

# Guide to Writing an Investment Policy



## Background

Many church constitutions are quiet on the subject of investments, although from time-to-time most churches have surplus funds which need to be invested. In most cases churches are subject to the *Trustee Act* of their province of residence when making investment decisions. The *Trustee Act* in most provinces provides a list of permitted investments (which usually excludes mutual funds since they came into being long after these Acts were written). A new *Trustee Act* in Ontario, which became effective on July 1, 1999, however replaces the permitted investment list with a simple statement, which has been called the “prudent investor” rule. This requires then that each church will need to decide, for itself, an investment policy to which members can agree.

## Policy considerations

Outlined in the new Act are seven mandatory criteria that must be considered in the process of making investment decisions regarding charitable funds.

- General economic conditions
- The possible effect of inflation
- Any expected tax consequences of investment decisions or strategies
- The role that each investment or course of action plays within the overall investment portfolio
- The expected total return from income and the appreciation of capital
- The needs for liquidity, regularity of income, and preservation or appreciation of capital
- An asset’s special relationship or special value, if any, to the purposes of the charity or to one or more of the beneficiaries.

Not mentioned on this list is the application of ethical or moral criteria, which may be an issue for some.

## Process

Following are some suggestions on how to get started:

- Appoint an investment committee that reports directly to the Board or through the Finance Committee to the congregation.
- Find a qualified investment advisor, who has an understanding of charity law and trust law, to help draft an appropriate policy.
- Gain congregational approval for the policy
- Select an investment manager (i.e. broker or financial institution) to work with the committee, to take care of the actual investment activities and to report the results on a regular basis and in agreed format.
- Minutes of meetings where investment decisions are made are important historical documents. Document carefully all investment decisions along with the rationale for the decision.

## Examples

The CBOQ has two investment policies that have been approved by the Board. These policies could be used as an example of the format for an investment policy. Churches are cautioned however, not to adopt these policies for their own purpose without appropriate review. It is unlikely that either of these policies would be good investment strategies for church funds based on the amount of money available, the investment time horizon and risk tolerance. The CBOQ has also collected a few samples from amongst its member churches. These can be provided through the Treasurer’s Office.

*DISCLAIMER: This guide is provided for information purposes only and is not intended as advice to the local church. Information is current only as of the date that the guide was prepared. Readers are advised to seek professional advice for their particular situation.*