**DECISION ITEM**

| | |
|---|---|
| **BOARD/COMMITTEE:** | **BOARD OF DIRECTORS** |
| **MEETING DATE:** | **May 27, 2026** |
| **AGENDA ITEM:** | **Investment Policy** |

## RECOMMENDATION:

**The Finance Committee recommends that the Board approve the updated investment policy attached in Appendix A.**

## SUMMARY OF KEY ISSUES:

- RODS approved its current investment policy on September 25, 2024. RODS did not have an investment policy prior to this.
- The existing policy authorizes RODS to invest in fixed income securities rather than being limited to holding its funds in bank accounts. The policy was intended to be a temporary solution to enable RODS to earn incremental interest income until a more sophisticated investment policy could be developed.
- RODS' investment policy should align with the Board's intentions with respect to using its financial reserves**. RODS' Board has never formally articulated these intentions.**

## BACKGROUND AND ANALYSIS:

RODS is primarily a program delivery agent for the federal and provincial governments. This means that RODS does not self-fund its programs. Instead, it only spends dollars that can be recovered from governments under its program delivery agreements.

The fee-for-service model greatly reduces financial risk by enabling RODS to recover its costs from governments. This means that RODS has never had any material uncollectible amounts, and has been able to run a small surplus in each of the past 20 years.

**Implicit in RODS' business model is that it has no obvious operational use for the surpluses that it has accumulated over its 50 year history.** The value of these surpluses grew following a $2,500,000 donation of property that RODS' received in 2013. By March 31, 2025, RODS' liquid reserves exceeded $4,000,000. The sale of Reception House in Fall 2025 boosted RODS' liquid reserves to more than $4,200,000 at December 31, 2025.

Philosophically, RODS' investment policy should align with the intended use of its reserves. In the absence of a plan, the default setting is that acceptable investments are limited to cashable guaranteed investment certificates (since August 2024) and bank deposits (prior to August 2024).

The existing investment policy has earned incremental investment income of approximately $100,000 since being implemented in September 2024, however this is well short of what would have been earned through more sophisticated asset management.

## KEY COMPONENTS OF THE PROPOSED POLICY

RODS' proposed investment policy appears in Appendix A. The existing policy is in Appendix B.

**The overarching goal of the proposed policy is to, over a period of 5+ years, optimize the investment income earned by RODS' investment portfolio while preserving its capital in 'real' dollars (i.e. after considering inflation).**

**This means:**

- **losses may occur in any given year (see Appendix D for an approximation of the return on the portfolio had in been in place from April 1, 2016 to April 1, 2024), however the portfolio will be designed to minimize losses over the medium term; AND,**
- **if the Board decides to liquidate material amounts of the portfolio on short notice, there is no assurance that its original investment will be recovered.**

Specific aspects of the policy are as follows:

- **The policy explicitly recognizes that the purpose of RODS' investment portfolio is to fund longer term community initiatives rather than short-term ongoing operational objectives.**
- The policy distinguishes between cash held for operational purposes and amounts held for long-term investment.
- The policy does not permit RODS to use leverage in its investment portfolio, however it MAY be the case that RODS is required to use its line of credit while investments exist. Where this occurs, RODS will attempt to liquidate investments as soon as is prudently possible to extinguish the borrowing.
- The policy prioritizes exposure to pooled investment funds (e.g. mutual funds, exchange traded funds) to promote liquidity and diversification.
- Asset allocation is 50% weighted toward fixed income products to reduce risk and to leverage RODS' tax exempt status.
- The policy is intentionally silent on defining any expectations with respect to 'ethical' or 'socially responsible' investing because this an area that is highly complex, subjective and not mission-related.

- **The Finance Committee will report to the Board on investment performance on a quarterly basis as part of the Board's review of the quarterly operational results.**
- The Finance Committee will receive an annual compliance report from the investment manager regarding compliance with the investment policy.

## ANALYSIS

There are no generally accepted standards for the level of detail of an investment policy; it can be as simple or as complicated as desired.

**The key consideration is determining what the entity is attempting to achieve with its investment portfolio;** the policy simply codifies boundaries to be observed in the pursuit of these objectives.

**The development of an investment policy for RODS is greatly complicated by the absence of a vision for the use of RODS' reserves.** The lack of a plan means that RODS bears an 'opportunity cost', which means that the cost is not easily visible in RODS' financial information because RODS' financial statements quantify the impact of transactions that DID occur, but they cannot account for missed opportunities.

**A decision on reserve utilization can occur at a very high level. For example, it can be as simple as a formal recognition that reserves are intended to fund the long-term activities of RODS rather than be used for immediate operational spending.** In the absence of a plan, the default assumption is that the funds are needed for operational purposes, as reflected in RODS' operational reserve of $2.9 million at March 31, 2025 even though such a reserve has never been needed. Likewise, RODS reported unrestricted net assets of $0.9 million, which pertains to amounts that have not been earmarked for any particular purpose.

**To address the above issue, the draft investment policy contains an explicit acknowledgement that the purpose of RODS' investment policy is to fund medium-term and long-term community initiatives.**

**If approved, the Finance Committee will amend reserves policy as soon as possible to reflect the Board's intentions, and this will be reflected in the March 31, 2027 financial statements.**

Given the draft policy's recommended asset allocation of a 50/50 split between fixed income securities and equities, it is reasonable for RODS to expect an annual return <u>after fees</u> of approximately 5.5% based on historical returns from these asset categories over the past 100 years. This return would be expected to outperform a pure GIC strategy by about 3.5% per year, or roughly $70,000 per year on a $2 million portfolio.

## ALTERNATIVES

1. Leave the investment policy unchanged (note: the Board's current investment policy is section C-XVI of the Governance Policy Manual - see Appendix C).

- The existing policy restricts RODS' investments to fixed income securities, which will almost certainly result in lower investment income over the long term.

2. Adopt a different target asset allocation. The proposed 50/50 target could be modified to any other level. The 3.5% long-term annual real return expected from a 50/50 asset allocation would be expected to change by 0.4% for each 10% change in weighting between equities and fixed income.

| Fixed Income | Equities | Expected Annual REAL Return |
|---|---|---|
| 100% | 0% | 1.5% |
| 90% | 10% | 1.9% |
| 80% | 20% | 2.3% |
| 70% | 30% | 2.7% |
| 60% | 40% | 3.1% |
| **50%** | **50%** | **3.5%** |
| 40% | 60% | 3.9% |
| 30% | 70% | 4.3% |
| 20% | 80% | 4.7% |
| 10% | 90% | 5.1% |
| 0% | 100% | 5.5% |

Asset allocations shaded in green in the above table represent unconventional asset mixes for the portfolio of a not-for-profit organization.

## IMPLICATIONS:

Generally accepted accounting principles will require RODS to report its investments at market value, with any changes in their value reported as part of the annual surplus or deficit. **This will materially increase the volatility of RODS' results and make it more difficult for stakeholders to compare outcomes from year to year.**

Appendix E illustrates RODS' actual annual surpluses and compares them to an estimate of what would have occurred had RODS held its proposed portfolio during those years.

## ADVANCED CONSULTATION:

Meetings by the Finance Committee with RBC Dominion Securities on February 27, March 12 and March 18, 2026.

## COMMUNICATION STRATEGY:

RODS' investment policy will be communicated to its investment manager if one is hired to administer the policy.

## TIMEFRAME/CONSEQUENCES OF DEFERRING DECISION:

At May 11, 2026, RODS held $1,400,000 of GICs bearing interest at 2.45% plus $1,760,000 of other interest bearing short-term investments for a total of $3,160,000. The proposed portfolio would have a long-term expected annual real return of ~3.50%, which is ~3.50% higher than the real return being provided by the existing investments. This translates into a difference of roughly $300 per day or $9,000 per month.

# APPENDIX A: Draft Investment Policy (May/26)

## Purpose

To establish guidelines to govern the investment of RODS' cash balances that are not required for operating purposes.

## Objectives

The portfolio is to be constructed to optimize growth and preserve capital over a term of 5+ years. At all times, the portfolio should be sufficiently liquid to accommodate any specific operating and capital withdrawals that may be required.

## Cash Flow Needs

RODS does not require a scheduled stream of investment income to fund its day to day operations. RODS' portfolio exists for the purpose of funding ad hoc community initiatives as determined by management and approved by the Board.

## Planning Horizon

Investment recommendations will be made with a 3 to 5-year view. Results are to be measured annually and reported quarterly.

## Scope

These policy guidelines are applicable to all funds managed by RODS, however the provisions applicable to long-term assets differ from the guidelines related to operational funds (i.e. funds that are held in the expectation of being used in current year operations).

## Utilization of an External Investment Manager

RODS' Board of Directors may delegate the responsibility for investment management to an external party such as investment manager or other agent or advisor. Where this occurs, the external manager must:

- ensure portfolio's ongoing compliance with this policy, including rebalancing the portfolio from time to time to align it with target asset allocation levels;
- administer requests for receipts and redemptions from RODS' account on a timely basis;
- ensure that requests for receipts and redemptions are processed in accordance with sound internal controls;
- provide monthly reports (or electronic access to monthly reports) of account activities or balances to RODS; and,
- provide an annual review to the Finance Committee of the performance of the portfolio, including policy compliance, rate of return, comparisons to benchmarks, and a statement of costs/fees charged by the external manager.

- meet with the Finance Committee or Board of RODS as requested; and
- advise RODS' administration of any material changes to personnel involved in the external investment management of RODS' portfolio.

## INVESTMENT GUIDELINES

### 1) Definition and Investment Philosophy

All investments managed for RODS will be invested in accordance with prudent investment management principles. Investments will at all times be based on the requirement for safety, liquidity, and yield in that order of importance.

Where an external investment manager is used, preference will be given to dealing with firms with which RODS has operational banking arrangements.

### 2) Scope of Investments

All investments made by RODS will fall into one of two categories:

i) Operational funds – these investments involve funds that are reasonably expected to be needed for operational purposes within one year. These amounts may be held in bank accounts or else invested in cashable GICs or money market securities at a bank with which RODS has a bank account.
ii) Long-term investments – these investments pertain to funds that RODS does not expect to require within the following 12 months. RODS may procure investment management services from an external provider for these investments. The manager of these investments (whether external or internal) is responsible for adhering to the terms and conditions of this policy.

### 3) Application

This Investment Policy will be implemented and monitored by the Finance Committee. Any changes to these Investment Policy Guidelines must be approved by the Board of Directors.

### 4) Investment Quality Guidelines

<u>Pooled Investment Funds</u>

To optimize liquidity, RODS maintains a preference for pooled investment funds (e.g. exchange traded funds or mutual funds) over direct investment in fixed income products or equities. The exception to this rule is money market securities that are held for the purpose of earning incremental short-term investment income.

Where there is a conflict between the investment policy of a pooled fund and this policy, the policy of the pooled fund shall prevail, however any conflicts must be less than 10% of the investment.

For a fixed income investment in a pooled fund, the duration of the pooled fund's portfolio will be treated as the term of the security and the average credit rating will be treated as the rating of the security (e.g. it is acceptable for a pooled fixed income funds to hold securities of exceptionally short or long duration as long as the portfolio in its entirety aligns with RODS' investment objectives).

<u>Direct Investments</u>

All individual debt securities will be rated "BBB" (investment grade) rating (R-1 for money market securities) or better by a recognized Rating Agency unless purchased by an Investment Manager as part of an overall fixed income portfolio.

Preferred securities will be rated P-3 or better.

No direct equity investment shall be made in any listed company with a market value capitalization of less than $100 million.

<u>Rules Applicable to RODS' Entire Portfolio</u>

- There should be no concentration of investment in any geographic area or country or industry sector with the exception of the Government of Canada and its agencies.
- No equity investment in a company shall exceed 10% of the total portfolio.
- The cumulative equity investment in one industry will not exceed 25% of the total portfolio.
- All investments must be in Canadian dollars.
- RODS will not engage in any investment activity that would be considered unreasonably speculative pursuant to conservative investment management.
- RODS will not engage in securities lending except within pooled investment funds for which this is a practice.
- RODS will not borrow for the purpose of investment except where utilizing its line of credit is a prudent means of managing a short-term cash flow timing issue.
- Any securities donated to RODS are to be liquidated as soon as practicable, with the proceeds invested in accordance with this policy.
- Internal controls authorizing transfers to and from an external investment manager should mirror those of RODS' other cash transactions (i.e. cheques, electronic funds transfers) to the extent possible.

### Asset Mix Guidelines

The overall portfolio will be invested in money market securities, longer dated fixed income securities, and equities in accordance with the following guidelines:

| | Minimum | Maximum | Target |
|---|---|---|---|
| **Cash and short-term** | **0%** | **50%** | **0%** |
| Fixed income (> 1 year) | | | |
| Canadian | 25% | 60% | 40% |
| U.S and international | 0% | 20% | 10% |
| **Total fixed income** | **25%** | **60%** | **50%** |
| Canadian equities | 10% | 30% | 20% |
| Non-Canadian equities | | | |
| U.S. equities | 10% | 20% | 15% |
| International equities | 10% | 20% | 15% |
| **Total equities** | **40%** | **60%** | **50%** |
| **TOTAL** | | | **100%** |

The target return on the portfolio is a real return (i.e. after inflation) of 3.5% per year after investment fees and related expenses over a 5 year period.

The 3.5% target return is based on a 1.5% real return on fixed income and a 5.5% real return on equities in a portfolio that has a 50%/50% allocation to fixed income and equities.

### 5) Decision Making

- All recommendations will be made within the context of the objectives, asset allocation guidelines and the constraints set out above.
- All recommended investments and portfolio changes will be made by the decision of the client.

### 6) Payment and Safekeeping

- Only cash accounts may be opened on behalf of the RODS; margin accounts are prohibited.
- To optimize liquidity, all withdrawals of monies from investment accounts shall be through electronic funds transfer to the appropriate banking account wherever possible.

- An Investment Dealer or qualified financial institution approved by the Finance Committee will keep securities purchased in safekeeping.

**7) Reporting and Review**

Regular contact, monthly and quarterly reporting shall be with the Executive Director of RODS and the Accounting Manager.

**Regularly**

Day to day contact as needed.

.

**Monthly**

Trade confirmations and a monthly statement itemizing all transactions.

**Quarterly**

A comprehensive portfolio valuation and rate of return calculation.

**Annually**

- An annual review with the Finance Committee providing a comprehensive portfolio review including performance evaluation and a review of this policy statement to ensure it continues to meet requirements.

- Details of any variation from stated investment policy.

**8) Policy Review**

This policy shall be reviewed annually by the Finance Committee, ensuring it remains consistent with the overall objectives of, prudent and conservative in investment practices. This policy shall be reviewed and updated more frequently if necessary.

The Finance Committee shall present all proposed changes to the Investment Policy to the Board for approval.

# APPENDIX B – EXISTING INVESTMENT POLICY

| **NAME OF POLICY** | **C-XVI: Investment Policy** | |
|---|---|---|
| **CONSTITUTION & OTHER REFERENCES** | *The Saskatchewan Non-Profit Act, 2022 – Part 9* | |
| **APPROVAL DATE: OCTOBER 2024** | **Reviewed:** April 24, 2025 | **Revised:** September 25, 2024 |

**Purpose**

The purpose of the Investment Policy (the "Policy") is to optimize the utilization of RODS' cash balances.

The overarching objective of the Policy is to preserve the real (i.e. after inflation) value of RODS' liquid assets.

Any investments are to be managed in accordance with the Policy, and in a manner that considers the trade-offs between investment returns and the prudent management of liquidity risk, credit risk and interest rate risk.

The Board of Directors may delegate the responsibility for investment management to an external party such as investment manager or other agent or advisor. Where this occurs, the third party must accept and adhere to the Policy.

**Permitted Investments**

RODS' investments shall consist entirely of fixed income securities.

Permitted types of fixed income securities include any financial instrument issued or guaranteed by:

- the federal government of Canada;
- any provincial government of Canada;
- RODS' primary financial institution; and,
- any of the following financial institutions:
    - the Royal Bank of Canada;
    - the Toronto-Dominion Bank;
    - the Canadian Imperial Bank of Commerce;
    - the Bank of Nova Scotia;
    - the Bank of Montreal; and
    - o the National Bank of Canada.

**Liquidity of Investments**

To ensure that RODS can meet its obligations as they come due, a minimum of 20% of RODS' portfolio must be maintained in either cash balances or fixed income securities that are cashable on short notice without significant penalty.

**Return on Investments**

RODS' investments can bear a fixed, floating or hybrid rate of interest.

**Term of Investments**

Fixed term investments can have a maturity date of up to 5 years from the date of investment.

**Currency of Investments**

All investments should be denominated in Canadian dollars.

**Authorization of Investments**

Instructions authorizing investment transactions (purchases and redemptions) should mirror those of other cash transactions (i.e. cheques, electronic funds transfers) to the extent possible.

**Performance Measurement**

Interest revenue earned by RODS is a function of prevailing interest rates and available cash balances, both of which are beyond the control of the investment management process. A better measure of performance is the interest earned on RODS' cash balances relative to the bank prime rate, adjusted for the need to maintain operational cash balances.

More specifically, a reasonable performance objective for RODS is to try to capture an average interest rate of at least the Royal Bank of Canada prime rate minus 2.00% minus any interest expense incurred in the cash management process (e.g. interest on a line of credit), but excluding operational bank fees. This benchmark would apply to 80% of RODS' average cash balance, which acknowledges that a significant portion of RODS' cash must be retained in its operating account to manage day to day operations.

**Reporting**

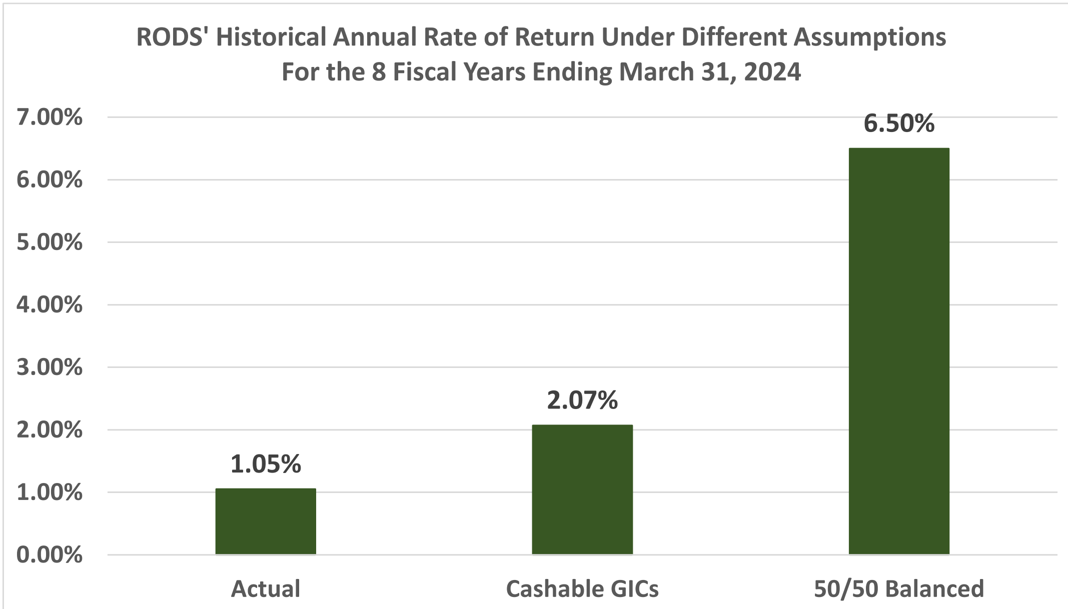
The Finance Committee will report to the Board on RODS' investment activities on at least a quarterly basis.

**Donations of Investments**

RODS can accept donations of securities (including non-fixed income securities), however any such securities are to be liquidated as soon as is practical, and the proceeds invested in accordance with the Policy.

Policy approved by the Board of Directors on October 30, 2024

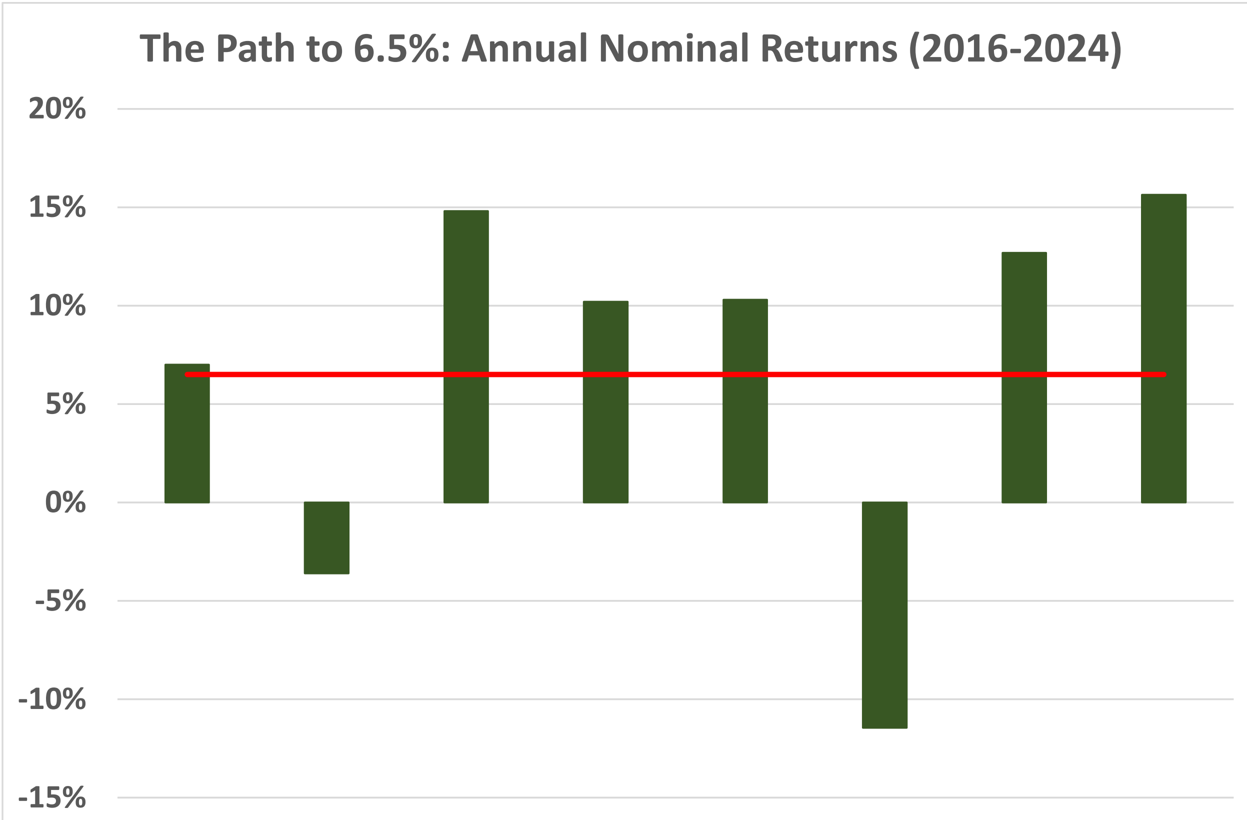
# APPENDIX C: Impact on Investment Income




The above chart shows the impact of RODS' investment choices from April 1, 2016 to March 31, 2024:

- RODS earned an average annual return of 1.05% on average investable cash balances of $1.8 million.
- In early 2024-25, RODS moved its funds to cashable GICs, which added about 1.00% to investment income, or roughly $20,000 per year.
- If RODS had used a 50/50 bond/equity balanced portfolio over this period, a return of approximately 6.50% would likely have been earned, even after fees.

## APPENDIX D: Volatility of Returns Inherent to a Balanced Portfolio

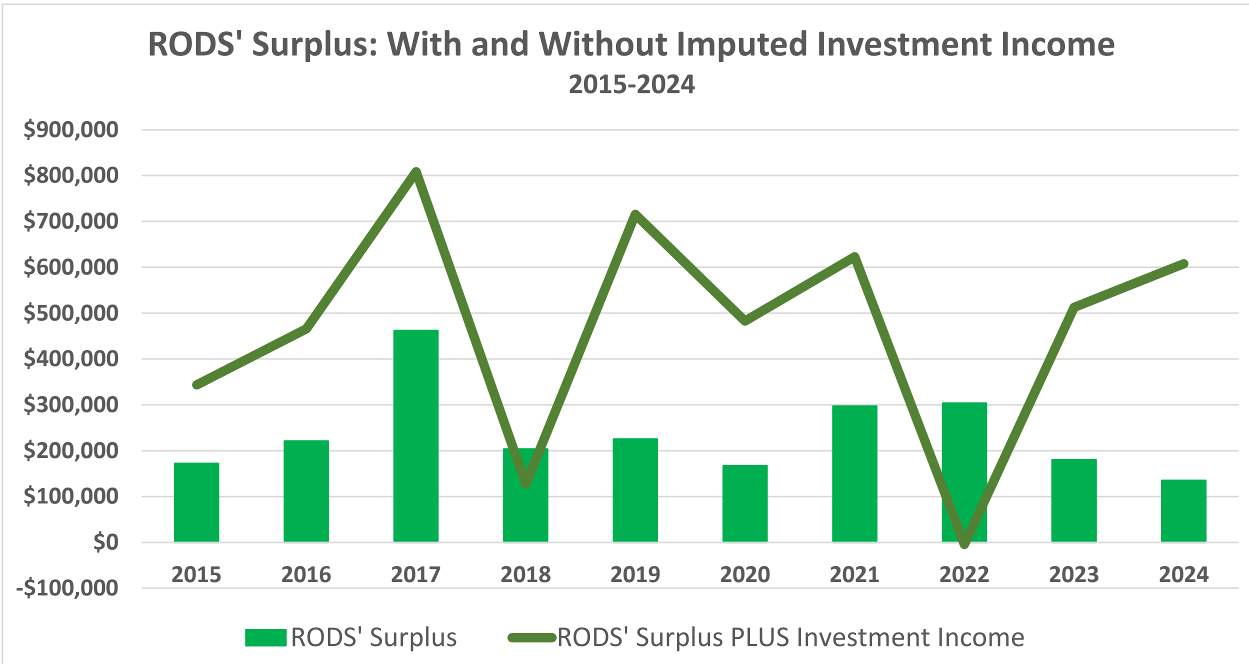



## Conclusions:

- Even though the average compounded return w2016-2024 are as 6.5%, in only one year of the eight year period featured a return between 0% and 10%.
- Two of the eight years featured losses, including one year of severe losses.

**The above observations from 2016 to 2024 are typical of the short-term results associated with a balanced portfolio.**

## APPENDIX E: Impact of Market Valuation of Investments on RODS' Annual Surplus/Deficit




In the 10 years ending in 2024, RODS' surpluses reported in the financial statements ranged from $135k to $462k .

If investment income is imputed on a portfolio of $3.5 million, and the return of a typical balanced fund are assumed, the range of surpluses is far more volatile, with a high of $808k and a low of a loss of $5k.

**The extreme volatility that results from the change in the value of investments makes it more difficult for stakeholders to understand RODS' finances.**