

# **CSEG Foundation Investment Policy**

**Version 3.0**

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**By the Board of Directors of the  
Canadian Society of Exploration Geophysicists (CSEG) Foundation**

Any change to this policy should be communicated in writing on a timely basis to all interested parties.

## TABLE OF CONTENTS

Background.....	3
Objectives .....	5
Allowable Investments.....	5
Investment Restrictions.....	6
Portfolio Composition.....	7
Decision-making .....	8
Authority .....	9

## **Background**

The CSEG Foundation was incorporated in 2006 and commenced operations in 2007. Initial assets included a \$200,000 donation from the CSEG following yearend 2006. In 2007 the Endowment grew with an additional \$200,000 from the CSEG and a \$57,000 donation from Jessie Marion. Most of the assets were invested in the Manulife Savings Account that was paying 4% monthly interest. At inception, it was voted on and agreed by the Board that the Foundation would attempt to preserve the original capital and spend the interest earned on a combination of Foundation administration costs and programs.

In early 2007, assets of the CSEG Scholarship Trust Fund were rolled into the CSEG Foundation. At the time, the CSEG Scholarship Trust Fund contained Endowment assets of \$210,000 invested in a combination of yearly and monthly rolling GIC's. Incidentally, the CSEG Scholarship Trust was established in the mid-1970s with corporate and private donations. The yearly income from those initial donations has been used since inception to grant scholarships to post-secondary geophysical students across Canada. Each year, the Scholarship Committee solicits corporate donations, and awards scholarships on behalf of those corporate donors in addition to the two to five scholarships funded by the income from the original endowment funds.

In early 2008, the Board of Directors discussed and agreed that with just over \$600,000 in the Endowment a good way to maximize income while protecting our Endowment capital would be to use a laddered GIC approach. Interest rates were falling and in order to maintain income, longer GIC terms were required. At the end of February 2008, five \$100,000 GIC investments were put in place, laddered from one to five years and with rates of 3.9% to 4.75%. As each GIC matured, it was rolled into a new five year term.

In addition to funding Foundation programs such as Outreach and the Canadian Distinguished Lecture Tour, the CSEG has contributed a substantial portion of its surplus income toward growth of the Foundation Endowment. Except for the donation from Jessie Marion, all the Endowment growth to the end of 2012 has come through CSEG contributions. Donations from CSEG members or companies have generally been used for carrying out Foundation programs.

With continued CSEG contributions to the Endowment, the Endowment surpassed \$1,000,000 in early 2012. Meanwhile, interest rates had fallen considerably. In early 2013, rates declined to 1.45% for a one year GIC and 2.45% for a 5 year GIC. Yearly income

from the Endowment remained about \$26,000 per year, the same as it was in 2007, even though the Endowment had grown by over \$400,000.

As a result, the option of investing in the Calgary Foundation investment pool was discussed. The Calgary Foundation professionally manages the investment of funds pooled from over 1,000 local charities and trusts. The pooled funds exceeded \$450 million. While investments are not guaranteed like GICs, the diversification value of such a large investment has resulted in a compound 4.9% return over ten years (2003-2012), including a loss during the financial market crash of 2008. The Calgary Foundation pooled funds exceeded \$820MM at the end of 2016 and the diversified investments are managed by more than 15 different investment companies.

In February 2013, the CSEG Foundation Board voted to place \$500,000 into the Calgary Foundation investment pool. A contract was signed with The Calgary Foundation on March 6, 2013, and \$500,000 was transferred. By the end of 2013, that investment grew to \$569,587 – slightly better than 12% growth. Year end values were \$618,649 for 2014. In 2015, an additional \$90,000 was added to the funds invested through the Calgary Foundation. By yearend 2015, the investments were valued at \$739,527 and by yearend 2016 had grown an additional \$50,648 to \$790,175.

Long term investments to February 2014 totalled \$1.6 million, including \$500,000 invested in The Calgary Foundation. The remainder of short term cash and investments was a mixture of CSEG installments for CDL and Outreach programs, cash to cover normal operating costs, and new donations not yet directed toward the Endowment or programs. Through mid 2017 the long-term investments have remained near \$1.6MM. CSEG contribution to Foundation programs was restricted in 2015 and the society was unable to contribute any monies for 2016 and 2017. The Foundation ran a \$47,000 deficit in 2016 and budgeted for a \$111,000 deficit in 2017.

Unfortunately, there is no one single piece of risk classification documentation from the Investment Industry Regulatory Organization of Canada (IIROC) that quantifies portfolio risk. Typically, a portfolio is viewed as the sum of its parts to determine overall risk and suitability, as opposed to looking at every individual investment as a standalone item. As such, these policy statements, adopted by the Board of Directors of the CSEG Foundation, are intended to provide for the creation of and guidelines for the management of various funds held by the organization to meet the Foundation's stated objectives.

These policies supersede all prior actions regarding investment policies.

## **Objectives of the CSEG Foundation Investments**

- Long Term Objectives:
  - To build the Endowment Fund to a level that CSEG Foundation activities can be substantially self-sustaining. That will allow the Foundation to apply long term planning for its programs without having to worry about adjusting funding levels for programs due to fluctuating CSEG revenues.
  - In order to provide further guidance for investment management, the stated Annual Target Yield of the investment portfolio is 2% above the previous year's published Federal inflationary rate.
- Short Term Objectives:
  - To directly fund administrative costs and some Foundation programs through funds generated from investments of Endowment funds.
  - To be able to compensate for short term fluctuations in the CSEG's ability to fund long term programs through use of funds from the Endowment if necessary.

## **Source of Funds for Investment**

Funds to be invested may come from:

- returns from Endowment investments
- retained earnings
- cash not required to cover immediate operating expenses, and
- donations and bequests

Donations received in the form of securities will be converted to cash as quickly as practical unless otherwise directed by the Board.

## **Allowable Investments**

Funds may be invested in:

- Canadian federal or provincial government bonds
- Canadian treasury bills
- term deposits, guaranteed investment certificates, or other interest-bearing deposits or securities with a credit union, chartered bank, or trust company insured by the Canada Deposit Insurance Corporation (note – insures up to max \$100k)

- mutual funds or investment funds that meet this policy’s guidelines, such as the managed fund at the Calgary Foundation
- Canadian dollar money market mutual funds sold with no load or sales charge by a Canadian bank, trust company or credit union

The funds shall not be invested in any security or investment other than those listed above unless otherwise determined unanimously by the Board.

Investment plans will take the short, medium and long-term needs of the Foundation into account. Money required to pay outstanding cheques and bank charges, short term program requirements and one month’s salaries and payroll expenses shall be retained in a current account. It is expected that the Foundation will keep 1 ½ to 2 years operating funds in highly liquid investments so that budgets will not be subject to short term market conditions. It is recognized that the Calgary Foundation, with more than \$800 million invested through more than 15 different investment managers, is very well diversified. Individual risk profiles for various investment vehicles vary from low to medium. Overall Calgary Foundation risk would probably be classed in the medium risk and the stated goal is a consistent 5% return of which 1% goes to management fees.

**Investment Restrictions**

No investment transaction is to exceed \$125,000 without the prior approval of the Board of Directors.

To ensure diversity and minimize exposure, a maximum of 35% of Foundation funds will be invested with any one organization unless otherwise directed by the Board.

The Foundation recognizes and acknowledges some risk must be assumed to achieve the long-term investment objectives. To manage uncertainties and complexities associated with contemporary investment markets, the portfolio shall follow these risk tolerance guidelines:

<b>Investment Risk Category</b>	<b>Minimum</b>	<b>Maximum</b>
Zero – Cash and Cash Equivalents	5%	20%
Low Risk	30%	60%
Medium Risk	20%	60%

**Investment Risk Category definition:**

- Zero Risk – Cash and Cash Equivalents
  - Current and savings accounts
  - Treasury bills
  - Money market funds
- Low Risk
  - Guaranteed Investment Certificates (GIC)
  - Term deposits
  - Investment grade bonds that are held to maturity
- Medium Risk
  - Equities (Blue-chip, dividend paying) – Note that Equities are excluded from being an eligible investment for the CSEGF
  - High interest bonds
  - Mutual Funds (broadly diversified funds only)

**Portfolio Composition**

The portfolio will be considered as a whole and the risk tolerances outlined above include all of the funds. To manage investment risk and optimize investment returns within acceptable risk parameters, the following funds will be tracked as separate investment pools.

- Operating Funds  
The purpose of the Operating Fund is to provide sufficient cash to meet the day-to-day financial obligations of the Foundation in a timely manner.
- Short-term Reserve Funds  
The purpose of the Short-term Reserve Fund is to meet the expenses occurring as a result of unanticipated activities and to improve the return on the funds held for expenditure for up to five years.
- Long-term Directed Fund  
The purpose of the Long-term Directed Fund is to provide secure long-term funding for the Foundation's programs. The assets of the Long-term Directed Fund shall be managed in such a way as to facilitate the organization's goals and objectives as outlined by the Board of Directors. Expenditure of the principal is Board-designated unless otherwise designated by the donor(s) in part or in whole. Also, at the discretion of the Board of Directors, up to 100% of the yearly total return may be

utilized for program and agency expenses unless restricted for specific purposes by the donor(s).

- **Endowment Fund**

The purpose of the Endowment Fund is to provide permanent funding for the Foundation's programs. The assets of the Endowment shall be managed in such a way as to facilitate the organization's goals and objectives as outlined by the Board of Directors. The principal is intended to remain untouched; however, Endowment funds may need to be used in exceptional circumstances and for this an 85% or higher majority vote of the entire Board is required. Board members may vote by electronic means or by proxy if unable to vote in person. Results will be recorded into the Minutes of the following Board meeting. At the discretion of the Board of Directors, up to 100% of the yearly total return may be utilized for program and administrative expenses unless restricted for specific purposes by the donor(s).

Funds invested in fixed income securities should be structured in a ladder approach so that investments are purchased with staggered maturity dates. Terms, issuers and yields will be reviewed regularly to ensure they meet the Foundation's objectives and are appropriate with the long-term view of the markets and economy.

### **Decision-making<sup>1</sup>**

The Board will approve an Investment Plan for both Endowment and surpluses each year at or immediately after budget approval time. The Board will consider the following factors before approving the Investment Plan:

- general economic conditions;
- the possible effect of inflation or deflation on the investment;
- the role that each investment or course of action plays within the overall portfolio;
- the expected total return from income and the appreciation of capital;
- the needs for liquidity, regularity of income and preservation or appreciation of capital;
- an asset's special relationship or special value, if any, to the purposes of the Foundation.

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<sup>1</sup> The six considerations listed in this section are key elements governing charities. The CSEG Foundation *must* take these factors into consideration when making investments.

## **Authority**

### **The Board of Directors:**

- shall approve each year at or immediately after budget approval time an Investment Plan for both Endowment and other funds which shall include:
  - an evaluation of the previous year's investment performance;
  - an analysis of future operating and capital cash requirements;
  - recommendations for investment that may include recommendations from professional financial advisors;
- shall approve all discretionary investments not included in the Investment Plan;
- shall authorize investment transactions in excess of \$125,000.

### **The Treasurer:**

- shall prepare an Investment Plan for the Board annually at or immediately after budget approval time;
- shall seek advice from time to time from such authorities as the Foundation's accountant, bank manager, legal counsel, and the financial manager;
- shall ensure that funds are managed by licensed professionals;
- shall invest funds in accordance with this policy and the approved Investment Plan;
- has authority to transfer funds between current accounts and investments within designated limits, taking into account the Foundation's future cash requirements;
- shall report to the Board monthly on the Foundation's cash position and investments;
- shall prepare an annual report for the AGM outlining the year's investment activities.