



**THE UNITED CHURCH OF CANADA
GENERAL FUNDS /
ÉGLISE UNIE DU CANADA
FONDS GÉNÉRAUX**

INVESTMENT POLICY

November 18, 2015

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Statement of Investment Policy
for
THE UNITED CHURCH OF CANADA / ÉGLISE UNIE DU CANADA

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Statement of Investment Policy

for

THE UNITED CHURCH OF CANADA / ÉGLISE UNIE DU CANADA

1. OVERVIEW

- 1.1 This Investment Policy Statement (the “Statement”) applies to the assets of The United Church of Canada (the “Portfolio”). It contains elements governing the investment directives and oversight procedures.
- 1.2 The Portfolio shall be managed in accordance with any applicable legal requirement, notwithstanding any indication to the contrary that may be deduced from the Statement.

LEGAL REQUIREMENTS APPLICABLE TO THIS ACCOUNT:

- 1.3 With respect to any portion of the Portfolio invested in pooled funds or mutual funds, the provisions of the Investment Policy Statement of the funds in question shall take precedence over those of this Statement. However, the provisions of the Statement that do not conflict with those of the Investment Policy Statements of the mutual funds, especially those regarding the sharing of responsibilities (section 2 of the Statement) and oversight (section 9 of the Statement) shall remain applicable.

2. RESPONSIBILITIES

- 2.1 Investment of the Portfolio shall be the responsibility of the Investment Committee of the United Church of Canada (the “Committee”). The Investment Committee is a sub-committee of the Permanent Committee on Finance.
- 2.2 The Committee may delegate to agents and advisers some of its responsibilities regarding investment of the Portfolio. In particular, it shall retain the services of a securities custodian (the “Custodian”) and one or more portfolio managers (the “Manager(s)”). It may also engage an advisor on proxy voting and shareholder engagements. Any person to whom the Committee delegates responsibilities regarding investment of the Portfolio or other duties shall comply with the provisions of the Statement.
- 2.3 The Committee shall conclude with its agents and advisors agreements that include:
 - (a) A description of the services to be rendered;
 - (b) The way the services will be delivered;
 - (c) The amount of the fees to be paid; and
 - (d) The rules regarding termination of the mandate.
- 2.4 The Committee shall maintain an active role at least as regards:
 - (a) Development and revision of the Statement;
 - (b) Selection, supervision, appointment, and termination of agents and advisors;
 - (c) Provide input on the allocation of assets and currency hedging;

- (d) Management of the Responsible Investment Policy; and
- (e) Direction of the proxy voting and shareholder engagement.

2.5 The role of the Manager(s) are to:

- (a) Allocate the assets among the authorized asset classes;
- (b) Make decisions on asset allocation within the guidelines of this document, excluding funds externally managed;
- (c) Select securities or investments within each asset class;
- (d) Explain forecasts regarding the economy and the financial markets, integration of environmental, social and governance factors, as well as its investment strategy in such circumstances;
- (e) Provide advice regarding management of the Portfolio at the Committee's request; and
- (f) Vote proxies if requested by the Committee and report its voting to the Committee.

2.6 The role of the Securities Custodian and Annuities Custodian are to:

- (a) Ensure safekeeping of the assets;
- (b) Receive interest payments, payments on maturity and other cash distributions in respect of the securities;
- (c) Exercise the other privileges attached to the securities or disclose their existence to those responsible for exercising them and act in accordance with their directives;
- (d) Carry out transactions in accordance with the directives of the Committee or of the Manager(s);
- (e) Make payments regarding expenses related to transactions and take measures to recover sums of money owed the Portfolio;
- (f) Inform the Manager(s) of the cash available for investment;
- (g) Invest the residual cash;
- (h) Provide the agreed-on information to the Committee as well as to its agents and advisors;
- (i) Maintain a statement of all transactions; and
- (j) Provide periodic statements regarding inflows and outflow of funds as well as a balance sheet.

2.7 The role of a Proxy Voting and Engagement services provider is to assist the Committee in integrating environmental, social and governance issues into the investment management process through shareholder engagement and proxy voting.

3. SITUATION OF UNITED CHURCH

3.1 The General Funds (Fund) consist of a variety of trust, endowment and reserve funds as well as non-designated funds and working capital of the United Church of Canada (Church). For investment purposes, these funds are managed on a combined basis as one portfolio (Portfolio).

The Fund's cash inflows are heaviest in December and January. Expenses of the Fund are more uniform throughout the year. Because the Fund is operational in nature, the size remains relatively static over time. The Fund's purpose is to provide the financial resources for the work of the National Offices of the Church. The investments are for the long term and the Investment

Committee needs to be kept informed of any liquidity requirements, or annual or anticipated draw on the investments.

The objective of the Portfolio is to provide:

- i) sufficient income to ensure the financial objectives of the Fund are achieved;
- ii) the preservation of capital so future commitments of the Fund can be achieved;
- iii) liquidity within the Fund to meet the needs for expected cashflows or expenditures; and,
- iv) modest growth in the Fund to mitigate the effects of inflation.

3.2 The Portfolio returns are not taxable.

4. PORTFOLIO BENCHMARK AND INVESTMENT OBJECTIVE

4.1 Excluding annuities issued to The United Church of Canada members, and excluding investments we choose to make ourselves, the Portfolio's assets shall be allocated as follows:

| Asset class (group) | Allocation as a % of market value | | |
|---------------------------------------|--|---------------|----------------|
| | <i>Minimum</i> | <i>Target</i> | <i>Maximum</i> |
| <i>Cash and Short-term securities</i> | 0% | 0% | 10% |
| <i>Marketable Bonds</i> | 20% | 30% | 45% |
| | | | |
| <i>Canadian equities</i> | 15% | 30% | 40% |
| <i>Non-Canadian equities</i> | 15% | 30% | 45% |
| <i>Marketable Equities</i> | 30% | 60% | 75% |
| <i>Alternative Strategies</i> | 5% | 10% | 15% |

4.2 The asset allocation has been established as a function of the undertakings of the Portfolio and the objectives of the Church. It corresponds to the risk/return trade-off defined by the Committee in line with the long-term outlook on the capital markets.

4.3 Securities held in a mutual fund or pooled fund are included in the asset class that includes most of the fund in question.

4.4 Derivative products as well as collateral held in respect of them are included in the asset class that includes the securities whose return or price is the basis for evaluation of such derivative products.

4.5 Investment objective

The target added value return taking into account the parameters of the allocation by asset class is 1% per year (after fees) over a four-year moving period.

4.6 Investments that are not primarily denominated in Canadian dollars will be subject to a currency hedging guideline as detailed in Section 5.6.

4.7 The United Church of Canada annuities portfolio should be invested in Canadian investment grade bonds that meet the forecasted cashflow obligations of the annuity contracts. The bond portfolio should have terms and coupons that match the obligations as close as possible.

5. **AUTHORIZED INVESTMENTS**

Only the investments stated below are permitted, in accordance with the constraints specified for each asset class. All constraints are based on market value unless otherwise specified.

5.1 Cash and Short Term Securities

- (a) Permitted securities: cash, demand deposits, treasury bills, short-term notes, bonds, bankers' acceptances and government papers, term deposits, guaranteed investment certificates or other financial instruments issued by chartered banks, insurance companies, trust companies or savings banks, commercial paper, strip coupons and strip bonds, floating rate securities (adjusted at least twice a year).
- (b) The average maturity for short-term securities must not exceed one year.
- (c) A minimum of 80% of the money market allocation must be invested in cash or fixed-income securities maturing within 12 months.
- (d) The maximum maturity date for any one security must not exceed two years.
- (e) All corporate securities must have a minimum credit rating of R-1 Low by the Dominion Bond Rating Service (DBRS) or equivalent.
- (f) The maximum invested in a corporate issuer, excluding term deposit receipts maturing 15 days following the date purchased, must not exceed 10 % of the market value of short-term securities if its credit rating is R-1 Middle or better, and 5 % if its credit rating is R-1 Low.
- (g) Allocation by type of issuer ¹

| <u>Type of Issuer</u> | <u>Minimum</u> | <u>Maximum</u> |
|---|-----------------------|-----------------------|
| Government of Canada (and guarantees) | 0% | 100% |
| Government of a Canadian province (and guarantees) | 0% | 60% |
| Municipal and government-backed bonds | 0% | 40% |
| Total: Canada, provinces and guarantees | 10% | 100% |
| Major Canadian Financial Institutions | 0% | 50% |
| Canadian corporations and other financial institutions ² | 0% | 70% |

¹ Excluding term deposit receipts maturing 15 days following the date purchased

² Including asset-backed securities (ABS)

- The Major Canadian Financial Institutions are the Banks chartered under Schedule A and Caisse centrale Desjardins.

5.2.1 Marketable Debt Securities

- (a) Permitted securities: Bonds (non-convertible), strip coupons and bond residues issued or guaranteed by the Government of Canada, a province, a municipality, or backed by one of these, Canadian corporate debentures or bonds, asset-backed securities, mortgage-backed securities, mortgage loans, term deposits, guaranteed investment certificates and insurer-backed contracts, Canadian preferred shares.
- (b) All corporate bonds must have a minimum credit rating of BBB (no BBB- or BBB (low) permitted) by the Dominion Bond Rating Service (DBRS) or equivalent.
- (c) The minimum credit rating for preferred shares is P-2 (low) or equivalent.
- (d) A maximum of 40% of the bond portfolio shall be invested in corporate bonds.
- (e) A maximum of 10% of the bond portfolio shall be invested in bonds rated BBB (no BBB- or BBB (low) permitted).
- (f) A maximum of 2% of the bond portfolio may be invested in a single corporate issuer that has received the rating BBB.
- (g) A maximum of 3% of the bond portfolio may be invested in a single corporate issuer that has received the rating A.
- (h) A maximum of 20% of the bond portfolio shall be invested in asset-backed securities or mortgage loans.
- (i) A maximum of 10% of the bond portfolio shall be invested in mortgage-backed securities.
- (j) The duration of the bond portfolio may vary by two years around that of the benchmark index.

5.3 Marketable Canadian Equities

- (a) Permitted securities: common stocks, subscription rights and warrants, index participation units, securities convertible into common stock, instalment receipts, income trusts.
- (b) Only equities traded on recognized Canadian stock exchanges or that will be listed on a stock exchange within six months are permitted.
- (c) No one security shall represent more than the weight of the security in the S&P/TSX Composite plus 4%.
- (d) The Canadian Equity section shall be invested in at least 7 out of 10 sectors of the S&P/TSX Composite.
- (e) The market value of Canadian equities invested in securities that are not included in the S&P/TSX Composite index shall be limited to 25%, and each security shall not exceed 5%.
- (f) The Canadian equities portfolio must hold at least 25 securities.

5.4 Marketable Non-Canadian Equities

- (a) Permitted securities: common stocks quoted on the stock exchange, subscription rights and warrants, participation units in U.S. or international stock market indices or any other similar investment offering exposure on the U.S. or international market. For the index mandates or in order to replicate the indices, futures, forward contracts, options, swaps and other similar products are permitted.
- (b) The value of the securities of a single issuer as a percent of the value of all the U.S. or international equities may not exceed 10%.
- (c) The non-Canadian equities portfolio must hold at least 30 securities.

- (d) A maximum of 20% of the international equities portfolio shall be invested in emerging markets.

5.5 Alternative Strategies

- (a) Alternative strategies are investment strategies that seek to generate income, preserve capital but are deemed different to the traditional, core buy-and-hold strategies of marketable debt and equities
- (b) Permitted investments include trust units, limited partnership units; linked notes issued by government or financial institution or listed futures contracts.
- (c) No additional investment in alternative strategies can be made without the express instruction of the Committee.
- (d) Eligible asset classes and asset mix parameters are below.

| | <u>Minimum</u> | <u>Maximum</u> |
|-------------------------|----------------|----------------|
| Real Estate and REITs | 0% | 10% |
| Infrastructure | 0% | 10% |
| Hedge Funds | 0% | 15% |
| Commodities | 0% | 10% |
| Private Debt and Equity | 0% | 10% |

5.6 Currency Hedging

- (a) The Manager(s) are to monitor the currency exposure of the Portfolio and report to the Committee quarterly on the percent hedged, the percent unhedged, the methodology used to hedge the currency exposure and disclose the name and credit rating of any counterparty(ies) involved in hedging.
- (b) The Fund is to currency hedge a minimum of 20% and a maximum of 80% of the non-Canadian denominated investments using conventional forward agreements or listed currency futures contracts
- (c) The counterparty for any currency forward agreement should be a Canadian bank with a minimum senior debt rating of R-1 (low) by DBRS
- (d) The amount that is currency hedged will be reset periodically based on input from both the Manager(s) and the Committee

6. MANAGER(S) DIRECTIVES

- 6.1 The Manager(s) provide active management services and has full discretion with respect to the selection of securities and discretion with respect to the allocation by asset class, subject to the provisions of the Statement, in order to reach the targeted added value.
- 6.2 The investments shall be selected with due regard for the Portfolio's overall risk level and expected return. The Manager(s) do not have to take into account interactions with the investments that are the responsibility of other managers.

- 6.3 The Manager(s) may not borrow on behalf of the Portfolio or use the Portfolio as a loan guarantee without the Committee's approval. The Manager(s) may, however, create unforeseen overdrafts when the cash is insufficient to settle a purchase.
- 6.4 The Manager(s) shall not engage in the following activities without the Committee's approval or such investment mandate expressly requires such activity:
- i) Purchases of securities on margin;
 - ii) Loans to individuals; and
 - iii) Short selling.
- 6.5 To the extent that the investment proceeds obtained by the Manager(s) are similar to those delivered to other clients, the returns are deemed comparable. Except when the differences are due to cash flow, the Manager(s) shall inform the Committee in advance of the reasons for significant differences.
- 6.6 The Church has adopted a Responsible Investment Policy. It is outlined in Appendix A. The Manager(s) will invest in a manner consistent with the Responsible Investment Policy.

7. VOTING RIGHTS

- 7.1 Whoever is assigned to do the voting shall exercise the voting rights associated with the securities in the Portfolio in the best interests of the United Church of Canada. The Committee may engage a service provider to vote the proxies. The Committee reserves the right, however, to exercise such voting rights as it deems appropriate.
- 7.2 If the Committee should require the Manager(s) to exercise the voting rights on its behalf, the Manager(s) shall provide the committee with its proxy voting guidelines, and record and report quarterly on the exercise of the voting rights. The Committee may give direction to the Manager(s) on specific votes.
- 7.3 The Committee may use its proxies for the purposes of participating in the annual meetings of companies and communicating with other shareholders, should issues arise related to companies in its portfolio that cannot be resolved through correspondence and meetings with a company's management.
- 7.4 Whoever is assigned to do the voting shall record the exercise of the Portfolio's voting rights.
- 7.5 The Fund's proxy voting record shall be available publicly on the United Church web site.

8. **OVERSIGHT**

- 8.1 Each quarter, the Manager(s) shall send the Committee a statement declaring compliance with the provisions of the Statement.
- 8.2 Each month, the Manager(s) shall send to the Executive Officer of Finance a statement setting forth the transactions carried out during the month as well as a month-end Portfolio statement.
- 8.3 The Custodian shall determine the market value of each investment in the Portfolio at the end of each quarter. The Custodian shall use a method deemed acceptable by the Committee to evaluate investments that are not traded frequently. The value of an investment in this category that is likely to represent more than 1% of the market value of the Portfolio shall be established by a qualified independent evaluator or by a unanimous resolution of the Committee at least once every three years.
- 8.4 The Portfolio's return shall be evaluated on a quarterly basis. The Manager(s) adds value through active management of security selection and allocation by asset class within the tactical allocation range. The value added is determined by a comparison of the Portfolio's weighted return over time with that of a weighted average of predetermined market indexes. The Manager(s) is to select an appropriate FTSE TMX index or indices. The predetermined market indexes are as follows:

| Asset class | Market index |
|------------------------|--|
| Short-term securities | Government of Canada 91-day treasury bills |
| Bonds | FTSE TMX Canada Index |
| Canadian equities | S&P/TSX Composite |
| U.S. equities | S&P 500 (in Canadian \$) |
| International equities | Morgan Stanley Capital International EAFE (in Canadian \$) |

Benchmarks for Alternatives Strategies will be determined through discussion between the Committee and the Manager(s) and established at the start of any new alternative investment strategy.

- 8.5 At the Committee's request, the Manager(s) shall:
- i) Provide information regarding any new development affecting the firm and its services;
 - ii) Review the transactions carried out in the latest period, the statement of the securities held at the end of the period and explain how they fit into the strategy;
 - iii) Explain the latest performance;
 - iv) Provide a brief economic forecast as well as its strategy in such circumstances; and
 - v) Report to the Committee at least annually on how it integrates responsible investment guidelines into the selection of assets in the portfolio and the exercise of ownership rights.

8.6 No part of the investment portfolio shall be loaned to any member of the Investment Committee, Finance Committee, any employee of the church, an investment manager or investment advisor, or any organization owned or controlled by any of the foregoing. Further, it is expected that no Investment Committee member or agent thereof, shall make any personal financial gain (direct or indirect) because of their fiduciary position.

9. **REVISION**

9.1 The Statement shall be reviewed at least once a year.

9.2 Significant changes in the following areas may give rise to a revision:

- i) The long-term risk/return trade-off on the capital markets;
- ii) The Portfolio's undertakings;
- iii) Risk tolerance; and
- iv) The legislative framework.

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**Investment Committee
United Church of Canada**

Name and Title: **Erik Mathiesen, Chief Financial Officer**

Signature: _____



Name and Title: **Brian Cornelius, Chair, Permanent Committee of Finance**

Signature: _____



Fiera Capital Corporation

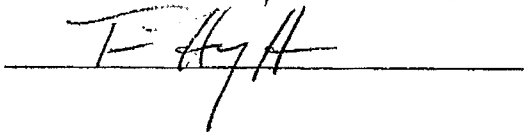
Name and Title: Benjamin Luk, Assistant Vice President

Signature: _____



Name and Title: TIM HYLTON, Sr Vice Pres.

Signature: _____



APPENDIX A: RESPONSIBLE INVESTMENT POLICY

1. OUR BELIEFS ABOUT RESPONSIBLE INVESTMENT

1.1 Responsible Investment (“RI”) is based on the understanding that environmental, social and corporate governance (“ESG”) factors can have a material impact on the operations of companies and on investment markets, and analysis of ESG factors can therefore improve investment outcomes from a risk/return perspective.

1.2 The financial success of the portfolio in the long term depends on a healthy society and a healthy environment. Therefore, Responsible Investment includes concern with market-wide issues.

1.3 Integration of ESG factors in decisions to buy, hold or sell specific securities in the portfolio shall be complemented by active ownership, which involves investors using their position as shareholders to change corporate behaviour, generally through their exercise of voting rights and engagement.

2. IMPLEMENTATION OF RESPONSIBLE INVESTMENT

2.1 The Investment Committee’s responsible investment program shall include both principled purchasing decisions and active ownership strategies. It shall follow a multi-strategy approach:

- stock screening;
- ESG integration;
- targeted, themed or impact investments;
- proxy voting; and
- corporate dialogues and shareholder resolutions.

2.2 The policy will be applied progressively across all asset classes, beginning with domestic equities.

2.3 The policy will also be applied to pooled funds, in that the Committee will seek to work with funds that have adopted a responsible investment approach to asset selection and active ownership. The Committee will engage in dialogue with pooled fund managers in this regard.

2.4 The Investment Committee recognizes that assistance is available from external service providers in the implementation of RI policies. This assistance includes RI products, RI research, corporate RI advocacy services and approaches to positive and negative RI screening of securities. On an ongoing basis, the Investment Committee shall research the relevance and potential benefits of these services to the RI implementation process and retain services as needed. The Committee shall include criteria based on the Responsible Investment Policy in the selection and monitoring of service providers.

2.5 The Investment Committee may consult the Responsible Investment Reference Group of The United Church of Canada in implementing the Responsible Investment Policy.

2.6 In implementing the Responsible Investment policy, the Investment Committee shall endeavour to be consistent with stated United Church policies relating to issues of corporate social responsibility

and responsible investment. Some earlier policies of the Investment Committee, Treasury Department, Board or Division of Finance, General Council or its Executive were summarized in March, 1989 in “Corporate Social Responsibility Guidelines”. Others are found in subsequent actions of the General Council, e.g. the 2007 decision to sign the Carbon Disclosure Project.

2.7 To reflect the United Church’s abiding concern for Indigenous peoples’ rights to environmental, social and governance security, the Investment Committee may seek from the Responsible Investment Reference Group advice as to the most effective use of all available investment strategies for the promotion of the principles of free, prior and informed consent by Indigenous peoples (including Canada’s First Nations), particularly in connection with the development, utilization of mineral, water or other resources.

2.8 Where the courts of the church have ESG-related concerns regarding specific companies or industries, these will be considered by the Investment Committee or, if requested mandated by the Committee, by the Responsible Investment Reference Group.

3. STOCK SCREENING

3.1 The Fund shall not be invested in the securities of companies primarily engaged in:

- development, manufacture or sale of weapons or weapon delivery systems;
- preparation, distribution and sale of salacious or pornographic materials;
- the manufacture and sale of tobacco products; or
- gambling activities
- The Fund shall not invest in fossil fuels

The Investment Committee has a 5% threshold.

The Investment Committee will develop and periodically review a separate guideline for determining the materiality of a company’s participation in these specified industries. On request of the Investment Committee, the Responsible Investment Reference Group will provide advice regarding revision of this guideline.

3.2 Existing and potential investments shall be subject to a qualitative analysis based on environmental, social and governance (ESG) criteria such as corporate governance, community development and relations, human rights practices, respect for indigenous rights (including free, prior and informed consent), employee practices, environmental practices, product safety and impact, and customer relations.

The Investment Committee holds their investment manager(s) accountable for performance standards for the measurement of qualitative criteria shall include the principles of the following international agreements, all having the support of the Canadian government: The UN Universal Declaration of Human Rights, The UN Declaration on the Rights of Indigenous Peoples, The International Labour Organization’s Fundamental Principles and Rights at Work, The International Labour Organization’s Tripartite Declaration of Principles Concerning Multinational Enterprises, Social Policy, UN PRI. The Investment Committee will also hold their investment manager(s) accountable for the performance standards guided by the principles of the following international standards: The UN Global Compact, The Global Reporting Initiative Guidelines, The Voluntary Principles on Security

and Human Rights, OECD Guidelines for Multinational Enterprises, and the UN Human Rights Council's Guiding Principles on Business and Human Rights.

3.3 Role of the Manager

The Investment Committee relies on its Manager(s) to select companies for the portfolio that comply with the screening criteria. In choosing between two companies with equal investment prospects, the Managers should select the company with the more favourable environmental, social and governance characteristics. Where the investment manager concludes that a company it has selected for inclusion in the portfolio does not meet the screening criteria set out in this Policy and no acceptable alternative exists that meets the portfolio's requirement for yield, quality and diversification, it should immediately notify the Investment Committee and seek its direction.

3.4 Role of the Investment Committee

3.4.1 As part of its general responsibilities to oversee the investment of the Fund, the Investment Committee has a responsibility to ensure that RI criteria are applied. In the event that the Committee is advised by a Manager that it cannot apply RI criteria by substituting an appropriate alternative investment without jeopardizing the quality, yield or diversification of its portfolio, the Committee will undertake an analysis of the individual situation. That analysis will include:

- review of the qualitative and financial analysis
- consideration of the impact of the particular investment on the quality, yield and diversification of the Fund
- acquisition of expert advice deemed appropriate
- consideration of input from other interested parties.

Once its analysis is completed the Committee will notify the Manager of its decision.

3.4.2 The Investment Committee is also responsible for periodic review of the screening criteria.

4. **ESG INTEGRATION**

The rationale behind ESG integration is that performance of companies on ESG criteria can ultimately affect, either positively or negatively, overall corporate performance and the returns generated by investment portfolios. The Investment Committee will assess fund managers' approaches to ESG integration as part of the manager selection process. It will also regularly monitor the performance of fund managers regarding their approach to ESG integration.

5. **TARGETED, THEMED OR IMPACT INVESTMENTS**

Targeted, themed or impact investing is a variant of positive screening. The Investment Committee will be open to such investment opportunities when they support the mission priorities of the United Church.

6. **PROXY VOTING**

The Investment Committee shall develop proxy voting guidelines for the exercise of its voting rights and review its proxy voting guidelines at least biennially. It shall monitor the exercise of its proxy voting by any service providers.

7. CORPORATE DIALOGUES AND SHAREHOLDER PROPOSALS

As part of its responsibility for implementing the RI policy, the Investment Committee, shall develop a plan for shareholder engagement to improve the level of information available to companies in which it invests and influence their responsible business practices. This shall be conducted through a proactive dialogue with companies, or in some cases the filing of a shareholder proposal, independently or in collaboration with investor groups.

Revision History

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