Brighton Yards Housing Co-operative

Investment By-law

By-law No. 13

Article 1: About this By-Law

1.1 Introduction

Historically Brighton yards has invested only in the most secure kinds of investments, for example Guaranteed Investment Certificates (GICs). Bylaw 9 section 24.3b allows investment of government bonds, treasury bills or other securities guaranteed or insured by the governments of Canada or Ontario or a crown corporation or agency. Given the projected pressure on reserve funds, and yields below or near the rate of inflation for all investment vehicles currently available, the board would like the flexibility to invest in other options including equities provided the safeguards outlined below can be met. This is with the objective of minimizing housing charge increases over the long term.

1.2 Priority of this By-law

Bylaw 9 (the Organizational bylaw) takes priority over this bylaw. Under bylaw 9 24.3c this bylaw outlines what other investments to those already outlined in Bylaw 9 section 24.3 are permitted and constrains the procedures the board may follow if it should wish to invest co-op money in them.

Article 2: Conflict of Interest and Risk

2.1 Constraints on Investments to avoid Conflict of Interest:

(a) Investments under this bylaw may only be made using surplus funds in a manner that does not risk the financial stability of the co-operative. What funds can be invested at what level of risk is defined in sections 2.2 and 2.3 below. Constraints on the investment procedure are provided in Article 3.

(b) No funds shall be invested with institutions whose activities knowingly conflict with the goals and principles of the co-operative movement.

(c) No individual involved in the investment activity may personally profit from the use of co-operative funds.

(d) Money earned on investments is to be accrued to the benefit of the co-operative projects as a whole and may not be allocated to individual members.

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Approved by the Membership of Brighton Yards Housing Co-operative October 17, 2021

2.2 Constraints on Investments to Minimize Risk:

(e) Only diversified funds consisting of bundled investment vehicles and purchased through a third party advisor are permitted. Under no circumstance should co-op representatives actively manage funds themselves by picking individual company bonds or equities.

(f) Investments must be liquid enough to sell easily (within one business day) to limit losses or to make available for other uses.

(g) Leveraged investments (borrowing money with the express purpose of investing it) are strictly forbidden. This does not mean the co-op may not carry debt and invest at the same time, it simply means that if debt exists at the same time as long term investments it must have been entered into for a purpose other than investing the borrowed funds.

2.3 Determination of Investable Funds

(a) What constitutes investable surplus funds will be based on a Reserve Fund Study (RFS) backed by the Building Condition Assessment (BCA).

(b) The BCA and RFS must have been conducted in the last five (5) years to access the additional financial instruments allowed under this bylaw.

(c) Funds should be invested in the highest yielding category permissible within two months of becoming available provided they are projected to remain in that category for at least a year.

(d) Equity and fixed income security positions should be wound down in even monthly increments throughout the year ahead of when the RFS indicates they should be in a lower risk category. This is to minimize the risk associated with a sudden market down turn. (e.g. if roof repairs are expected in 3 years, the required funds should be transferred to the near-term-reserve from the mid-term-reserve by selling fixed income securities in even monthly increments such that all the funds are available in the near-term-reserve by the time repairs are projected in the next 2 years.)

(e) If equity markets were down respectively by more than 10% or 20% from a recent high during the last twelve months, a carry-over period of six months or twelve months will be allowed where the sale of equities is delayed and the mid-term-reserve is underfunded. This is to avoid realizing a loss due to a short duration downturn by allowing time for the markets to recover.

2.4 Fund Categories and Levels

(a) ***Near term and Emergency Reserve***:

A. Funds the RFS indicates will be required in the next two (2) years plus at minimum $1,000 per unit in 2020 dollars (indexed to inflation).

B. Allowed Risk: Must be held in investment vehicles with no risk of capital loss.

(b) ***Medium-term Reserve:***

A. Funds the RFS indicates will be needed in more than two (2) years but less than five (5) years. – Mortgages must be paid down to the extent permissible without penalty before building up the medium term reserve.

B. Allowed Risk: Fixed income securities such as bonds where the risk of capital loss due to a market downturn is real but the extent of the potential loss is limited to a few percent in the rare instances where it might occur.

(c) ***Long Term Reserve:***

A. Funds the RFS indicates will be needed in more than five (5) years.

B. Allowed Risk: up to 90% equities, balance fixed income securities. Exact ratio at the discretion of the board and finance committee in consultation with the third party adviser.

2.5 Criteria to be considered when choosing investments:

(a) When making investments, the Board of Directors or Investment Committee shall consider the social purpose of the investments, as well as the risk and rate of return.

(b) To justify the risk, equity investments should reasonably be expected to earn at 3% after costs more than three-year Government of Canada bonds.

(c) Funds shall be invested in the co-operative sector whenever feasible and consistent with this policy.

Article 3: Constraints on the investment procedure.

3.1 How the procedure may be modified:

(a) The investment procedure may be changed at any time by a majority vote of the board.

(b) Changes to the procedure per (a) come into effect at the end of the 10th day after the it has been circulated to the BYHC membership in writing, provided written objections to the change are not received during this interval from more than 5% of the membership. The board is required to record the number of members who submitted written objections in the minutes of its next meeting.

(c) Even if it is subsequently withdrawn, the initial objection of more than 5% of the membership can only be overruled by a motion at a members meeting, and a substantially similar procedure may not be proposed for the next twelve (12) months unless approved by a motion from the membership.

(d) A procedure approved by member's motion takes effect immediately.

3.2 Minimum procedural requirements.

(a) The portion of any committee meetings devoted to investments will be open to any member in good standing with the Co-op.

(b) An investment plan including current fund balances in each of the categories outlined under 2.3 as well as the projected cash flows between categories over the next year per 2.2 c to e must be approved by the board at least annually.

(c) A summary of the current fund balances in each of the categories outlined under 2.3 must be provided to the board at least quarterly.

Schedule A: Investment Procedure

(a) The Investment Committee shall report to the Finance Committee. The Investment Committee's meetings or portion of the Finance Committee meetings devoted to investments will be open to any member in good standing with the Co-op.

(d) The Finance Committee must provide an investment plan annually to the Board. The annual investment plan must include current fund balances in each of the categories outlined under 2.3 as well as the projected cash flows between categories over the next year per 2.2 c to e. This would normally be done as part of the budget process as part of the reserve fund report. In simple terms, the report would primarily consist of what funds are projected to be need in less than 2, 2 to 5 and more than 5 years such that direction on risk level for investments can be given to a third party investment firm.

(e) A summary of the current fund balances in each of the categories outlined under 2.3 must be provided to the board with the monthly statements. This should basically be a table of investments sorted by risk level and compared to the funds needed in 2, 2 to 5 and more than 5 years. This can be the responsibility of the coordinator using a reporting template and based on account balances pulled from the fund management company's web page.

(f) It is recommended that actual implementation of the investment plan be left to a mutual fund management company and that the plan be drafted by or in consultation with such a company.

A. Actual hands on involvement in investing by the investment committee is recommended to be limited to (1) updating the management company as to the target levels in each risk category at budget time each year, and (2) maintaining a reporting template via which the coordinator or finance committee can prepare monthly investment summaries for board oversight.

B. Paragraphs (e) to (g) are for as a contingency under circumstances where the board or investment committee wishes to take a more proactive approach. (only recommended under exceptional circumstances)

(g) Routine transactions for the purposes of paragraph A1f are defined as those consistent with the board approved annual investment plan provided (i) markets are stable (the investment vehicle under consideration is not down by more than 10% from the most recent peak since the board approved the plan), or (ii) where the total change in the amount held in the investment vehicle, assuming the transaction was conducted at the most recent peak valuation, is less than $1,000 in 2020 dollars (indexed to inflation).

(h) The investment committee has discretion over routine transactions within the constraints imposed under Article 2. Quorum for any transaction decision is two members of the Investment Committee. Whenever possible, decisions will be made at regularly scheduled Committee meetings. Each transaction must be recorded and included in the quarterly report to the Finance Committee.

(i) Non-routine transactions require preparation of a revised investment plan and a motion from the board for its approval.