BENEFACTION **Investment Policy Statement**

## CONTENTS



# 1. Mission Statement

BenefAction Foundation is a charitable Public Foundation that supports, rewards and inspires philanthropic investments in Canada. Our mission is to encourage philanthropy by helping Canadians maximize charitable giving while minimizing tax burdens.

BenefAction enables individuals, financial advisors and institutions to make a positive impact through planned giving by establishing Donor-Advised Funds with donation monies earmarked for a charity of their choice.

BenefAction will target raising funds through agreements with financial service providers across Canada, enabling them to retain assets under management while fulfilling their client’s philanthropic needs.

# 2. Purpose of Investment Policy Statement

This investment policy statement provides a set of written guidelines for the management of the Foundation’s investments. The investment policy statement will be reviewed at least annually to ensure that it continues to reflect the Foundation’s requirements.

# 3. Roles and Responsibilities

### *3.1 Board of Directors*

The Board of Directors of BenefAction has ultimate authority over and responsibility for the Foundation’s investments. In order to ensure that the investments meet the required objectives, the Board will:

***Appoint an Investment Committee***

Receive the Committee's recommendations with respect to the Investment Policy Statement and the approval of eligible investment products.

***3.2 Investment Committee***

The Investment Committee will:

Maintain an understanding of legal and regulatory requirements and constraints applicable to the Foundation's investments on an annual basis, or more frequently if appropriate, review the Investment Policy Statement.

Approve eligible investment products that meet the return objectives and risk tolerance criteria.

Review the investment strategy for the long term assets held by the Foundation.

# 4. Investment Objectives

***4.1 Return on Investments***

The Foundation's objective is to generate a total investment return that protects the purchasing power of the capital component, achieves the required disbursement level and recovers the cost of managing and administering the funds.

The return objective net of management fees and expenses is 4% plus CPI per annum based on a minimum distribution rate of 3.5%[i]; and charitable administrative expenses of 0.5%. It is understood that this rate of return may not be achieved in each and every year, but it is expected that the portfolio has a reasonable probability of meeting the return objective over rolling 3 to 5 year periods.

The Foundation's return objectives are ranked as follows:

- preservation of capital;
- generation of 'income' to meet disbursement requirements;
- generation of growth in the capital value of the investments in order to preserve their value in real (inflation-adjusted) terms; and
- generation of growth in the capital value of the investments to provide for an increasing rate of income for disbursement.

***4.2 Risk Tolerance***

Investments should be structured and managed to provide for the generation of the return objective while minimizing the level of risk. Risk will be measured in terms of the standard deviation of investment returns and the downside risk (or risk of loss) of the investment.

Investments are required to maintain an appropriate level of diversification in order to reduce overall risk. In most cases, this will include diversification at the asset class level, geographic level, sector level and security level. Please refer to Risk Management below for specific investment constraints.

# 5. Investment Management Guidelines

Investment products and Portfolios used within the Foundation should be designed to meet both the return objective and risk tolerance. The goals of the Portfolio are to earn a rate of return that exceeds inflation, while protecting the capital from permanent declines in value. Short term declines in the value of the capital will be expected in line with the usual fluctuations of public investment markets.

### *5.1 Asset Mix*

In order to meet the return objectives, products and Portfolios should have a minimum equity exposure of 50% to allow for inflation protection and capital growth. For preservation of capital to be maintained, products and Portfolios should have minimum cash plus fixed income exposure of 20%.

Any asset class or investment vehicle not specifically permitted by this Policy is prohibited. The Portfolio should be invested according to the following guidelines:

| Asset Classes | Min | *Policy* | Max |
|---|---|---|---|
| **Cash & Equivalents (Cdn & US)** | 5% | ***10%*** | 20% |
| | | | |
| **TOTAL FIXED INCOME PLUS CASH** | 20% | ***30%*** | 50 |
| | | | |
| **Common Equities** | | | |
| Canadian & US Equities | | 50% | |
| International Equities | | 10% | 20% |
| **TOTAL COMMON EQUITIES** | 50% | ***60%*** | 80% |

*All percentages are based on market values.*

### *5.2 Cash Flow & Liquidity Requirements*

The Portfolio will be required to disburse a minimum of 3.5% of the value of the Portfolio based on the average endowed Portfolios over the previous two years. In addition, there are advisor and charitable administration fees to cover. Accordingly at least 5% of the current value of the Portfolio should be kept in cash or cash equivalents.

### *5.3 Investment Products & Portfolios*

Individual investment products and Portfolios will be assessed on their ability to meet both the return and risk objectives. Products falling outside of the above recommended asset mix will be considered if they demonstrate an equivalent risk-controlled strategy with the ability to meet return objectives. The Portfolio may invest directly in any or all of the following products provided it meets the below asset allocation parameters. These assets may be securities of Canadian or non-Canadian public corporations.

ELIGIBLE SECURITIES

**Cash & Short-Term Investments**

- Cash or money market securities issued by Governments, Corporations or other entities
- Guaranteed Investment Certificates, Term Deposits or similar financial instruments of insurance companies, trust companies, banks or other issuers
- Commercial Paper, BAs, Money Market Mutual Funds

**Fixed Income**

- Listed Canadian or U.S. Issued Federal, Provincial, Municipal & Corporate Bonds or Notes
- Debentures, Mortgage Securities, Canada and U.S. listed Fixed Income Exchange Traded Funds

(ETFs), Fixed Income Closed-End Funds, Floating Notes
- Fixed Income Mutual Funds, High-Yield Bond ETFs

**Equities**

- Publicly traded common stocks, preferred securities, convertible and participation preferred securities, Exchange traded funds (ETFs) or other common share equivalent
- REITs, royalty trust units, business trust units or index participation units
- Mutual funds and pooled funds
- Convertible bonds/debentures

### *5.4 Risk Management*

Overall rules for the portfolio:

- Single issuer exposure not to exceed 5% of NAV (at cost);
- No single industry should comprise more than 25% of the equity component;
- Individual bonds should be investment grade Canadian or U.S. issued bonds;
- Preferred shares and convertible debentures are treated as equity;
- Leverage may not be used in the Portfolio;
- No derivatives of any kind (options or futures) other than those held in a mutual fund or pooled fund for the purpose of hedging currency back to Canadian dollars, or for equity replication, in which case the fund policy takes precedence;
- Equities are limited to Exchange traded North American listed equity securities;
- International equities are allowable in ADR form only unless held within a mutual fund or pooled fund.

### *5.5 Tax Consequences*

The Portfolio is part of Benefaction Foundation, a registered charity in Canada, and therefore not subject to taxes. Notwithstanding the Portfolio's tax status; it is permissible for the Portfolio to invest in tax advantaged investments if they are seen to be advantageous to the Portfolio in the context of this Policy.

### *5.6 Delegation of Voting Rights*

The custodian is delegated the responsibility of exercising all voting rights acquired through the Foundation's investments. The custodian will exercise acquired voting rights with the intent of fulfilling the investment objectives and policies of the Plan. Should the custodian receive specific written voting instructions from the Trustees, the custodian shall execute such instructions as given.

## 6. Approval of Eligible Investment Products

All investment products will be approved by the Investment Committee and presented to the Board of Directors. The Investment Committee will review individual investment products to ensure that they meet risk and return objectives.

Specifically the Committee will review the:

- Investment performance history
- Standard deviation of returns
- Investment product objectives and guidelines
- Managers of the investment products

The Investment Committee will also be responsible for the annual review of the recommended investment products to ensure that they continue to be eligible for investment. If an investment product changes significantly or undergoes an event making it ineligible for investment, the Investment Committee will take action to remove it from the program.

## 7. Compliance

The portfolio must be monitored on an annual basis to ensure compliance with the IPS. Each account held by BenefAction Foundation will be checked quarterly so as to identify any holdings which are contrary to policy rules. If an account is found offside either by disqualified investment or asset allocation, the advisor will receive notice from BenefAction to rectify the situation within a reasonable time frame (by the next quarterly review). If by that time the Portfolio is still in breach then BenefAction will provide trade instructions to reallocate the investments to be online with policy. Any exceptions to the IPS will be evaluated on a case by case basis by the Investment Committee and once granted will be reviewed within six months. Examples of an exception might be a large grant coming due or the market liquidity of a donated holding to be sold.

BenefAction Foundation may authorize an Agent to exercise any of the trustee’s functions relating to investment of trust property. All Agents acting on behalf of BenefAction Foundation as Investment Consultant must exercise the care, skill, diligence and judgment that a prudent investor would exercise in making investments. The Foundation requires each advisor to provide a quarterly report on the gift funds they manage. BenefAction will monitor non-Canadian dollar exposure on aggregate on at least an annual basis to ensure that it is maintained at level with which the Board is comfortable.

## 8. Conflict of Interest

No fiduciary will knowingly permit his or her interest to conflict with his or her duties or powers relating to the investment or management of the Foundation’s assets. Any actual or perceived conflict of interest must be reported to the Board. Such disclosure will be made when the affected individual first becomes, or ought to have become, aware of the conflict or potential conflict. If a conflict does exist the Board will take all appropriate measures to remedy the situation. Every disclosure of a conflict of interest will be recorded in the minutes of the relevant meeting.

---

[i] The Canada Revenue Agency imposes an Annual spending requirement (disbursement quota) for Public Foundations. The disbursement quota is the minimum amount a registered charity is required to spend each year on its own charitable activities, or on gifts to qualified donees (for example, other registered charities). The disbursement quota calculation is based on the value of a charity's property not used for charitable activities or administration. The disbursement quota is calculated as follows: If the average value of a registered charity's property not used directly in charitable activities or administration during the 24 months before the beginning of the fiscal period exceeds $25,000, the charity's disbursement quota is: 3.5% of the average value of that property.