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Money & Mission

this issue

Editorial

This issue contains the first of a two-part special feature on investments. In this issue, we examine the underlying philosophy of the Army's investment program, explain how the Army's investments are governed and managed, and outline the various investment options available to ministry units.

Special Feature

Investment philosophy

Most readers will be aware that The Salvation Army operates with a centralized approach to banking and investments; however, some may not appreciate why the Army has taken this approach and the benefits it brings.

The basic premise is that by pooling all of the cash and investment assets of THQ, DHQs and ministry units, we achieve economies of scale that lead to lower costs, access to professional expertise, better management of risk, and, ultimately, higher returns than would be possible for each of us acting alone.

Most ministry units conduct their day to day banking transactions with the Royal Bank of Canada, the Army's key banker (although there are still a handful of units dealing with Scotiabank and CIBC due to lack of proximity of RBC branches). Although the balances contained in their accounts remain available for ministry unit use, the bank treats the pool of Salvation Army accounts as a single balance for investment purposes. This means that THQ can transfer funds from its accounts to short-term or long-term investments, based on the overall balance of the pool.

The treasury group at THQ maintains a cash flow forecast and monitors cash balances daily to assist in determining when funds can be transferred from cash to investment accounts. Interest earned on investment accounts is used to pay banking fees of close to $700,000 per year, which are paid by THQ. If there are sufficient funds after paying banking and administrative charges, ministry units earn interest on cash balances.

Ministry units benefit by not incurring service and transaction fees that would normally be charged on a current account, and, when interest rates are favourable, earning some return on their cash balances.

Surplus cash that is not needed for operations is transferred to THQ to be placed in deposit accounts. Interest rates are tied to comparable investment accounts available in the market from leading financial institutions so that THQ's rates are automatically adjusted each month to provide a reasonable rate of return. Funds are available for withdrawal at any time by making a withdrawal request through DHQ.

THQ invests funds in deposit accounts in its General Investment Fund. In addition, we make loans to ministry units, primarily for building projects, and are able to do so at reasonable rates and highly favourable terms compared to the

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Special Feature (..cont)

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market. Profits from the investment program help to fund THQ and DHQ operations, as well as national programs designed to benefit ministry units.

Governance and management

The Army's investment program is governed by investment beliefs and policies. Both of these are outlined in documents that can be downloaded at **http://salvationist.ca/departments/finance/**. These beliefs and policies are approved by the Territorial Finance Council, based on recommendations from its Investment Advisory Committee and establish the overall framework in which the Army's investments are made.

The Committee is comprised of three staff members (Territorial Secretary for Business Administration, Territorial Financial Secretary and Director of Investments) and a minimum of four and maximum of eight additional members who are appointed by the Chief Secretary on the recommendation of the Chair, supported by the Financial Secretary and Secretary for Business Administration. These members are chosen for their understanding of capital markets and for particular expertise that the committee feels would be beneficial in carrying out its responsibilities on behalf of the Army.

At present, the committee is chaired by William Chinery, recently retired and former Head of BlackRock Canada. Other members are Kevin Fahey, Director, Investments, Colleges of Applied Arts & Technology Pension Plan; Janet Greenwood, Senior Vice President, Investment Solutions, Aurion Capital Management; Roger Robineau, Senior Manager, Risk Management and Portfolio Strategy, Ontario Municipal Employees Retirement System; and Keith Walter, Risk Consulting and Software South East Asia Market Leader, Towers Watson. These individuals all provide their services and expertise without remuneration, making a significant contribution to the success of the Army's investment program.

Staff and volunteer expertise is supplemented by the engagement of consultants for specific projects, such as the search for new investment management firms.

The committee's role is to make recommendations to the Territorial Finance Council concerning the Army's investment policies, to monitor the performance of investment managers, to recommend both the engagement and termination of managers, custodians and other service providers and to assist the Army generally in its management of the funds.

The committee engages external investment management firms to make decisions about which investments to hold within the framework of the Army's investment policies. Funds are held by an investment custodian who is independent of the managers. In addition, performance is reported by a third party service provider who is independent of both the managers and custodian.

Deposit Accounts

There are two principal types of deposit account: general (GDA) and capital (CDA). General deposit accounts are intended for surplus operational funds, while capital deposit accounts hold funds that are restricted for capital purposes, that is, for major capital expenditures and equipment. Divisional Headquarters may approve withdrawal of funds in a capital deposit account for operating purposes if the ministry unit's foreseeable capital needs can be met without those funds.

A variety of interest rate options are available, depending on the type of account, the amount invested and the expected investment period. Interest rates are set monthly based on the published rates of major financial institutions and are published on Lotus Notes.

Standard general deposit accounts earn interest tied to the average rate for 1 year investment certificates (GIC). Standard capital deposit accounts earn interest tied to the average rate for a 3 year GIC. The principal deposited is guaranteed.

Both general and capital funds may be placed in a Premium deposit account. A minimum balance of $100,000 must be maintained for at least three years and interest is tied to the average rate for a 5 year GIC.

Both types of funds can also be placed in an Investment deposit account. A minimum balance of $1,000,000 is required and funds are locked in for a five-year term. The account earns the same return as the overall return earned by the General Investment Fund, less a 0.25% management fee. In this case, the principal is not guaranteed, as the account is fully invested in the capital markets and subject to its volatility and risk.

Giving Hope Today

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Comments, Suggestions?

Do you have comments on any of the topics raised in this issue, or suggestions for a future issue? Write to us at: **Money&Mission@can.salvationarmy.org**.

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