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# Money & Mission

## this issue



## Editorial

This issue contains the second of our two-part special feature on investments. In this issue, we talk about the size and asset mix of the General Investment Fund, report on performance over the last ten years, and highlight the Army's approach to ethical restrictions. If you missed part one, you can download a copy at http://salvationist.ca/departments/finance/finance-moneymission/. If you have questions about investments that we have not answered in these two issues, please let us know.

## Special Feature

**Size and asset mix**

As of March 31, 2013, the General Investment Fund stood at $743 million invested as follows:

- $37 million (5%) in cash and short-term investments,
- $258 million (35%) in Canadian fixed income securities (bonds),
- $448 million (60%) in Canadian and Global equities (stock)

The Officers' Retirement Trust Fund holds the assets of the Officers' Retirement Plan, a defined benefit pension plan for officers of The Salvation Army. At March 31, it stood at $158 million, with a very similar breakdown of assets.

Employees' pension funds are held in The Salvation Army Group Registered Retirement Savings Plan with Great West Life. A total of $89 million in assets was under management as of December 31, 2012. Choice of investments rests with the individual employee.

**Service providers**

There are seven investment management firms that make decisions about which securities to acquire for the Army's portfolio, in accordance with our investment policy. Fixed income investments are managed by CIBC Global Asset Management and Phillips, Hager & North, each managing 50% of this asset class. Canadian equities are managed by Fiera Capital and QV Investors. Global equities are also managed by two firms - Baillee Gifford and Sprucegrove Investment Management. The seventh firm, BlackRock, has been engaged on a temporary basis to manage a Canadian equity index fund pending a decision on whether to add a new asset class to the portfolio.

Our other service providers include CIBC Mellon (custody), Towers Watson (actuarial services), BNY Mellon (performance reporting), and Pavillion (investment consulting). With the help of the Investment Advisory Committee, the Finance department monitors these providers to ensure that the Army is receiving good value from the relationships.

*(Continued on page 2)*

# Special Feature (..cont)

*(Continued from page 1)*

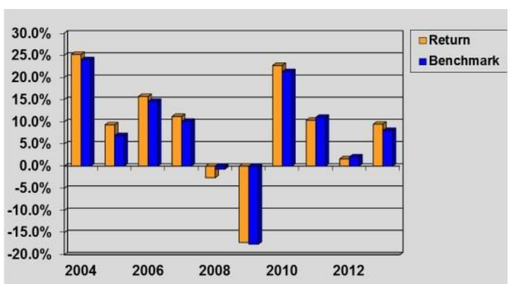
**Performance**

The General Investment Fund earned an annual return of 9.5% for the year ended March 31, 2013, compared with a benchmark return of 8.0%. The benchmark represents a composite of the returns earned by the market indices that most closely match the underlying investments. For example, to see how well our investment in Canadian equities performed, we compare its return to the Toronto Stock Exchange Total Return Index. As the chart below shows, in all but three of the last ten years, the Fund has outperformed the benchmark at the total fund level.

Due to the inherent volatility in the capital markets, we focus on long-term performance rather than quarterly or annual returns. Over the four-year period ending March 2013, the fund earned 10.8%, compared to the benchmark return of 10.4%. The performance of individual managers and the portfolio as a whole is monitored using a moving four-year average rate of return. Managers who fail to meet benchmarks over a four-year period are placed 'on watch' until an improvement is seen or the Investment Committee makes a recommendation to the Territorial Finance Council to terminate the relationship.

THQ has adopted a spending policy that provides for income from the portfolio to be spent based on a long-term expected rate of return rather than the rate realized in a given year. This means that a reserve is created in years when the earnings are above average to be drawn down in years when the returns are below average. The spending policy assumes a nominal long-term rate of return of 5.65%. Assuming an inflation rate of 2%, this translates into a real return of 3.65% (nominal return minus inflation).

The accompanying chart shows annual returns compared to benchmark over the past ten years for periods ending March 31. In the year ended March 2013, the Fund earned 9.5%, but over the decade returns have ranged from a loss of 17.2% in 2009 to a high of 25% in 2004. The average return for the ten year period is 7.7%.




**Ethical Restrictions**

The Army has clear ethical restrictions on investments in certain industries. The restrictions in the Canadian portfolios are identical to those set by International Headquarters: "*Investment managers may not invest in any security issued by a company whose primary business activity is the manufacture, distribution or promotion of alcohol, tobacco, pornography, gaming or gaming facilities, or the manufacture of armaments. In addition, investment managers may not invest any funds in companies which are known to disregard the pollution of the environment."*

These restrictions mean that the Army's equity investments are generally in segregated accounts, rather than pooled funds. In some instances, however, the Army allows for smaller investments in pooled funds, recognizing that the underlying investments of the pooled fund may be in companies in the prohibited industries. For example, to gain exposure to smaller companies, investments are sometimes made in mid-cap pooled funds.

When this takes place, however, investments in pooled funds may not exceed 20% of the total equity portfolio and the nature of the underlying investments must be such that the restricted industries would not comprise more than 10% of the pooled fund.

**Alternative investments**

The Investment Advisory Committee regularly reviews other types of investments to determine their suitability for the General Investment Fund. At present, based on a strategic investment plan presented to the Territorial Finance Council in 2011, the Committee is researching two additional asset classes, real estate and infrastructure. A recommendation to hire a manager with a real estate mandate is expected later in 2013. As can be inferred, these decisions are not taken lightly and much time is spent on research before making investment decisions.

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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