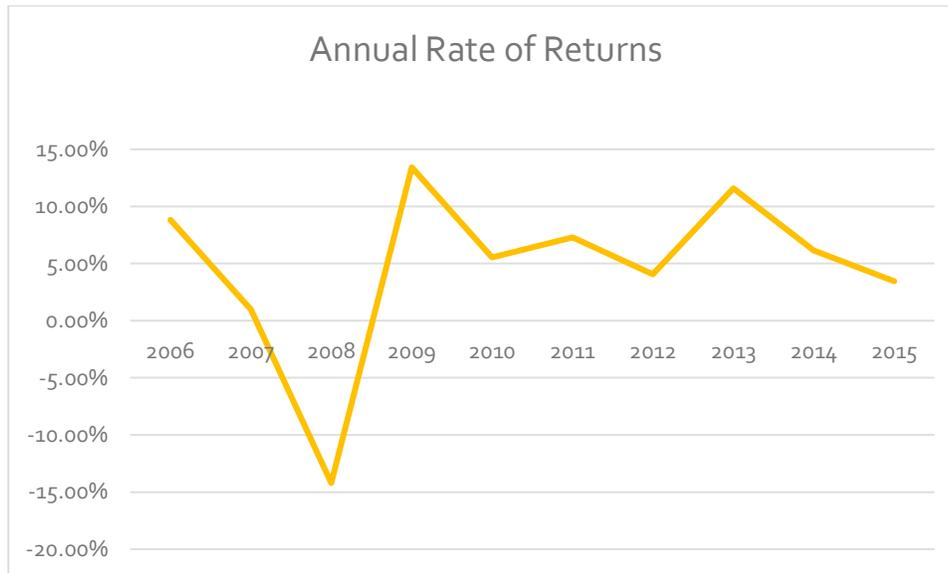
In pursuit of the overall mission, the CFNWAB has well-developed Investment and Spending policies that reflect the objectives to provide support for the charitable sector throughout northwestern Alberta in perpetuity and to preserve the initial capital gifts. In order to do this, endowment must earn sufficient investment returns to:

- allow disbursements according to the spending policy and Canada Revenue Agency
- pay the administration expenses
- grow the asset base so as to maintain the purchasing power of the investment portfolio

For the purposes of investment, funds are pooled into a consolidated fund. This allows for diversification of the total portfolio to lower risk and improve performance. It also minimizes investment management and other related costs. The Board of CFNWAB is responsible for determining investment and spending policies.

The Financial Stewardship Committee is composed of volunteers with a mix of investment management experience. The Committee oversees the management of the fund, and provides advice to the Board. It is assisted by our Investment Manager. The Financial Stewardship Committee normally meets four times each year, which includes scheduled reviews with our professional investment management firm.

Annual returns vary with the investment climate. During the past 10 years, we have experienced annual returns as high as 13.42% and as low as -14.21%, as the following chart clearly demonstrates. It is essential to evaluate annual returns over the long term.



## Investment Policy

Many years ago, the Committee determined that investing in secure government bonds alone would not generate sufficient income to meet the Foundation's obligations. It recognized that moving to other investment vehicles involved somewhat more risk but provided higher returns to the Foundation over the longer term.

One of the most important policy elements sets out the asset mix against which investment performance will be measured. Fixed income investments provide a secure and predictable base for capital preservation, but produce less income. Equities fluctuate in value more, but are also more likely to produce higher returns over time. Today's policy sets the weighting for fixed income at 40% and the equities at 60%.

All endowment funds are pooled for investment purposes. Investment growth of the pooled funds is returned to each of the endowment funds, prorated. In May of each year, the full audited statements of the CFNWAB are made public.

The Financial Stewardship Committee looks at the projected long term returns we might expect, given our policy parameters. It is important to note market conditions and returns vary widely each year. The CFNWAB does not set its policies based on the experience of any 12 month period. Everything is reviewed over much longer time frames. Essentially forever as these are endowment funds.

## Supporting the Community

Each May, there is a calculation to determine the grant allocation of the endowment funds. The target is for each fund to reach the CRA Disbursement Quota legislation of 3.5% of the market value of a fund. When the calculation is complete and the community grant allocations are accumulated, the CFNWAB knows its total granting budget for the following fiscal period.

In most years, endowment funds are growing because of new gifts and investment growth. There is also the annual operational costs associated with investment management and the day-to-day administration of the CFNWAB. These costs are somewhat covered by the annual returns generated by the Investment Policy.

It is important to the CFNWAB that we protect your initial donations and to grow the endowment funds through investment to provide ongoing support to regional charities forever. We will continue to circulate financial information about the operations of the organization as well all policies and financial statements are readily available on request.

All comments or suggestions are welcome.

