



**The Salvation Army**  
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The Salvation Army  
**General Investment Fund**

## ***Statement of Investment Policy***

**March 2011**

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## 1. Description of Assets

The Governing Council of The Salvation Army in Canada (“the Governing Council”) is a not-for-profit corporation established by federal statute to administer the property, business and other temporal affairs of The Salvation Army (“the Army”). The Army is a registered charity in Canada, with its territorial headquarters (the head office of the Governing Council) as the principal charity, and all other Salvation Army operations established as associated charities of territorial headquarters.

The General Investment Fund represents assets held in trust by the Governing Council and is comprised of three primary sources of funds:

- 1) **Custodial deposits** are held on behalf of individual operating units. These units invest all surplus funds with the Governing Council, rather than investing directly with a financial institution. These deposits earn interest at rates comparable to those earned by similar investment instruments offered by other financial institutions. Net profits earned by the Governing Council are used to support the programs and services of The Salvation Army, as well as to help cover administrative costs.
- 2) **Donor restricted deposits** are held by the Governing Council temporarily or in perpetuity, with interest only or interest and principal being used for specific purposes articulated by the donor.
- 3) **Reserves**, representing unrestricted surpluses from prior years’ operations, are held by the Governing Council and are available for general operations in the future. In addition, internally restricted reserves are established from time to time to provide funds for specified purposes at the discretion of the Governing Council.

## 2. General Investment Objective

Preservation of real (inflation adjusted) asset value plus a 3.5 to 4.0% annual rate of return, gross of fees, before the impact of withdrawals, over a four-year period.

## 3. Asset Mix

The asset mix of the Fund is set out in the table below. It should be noted that each manager has been provided with information on asset mix targets and ranges specific for their portion of the Fund.

Operating Range	Asset Class	Target
25.0% - 32.5%	<b>Canadian Equities</b>	30%
35.0% - 45.0%	<b>Canadian Fixed Income</b>	40%
25.0% - 32.5%	<b>Global Equities</b>	30%
0.0% - 10.0%	<b>Cash</b>	0%

## 4. Investment Manager Performance Guidelines

Investment managers are expected to meet or exceed the benchmark returns plus the value added target, gross of fees, over 4-year periods. Active management has been chosen as appropriate, for 80% of the assets of the fund, to provide an enhanced return over the passive alternative, net of fees paid. This choice is consistent with the risk tolerance of The Salvation Army.

## 5. Restrictions

### 5.1 General

Investment managers may not invest in any security issued by a company whose primary business activity is the manufacture, distribution or promotion of alcohol, tobacco, pornography, gaming or gaming facilities, or the manufacture of armaments. In addition, investment managers may not invest any funds in companies which are known to disregard the pollution of the environment.

Notwithstanding the restrictions noted above, within pooled funds, investment managers may hold otherwise prohibited bonds and stocks, providing the percentage of such holdings, in aggregate, does not exceed 10% of the market value of the pooled fund.

### 5.2 Equity

- a) No single equity investment may have a weight larger than, the greater of:
  - 5% of the investment manager's equity portfolio at market value; or
  - two times the stock's weighting in the appropriate asset class benchmark, subject to an overall limit of 10% of the manager's equity portfolio at market value.
  - If the investment manager is in violation of this guideline, it is their responsibility to notify the Director of Investments of The Salvation Army and to reduce the stock percentage to the guideline level within a reasonable period of time. What constitutes a "reasonable period of time" will be determined by the investment manager in consultation with The Salvation Army, in the context of the current circumstances of the particular equity in question.
- b) Instalment Receipts, Special Warrants, Warrants and Rights will be allowed
- c) No derivatives will be used without the prior agreement of The Salvation Army.
- d) All securities must trade on an internationally recognized stock exchange.
- e) Notwithstanding any other provisions in the 'SIP & P', investment managers may seek approval from The Salvation Army to purchase pooled funds up to a maximum of 20% of the equity portion of the portfolio, based on market values.
- f) Investment managers are permitted to invest in income trusts, domiciled in provinces with limited-liability legislation in place, to a maximum of 10% of the equity portion of the portfolio being managed.

### 5.3 Fixed Income

- a) The minimum bond credit quality, at time of purchase, is 'BBB' as rated by a recognized Canadian or international rating agency. Investment managers may purchase BBB-rated bonds up to a maximum of 10% of the bond component of the portfolio being managed with a maximum exposure to any single BBB-rated corporate issuer being set at 1% of the bond portfolio. If, subsequent to purchase, the rating of the bond drops below 'BBB', investment managers will notify The Salvation Army and advise the Army of their plan to address the issue.
- b) Private placements are allowed under the following terms:
- The manager may invest in liquid private placements which meet the same criteria (including liquidity and credit quality) which would be applied when purchasing public issues.
  - The manager may invest a maximum 10% of the fixed income portfolio in illiquid private placements provided they meet the same credit quality standards imposed on other corporate bond investments.
  - No more than 2% of the market value of the bond portfolio at the time of purchase may be invested in an illiquid private placement of a single issuer.
- c) No mortgages are allowed, however mortgage backed securities with credit ratings equal to or greater than the Government of Canada are allowed.
- d) No individual bond holding should be greater than 5% of the investment manager's bond portfolio, with the exception of Government of Canada or provincial bonds, subject to the same provisions outlined for corporate bonds summarized in Section 6.3 (a) above.
- e) All short-term investments (less than 1 year maturity) must have a credit rating of R1 mid or higher as rated by a Canadian or international rating agency. If a short-term security is subsequently downgraded below R1 mid after purchase The Salvation Army should be notified immediately together with a recommended course of action.
- It is recognized and agreed that some of the money market instruments held by the Canadian bond index pooled fund manager, CIBC Global Asset Management, may have a rating of R1Low.
- f) Callable, exchangeable and retractable bonds will be allowed.
- g) No derivatives will be used without the prior agreement of The Salvation Army. However, Phillips, Hager & North is permitted to use foreign exchange derivative instruments to hedge foreign currencies when purchasing non-Canadian bonds
- h) Investment managers are permitted to purchase non-Canadian bond issues and liquid private placements (as specified in Section 6.3(b), provided the combined total of non-Canadian bonds and bond private placements does not exceed 30% of the value of the bond portion of the total portfolio.
- i) For this SIP & P, non-Canadian bonds, issued in Canadian dollars (i.e. 'Maple bonds') are not considered to be 'private placements for purposes of item 6.3(b) but are considered non-Canadian bonds for purposes of item 6.3(h).

## **6. Roles & Responsibilities**

The Governing Council has overall fiduciary responsibility for the governance of the Fund. Responsibility for the management of the Fund has been delegated to the Territorial Finance Council (“TFC”) of The Salvation Army. The TFC is assisted in discharging its responsibility with respect to the management of the Fund by the Investment Advisory Committee (IAC), comprised of members of the staff of The Salvation Army and volunteers.

## **7. Related Party Transactions**

Under no circumstances may investments of any kind be undertaken in entities controlled by The Governing Council. Where investments are proposed to be undertaken in entities related to the investment manager, prior written approval should be obtained from The Salvation Army.

## **8. Securities Lending**

The custodian, CIBC Mellon, is permitted to lend securities on behalf of the Fund, in accordance with the terms of the Securities Lending Agreement. Revenue will be shared equally between the custodian and the Fund, and the custodian will indemnify the Fund against all losses. The securities lending program must comply with all guidelines mandated by regulatory authorities.

No other lending will be permitted.

## **9. Delegation of Voting Rights**

Shareholder voting is delegated to the investment managers. At the end of each quarter, a detailed list of all proxies voted on behalf of the Fund should be included in the manager’s quarterly report and it should clearly indicate those instances where the investment manager has voted against company management.

While investment managers have full discretion to vote proxies, they are requested to notify The Salvation Army directly, in advance of their voting, of those instances where they believe the Army may be particularly sensitive.

## **10. Valuation of Securities**

The custodian is responsible for the valuation of all securities. In the situation of any security without a daily market value, the custodian shall use generally accepted accounting principles in the valuation of such securities.

## **11. Disclosure of Conflicts of Interest**

Individuals involved in the development and implementation of investment policy and/or investment management activities on behalf of the Fund shall disclose any conflicts of interest, real or perceived, as soon as they become apparent.

This requirement to disclose potential conflicts of interest with respect to their involvement in the investment management of the Fund includes members of the Governing Council and its related committees (including, but not limited to, the Territorial Finance Council, and the Investment Advisory Committee), staff, and service providers (e.g. consultants, investment managers, custodians, etc.).

The Investment Advisory Committee will review the facts of each case and make a recommendation to The Salvation Army as to the appropriate course of action.

## **12. Investment Manager Review**

An investment manager's tenure may be reviewed for, but not limited to, the following reasons:

- failure to attain benchmark performance, measured as a four-year moving average;
- violating the investment manager guidelines and restrictions as outlined in this document or;
- change in key personnel, ownership structure or investment style.

The Investment Advisory Committee will undertake the review when the circumstances warrant, and make a recommendation to the Territorial Finance Council for approval.

## **13. Review of Investment Policy & Procedures**

The Investment Advisory Committee will undertake a thorough review of the Statement of Investment Policy & Procedures at least once annually, with any recommended changes being forwarded to the Territorial Finance Council for approval.