[Legal co-op name]

A Policy about investing co-op funds

INVESTMENT POLICY

**MODEL FOR CO-OPS**

Use with the Guide to the new Model Investment Policy for co-ops.

Passed by the Board of Directors on \_\_\_\_\_\_\_\_\_\_\_, 20\_\_\_

© 2023 Co-operative Housing Federation of Canada. Members of CHF Canada may use and modify this By-law. This material is not to be used or copied by others without the express, written consent of the Co-operative Housing Federation of Canada.

TABLE OF CONTENTS

[Article 1: About this Policy 1](#_Toc127795408)

[Article 2: Introduction 1](#_Toc127795409)

[Article 3: Investment Goals 1](#_Toc127795410)

[Article 4: External Advice 2](#_Toc127795411)

[Article 5: Asset Mix 2](#_Toc127795412)

[Article 6: Permitted Investments 2](#_Toc127795413)

[Article 7: Prohibited Investments 3](#_Toc127795414)

[Article 8: Socially Responsible Investing 4](#_Toc127795415)

[Article 9: Reserve Funds 4](#_Toc127795416)

[Article 10: Administration 4](#_Toc127795417)

[Appendix A: Glossary 6](#_Toc127795418)

[Appendix B: Asset Mix 10](#_Toc127795419)

[Appendix C: Performance Standards 10](#_Toc127795420)

# About this Policy

* 1. This policy sets out rules for the investment of the reserves and other monies of [legal co-op name] (“the Co-op”).
  2. These rules take priority over any other policy of the Co-op. They do not take priority over any investing rules that apply to the Co-op under legislation or an agreement with government.

# Introduction

* 1. The Co-op can invest
     + the Capital Replacement Reserve
     + [Member Shares][Member Loans][Member Deposits]
     + other funds that are surplus to the Co-op’s daily needs.
  2. The Co-op wants to invest this money in order to
     + maintain and preserve its members’ homes
     + earn income to meet other Co-op needs.
  3. The Co-op is a not-for-profit corporation. It does not pay tax on its investment earnings.
  4. Certain words in this policy have the meanings shown in Appendix A. These words begin with upper-case letters.

# Investment Goals

* 1. The Co-op’s investment goals are
     1. to earn money on its Capital Replacement Reserve and other funds not needed for day-to-day use
     2. to invest its funds with the Co-op’s present and future needs in mind
     3. to make sure that the Co-op always has enough Liquidity
     4. to make investments that are ethical and respect the environment
     5. to earn a good Rate of Return without taking undue risks.

# External Advice

* 1. The Co-op will use the services of one or more External Investment Advisors. Encasa Financial is one such advisor. It can provide investment advice about its Encasa Funds.
  2. The Co-op’s External Investment Advisors must be from outside the co-op. They may not be related by blood, marriage, adoption or in any other way to any member of the Board.
  3. The Co-op’s External Investment Advisors should understand the Co-op’s finances and investment goals and be ready to work with the Co-op to meet those goals.
  4. The Co-op must make its External Investment Advisors aware of this policy.

# Asset Mix

* 1. The Co-op will balance Investment Risk and Rate of Return by holding a mix of Securities.
  2. Investments will be allocated across Asset Classes based on
     + the rules in Appendix B of this policy
     + the Co-op’s need for cash over the short and long term.
  3. No more than 20% of total Invested Assets may be held in a single Mutual Fund. This rule does not apply to investments in Encasa Funds.
  4. No more than 5% of Invested Assets may be held in a single Security. This rule does not apply to
     + the deposit products and Securities listed in 6.1 (a) through (d) below.
     + other Securities issued or backed by the Government of Canada or a province of Canada.
  5. As the value of the Co-op’s Invested Assets change, its Asset Mix will change. The Co-op will buy or sell Securities as needed to keep the right Asset Mix. It may take time to do so to avoid or reduce a Capital Loss, guided by the advice of the Board’s External Investment Advisor.

# Permitted Investments

* 1. The Co-op may invest in
     1. a Co-operative Housing Investment Pool (CHIP) account sponsored by a co-operative housing federation
     2. deposits with Canadian credit unions, caisses populaires, chartered banks or trust companies, such as term deposits, GICs and savings accounts
     3. Bonds, treasury bills or other Securities issued or backed by the Government of Canada or a province of Canada
     4. Encasa Funds
     5. Canada Mortgage Bonds
     6. Principal Protected Notes
     7. Mutual Funds, Bonds, publicly traded shares and other Equities purchased with the advice of the Co-op’s External Investment Advisor.

# Prohibited Investments

* 1. The co-op will not purchase
     1. Derivatives, except as a Hedge through a Mutual Fund or Encasa Funds
     2. precious metals, like gold or silver
     3. collectibles, such as art works or antiques
     4. real estate
     5. Bonds that do not have an Investment Grade Rating, even if part of a Pooled Fund
     6. Asset-Backed Securities, except Canada Mortgage Bonds
     7. Preferred Shares, unless held in a Mutual Fund or Encasa Funds
     8. any other Securities not listed in 6.1.
  2. The Co-op will sell any Bonds it holds that lose their Investment Grade Rating. It may take time to do so to avoid or reduce a Capital Loss, guided by the advice of the Board’s External Investment Advisor.
  3. The Co-op will not borrow money to raise funds to invest.

# Socially Responsible Investing

* 1. The Co-op will favour Socially Responsible Investing (SRI) to the extent it can do so while meeting its financial goals.
  2. The Co-op will look for investments that support affordable housing, co-operatives and the protection of the environment.
  3. The Co-op will not invest in the Securities of companies whose main business focus is making or selling
     1. tobacco products
     2. pornography
     3. gambling services or
     4. military weapons.

The Co-op may ask its External Investment Advisor to apply other SRI Screens.

# Reserve Funds

* 1. **Capital planning**

The Board of Directors (the “Board”) will see to it that the Co-op has a Capital Replacement Plan or Asset Management Plan that is updated at least every five years. The plan will help guide the Co-op in deciding how much it can invest and for how long.

* 1. **Investing different funds together**

The Capital Replacement Reserve, other reserves and other Co-op monies may be invested together.

* 1. **Allocation of investment earnings**

Earnings from the investment of the Capital Replacement Reserve or other named reserves will be added to the reserve on top of the Co-op’s regular reserve allocation. Earnings from different funds invested together will be shared among the reserves and other funds based on the Principal invested in each.

# Administration

* 1. The Board will administer this policy.
  2. The Board will
     1. make sure the Co-op follows the policy
     2. choose the Co-op’s External Investment Advisor
     3. decide what investments the Co-op’s staff or manager may make or redeem and which need prior Board approval. Any investments or redemptions made by the Co-op’s staff or manager will be reported at the next Board meeting.
     4. review the Co-op’s investments when this policy is adopted and change them if needed to meet the policy’s rules
     5. receive reports from the Co-op’s External Investment Advisors at least four times a year on
     + the performance of the Co-op’s investments
     + the Co-op’s Asset Allocation and Asset Mix
     + how the Rate of Return for each Asset Class compares with the performance standards in Appendix C.
     1. report to the members on the Co-op’s investments at each annual meeting
     2. review this policy from time to time and propose changes as needed.

# Appendix A: Glossary

1. **“Asset Allocation”** means the way the Co-op divides the money it invests among different Asset Classes.
2. **“Asset-Backed Security”** means a Security backed by a pool of financial assets, such as car loans or amounts due on credit cards.
3. **“Asset Class”** means a group of similar Securities. Equities and Fixed-Income Securities are examples of asset classes.
4. **“Asset Management Plan”** is a plan for the repair and replacement of Capital Items in the Co-op. It includes

* a study of the condition of the buildings
* a table showing when replacements and major repairs will be needed
* a forecast of annual funding needs over the long term
* a schedule and a budget for the regular and preventive maintenance of Capital Items.

1. **“Asset Mix”** means the mix of different types of Securities the Co-op buys.
2. **“Bond”** means an IOU issued by a government or a company that borrows money from investors. A Bond pays a fixed rate of interest and is repayable on a fixed date. Bonds issued by the Government of Canada are seen as “risk free.” There is no risk that either the Principal or the interest will not be paid.
3. **“Bond Rating”** means a grade given to a Bond to rate the risk of not being repaid (**“credit risk”**). The rating is based on the Bond issuer’s ability to make timely payments. The safest Bonds are rated "AAA." The riskiest Bonds are rated “C” or "D" ("Junk").
4. **“Canada Mortgage Bonds (CMBs)”** are Bonds backed by a pool of mortgages issued by banks and other lenders. The CMB holder receives interest twice a year at a fixed rate. The Bond is repaid on a fixed date. Canada Mortgage and Housing Corporation guarantees timely payments to CMB holders. CMBs are backed by the Government of Canada and are seen as risk free.
5. A **“Capital Gain”** or **“Capital Loss”** is the difference between the price the Co-op paid for an investment and the price it can sell it for later.
6. **“Capital Items”** are parts of the Co-op’s property that have a useful life of more than one year. Stoves, refrigerators, roofs, doors, windows, furnaces and fences are examples of capital items.
7. A **“Capital Replacement Plan”** is a plan for the repair and replacement of Capital Items in the Co-op. It includes

* a study of the condition of the buildings
* a table showing when replacements and major repairs will be needed
* a forecast of annual funding needs over the long term.

1. **“Capital Replacement Reserve”** is the money the Co-op sets aside to replace Capital Items or make major repairs. The money in the reserve comes from regular transfers from the Co‑op’s operating budget and any lump sums added to the reserve from time to time.
2. **“Cash**” includes cash on hand, checks on hand that have not been deposited, and cash in the bank.
3. A **“Debenture”** is a Bond that is not secured by the issuer’s assets.
4. A **“Derivative”** is a Security whose value depends on the value of another asset or group of assets, such as shares, Bonds, commodities, currencies, interest rates or market indexes. Examples of Derivatives are futures, swaps and options.
5. A **“Dividend”** is an amount paid to Shareholders in a company from the company’s earnings.
6. **“Encasa Funds”** means pooled investments offered to non-profit and co-operative housing providers by Encasa Financial Inc. Encasa Financial is a joint investing service of the co-operative and non-profit housing sectors.
7. **“Equities,”** also called **“shares”** or **“stocks,”** are ownership shares in a company.
8. **“External Investment Advisor”** means a firm or an individual outside the Co-op that has a recognized qualification in providing investment advice.
9. **“Fixed-Income Security”** means an investment that pays interest at a fixed rate. The principal is repaid to the investor at a fixed time. Examples are Bonds, GICs, term deposits and government treasury bills.
10. **“GHCP”** means Gross Housing Charge Potential.
11. **“Gross Housing Charge Potential”** means the total housing charges earned when all units in the Co‑op are full. It includes subsidies to members and rent supplements.
12. A **“Hedge”** means an investment made to offset the risk of loss on another investment.
13. **“Invested Assets”** means money the Co-op has invested to earn income or a Capital Gain.
14. **“Investment Grade Rating”** is a Bond Rating from AAA to BBB.
15. **“Investment Risk”** means the risk that some or all of the value of an investment could be lost.
16. A **“Junk Bond”** is a Bond with a Bond Rating of C or D.
17. **“Liquidity”** is the ability to pay bills and other money the Co-op owes when due.
18. **“Member Deposit”** means the amount of money the Co-op holds from each member household while that household lives in the Co-op.
19. **“Member Loan”** means the loan each member household makes to the Co-op as a condition of membership.
20. **“Member Share”** means the share each member or member household purchases in the Co-op as a condition of membership.
21. **“Mutual Fund”** means a pool of money that buys shares, Bonds or other Securities. Investors buy units in the fund. A fund manager decides how to invest the money. The manager is paid a fee from the fund. Fund earnings, gains and losses are shared among the unit holders.
22. A **“Pooled Fund”** combines different investors’ contributions and then invests them which are then together in securities and other assets.
23. A **“Preferred Share”** is a share in a company that pays a Dividend on a fixed basis. A company must pay Dividends on Preferred Shares before paying Dividends to other Shareholders.
24. **“Principal”** is the sum of money placed in an investment.
25. **“Principal Protected Note (PNP)”** is a type of investment. It combines a guaranteed return of Principal with a possible Capital Gain.
26. **“Rate of Return”** is the annual income, Capital Gain or Capital Loss from an investment divided by the Principal invested.
27. **“Securities”** are investment options an investor can choose from. Examples are Equities, Bonds, Debentures and Mutual Funds.
28. **“Shareholders”** are the owners of shares in a company.
29. **“Socially Responsible Investing”** tries to balance financial returns with social and environmental good.
30. **“(SRI)”** means Socially Responsible Investing.
31. **“SRI Screening”** means checking Securities to make sure they meet an SRI standard. Encasa Funds and some Mutual Funds use SRI screening.

# Appendix B: Asset Mix

## Controlling the Asset Mix is the main way to balance the Co-op’s Investment Risk and Rate of Return.

## The Board will consult with the Co-op’s External Investment Advisor to decide on the right Asset Mix for the Co-op. The Asset Mix chosen should take into account the Co-op’s Capital Replacement Plan or Asset Management Plan.

## A sample Asset Mix appears below. The Co-op will follow this Asset Mix unless the Board adopts another one based on its External Investment Advisor’s advice.

|  |  |  |  |
| --- | --- | --- | --- |
| Asset Class | Recommended | Minimum | Maximum |
| Cash | 70% of  monthly GHCP | 50% of  monthly GHCP | 100% of  monthly GHCP |
| Fixed-Income Securities | 75% of Invested Assets | 70% of Invested Assets | 100% of Invested Assets |
| Equities | 15 to 20% of Invested Assets | 0% of Invested Assets | 25% of Invested Assets |

# 

# Appendix C: Performance Standards

## Each benchmark below is a basket of investments called an “Index.” An Index includes multiple Securities from a single Asset Class. A single Rate of Return is reported for the whole Index. The Co-op can use the benchmarks to judge how well the Co-op is investing its money in each Asset Class.

|  |  |
| --- | --- |
| Asset Class | Benchmark |
| Cash | DEX 91-day Treasury Bill Index |
| Fixed income | FTSE Russell Universe Bond Index |
| Equity | S&P/TSX Total Return Index or MSCI World Total Return Index |