



Canadian Association
Library canadienne
Association des bibliothèques

BRIEFING NOTE

TO: Finance Committee
FROM: Don Butcher, Executive Director
DATE: November 6, 2007
SUBJECT: Investment Policy

CLA's current investment policy (attached) dates from 1990 and does not reflect current practice nor developments in not-for-profit investment policies.

Past Treasurer Sandy Cameron conducted extensive research and drafted a revised investment policy incorporating elements from a variety of sources. I have further refined the draft by sourcing answers to the questions that Sandy asked.

The latest draft and the most recent summary of CLA's investment statements is provided in the Finance Committee document archive.

While the 2007 draft policy might appear substantially different, there are actually many common elements. To assist the Committee, the substantive changes and the rationale behind them are:

Investment Mix

Generally, in an association there is a greater concern about security of capital and less concern about rate of return.

The 1990 policy sets a minimum of 30 percent in equities. This is highly aggressive by not-for-profit standards. As of Sept. 30, 2007, 18.6% of CLA's investments were held in equities. While this is still aggressive by Canadian not-for-profit standards, it is not unreasonable.

Recognizing the importance of security, the 2007 draft policy sets a minimum of 65% and a maximum of 90% in fixed income. A minimum of 10% and a maximum of 35% can be invested in equities. The policy does not set a minimum to be held in cash or short-term cash equivalents.

"Ethical" Investing

The draft policy does not address the issue of "ethical" investing. The implementation of an ethical investing strategy would be challenging for CLA at this time, since CLA's investment funds are actively managed by a third-party firm.

Foreign Content

The 1990 policy is also aggressive in the amount of foreign holdings, and CLA has suffered due to that aggression.¹ The 2007 draft policy proposes a cap of 20% foreign holdings. As of Sept. 30, 2007, 100% of CLA's investments are in Canadian companies: the percentage of foreign activities by those companies would be extraordinarily difficult to ascertain.

Investment Advisors

The 1990 policy defines a specific firm to manage CLA's investments. CLA moved its funds away from that firm about seven years ago.

Rather than define the actual firm in the policy, the 2007 draft policy sets out criteria to guide Executive Council in its selection of investment advisors. Again, there is an emphasis on security.

Rate of Return

This section is unchanged.

Considerations of Care

This is a new section prepared by past Treasurer Cameron from various sources.

Reporting/Oversight

This is a new section incorporating elements of current practice and elements of best practices currently not followed by CLA.

Recommendation

I recommend the Committee review the 2007 draft policy and identify any areas of uncertainty or concern, to be ready to discuss at the Finance Committee meeting.

My hope is that collectively we can complete the 2007 draft for submission to Executive Council for approval no later than its February 2008 meeting.

¹ The rise of the Canadian currency versus the U.S. currency eliminated any profits from CLA's U.S. securities. A re-balancing a few years ago reduced CLA's U.S. currency exposure.

Statement of Investment Policy and Goals

Approved By: Executive Council ~ January 20, 1990

General Investment Strategy and Goals

The Investments will be managed on a going concern basis, with the goal of achieving the highest possible total rate of return that is compatible with an investment strategy that emphasizes capital preservation and consistency of results, through an evaluation of the risk-reward characteristics of investment alternatives.

Short Term Investments

Headquarters using only fixed income investment instruments such as certificates of deposit, treasury bills, etc can manage short-term investments of 90 days or less.

Investment Manager

Sceptre Investment Counsel Limited is presently CLA's Investment Manager. CLA is a participant in the Sceptre Pooled Investment Fund and the following investment policies and goals are applicable.

Diversification Guidelines

(expressed as a % of total portfolio book value)

<i>Class</i>	<i>Maximum</i>	<i>Minimum</i>
Equity Investments	70%	30%
Canadian	70%	20%
Foreign**	25%	0%
Fixed Income Investments	65%	20%
Canadian	65%	20%
Foreign**	25%	0%
Cash & Short Term Investments	40%	0%

Within the above broad classes the following guidelines will apply.

Mortgages	50%	0%
Real Estate & Resource Properties	25%	0%

Investments in the above areas may be made through direct investment, or through the medium of mutual or pooled funds, or through the use of derivative products such as futures, options, and warrants.

**Until the current legal limit is changed, the maximum foreign content will be 10%.

Investment Constraints

- 1) At least 85% of total equity investment will be listed on a recognized stock exchange, or be convertible, exchangeable or exercisable into such listed equity investments.
- 2) At least 85% of total straight fixed income securities will be issued by governments, or be secured by government guarantees or revenues, or be fully secured by first mortgages on real estate, plant and equipment, or be at least A rated by a professional rating agency.

Rate of Return Goals

The professional custodian will calculate the unit values from which rates of return are derived. The rate of return will include both income and change in capital value, will be based on market values of the investments, and will be measured over 4 year time periods.

Absolute Return Goals CPI plus 3%

Relative Return Goals At least 2nd quartile in universe

Securities Lending Policies

The Fund may engage in securities lending activities for the purpose of generating incremental income. The professional custodian will administer these activities.

Voting Rights Policies

The voting rights of the Fund will be exercised by the Manager, with the best interest of the Fund as the sole criterion, i.e. in a fashion that will enhance the likelihood of the Fund meeting its long-term investment objectives.

Conflict of Interest Policy

Sceptre Investment Counsel, as Manager of the Fund, adheres to the following.

The Code of Ethics and the Standards of Professional Conduct of the Financial Analysts Federation. The Functions and Principles of the Profession of Investment Counsel as adopted by the Investment Counsel Association of Ontario.

In addition, Sceptre will:

- disclose in writing to participants in the Fund any actual or perceived conflict of interest, which would conflict with or impair Sceptre's ability to act in the best interest of the Fund and towards the attainment of the stated goals of the Fund.
- outline what procedures will be implemented to eliminate the conflict of interest.

Reporting

A professional custodian will administer fund, which is currently the Montreal Trust Company.

A professional auditor will audit the Fund annually, which is currently Coopers & Lybrand.

On a quarterly basis, participants in the Fund will receive, i) An investment appraisal ii) A review of the portfolio, including investment results iii) An economic and investment strategy outlook report.

On a semi-annual basis, the Fund Manager will hold a series of group meetings with the participants in the Fund.