



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

**Statement of Investment Policy**

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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 Governing Council is a registered charity in Canada, with all other Salvation Army operations established as associated charities of the Governing Council.

The General Investment Fund (“the 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 above normal operating requirements with the Governing Council. 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. 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 Management Board (“the Board”).

The Board is assisted in discharging its responsibility with respect to the management of the Fund by the Investment Advisory Committee (“IAC”), comprised of members of staff and volunteers.

## 3. Investment Beliefs

Following are principles and beliefs that guide the investment of the Fund.

### Governance

The Governing Council believes that a strong formal governance structure is necessary to ensure that the Plan and Fund are prudently and properly managed.

The Governing Council believes that additional expertise is needed to supplement that of its members, the Territorial Management Board, and staff. As a result, an Investment Advisory Committee has been established, comprised of staff and volunteers, to provide investment advice to the Board.

### Liabilities

The Governing Council believes that the asset mix of the Fund should be appropriate for the liability structure.

## **Risk & Return Expectations**

A major risk for the Fund is that it may not provide sufficient funds to fulfil its spending-policy obligations.

To the extent that risk-free returns are insufficient, the Governing Council accepts that some investment risk will be taken in order to achieve the required level of returns. The Governing Council accepts the premise that there is a direct correlation between investment risk and return expectations, i.e. the more investment risk that is assumed the higher the expected return, albeit with a greater variability of return.

The Governing Council recognizes that, owing to the assumption of investment risk, there will be a mismatch between the growth rates of the assets and liabilities and it believes that such risk is reasonable.

To mitigate the impact of the volatility of capital markets on the Fund, the Governing Council believes that it would be prudent to assume a conservative long-term rate of return estimate for the Fund.

## **External versus Internal Management**

The Governing Council believes that it is appropriate to have the portfolio managed by external managers.

## **Diversification**

The Governing Council believes that, in order to achieve the highest rate of return per unit of risk, the Fund's investments should be broadly diversified by asset class, country, and industry sectors. In addition, the Governing Council believes that it is appropriate to diversify the Fund further by implementing a multi-manager structure. In implementing its beliefs about diversification, the Governing Council recognizes that this objective is constrained by having to consider the scale of the Fund, its governance and management resources.

## **Active versus Passive Management**

The Governing Council believes that it is appropriate to use both active and passive investment management strategies. The choice of an active or passive investment strategy, for a particular asset class, should be made after due consideration is given to the expected returns, risks and costs.

## **Foreign Exchange Hedging**

The Governing Council believes that foreign exchange hedging is not necessary for the generation of rates of return but, may be useful from a risk mitigation perspective.

## **Derivatives**

The Governing Council believes that the use of derivatives may be appropriate in certain circumstances, providing that due consideration is given to the risks of doing so (e.g. leverage).

## **Ethical investments**

The Governing Council believes that it is appropriate for its investment policy to contain restrictions that are consistent with the attitudes, values and religious beliefs of The Salvation Army. Further, the Governing Council believes that such restrictions will not negatively impact the performance of the funds over the long-term.

## Proxy Voting

The Governing Council believes that its primary fiduciary role is to ensure that adequate rates of return, commensurate with an appropriate level of risk, are being achieved in the Fund to meet its obligations. As a result, proxies should be voted in accordance with that fiduciary role.

The Governing Council believes that proxy voting rights should be considered an integral part of the investment management of the Fund.

## 4. General Investment Objective

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

## 5. Asset Mix

The asset mix of the Fund is set out in the table below.

Operating Range	Asset Class	Target
20% - 40%	Canadian Fixed Income	30%
40% - 60%	Global Equities	50%
10% - 25%	Real Assets	20%
0% - 10%	Cash	0%

## 6. Investment Manager Performance Guidelines

Investment managers are expected to meet or exceed the benchmark returns by the value added target agreed to between the Investment manager and The Army, gross of fees, over 4-year periods.

## 7. Permitted Investments

Subject to the restrictions noted, the following investments are permitted:

### 7.1 Cash

Investment in cash, demand deposits, treasury bills, commercial paper and bankers' acceptances are permitted.

### 7.2 Fixed Income

- a) Bonds, debentures, notes, and other evidence of indebtedness of issuers, including callable, exchangeable and retractable bonds.
- b) Mortgages and other asset backed securities.
- c) Term deposits and guaranteed investment certificates

- d) Private placements of fixed income instruments

### **7.3 Equity**

- a) Publicly traded common stocks;
- b) Instalment receipts, special warrants, warrants and rights;
- c) Preferred shares, securities convertible into common stocks;
- d) American depositary receipts, global depositary receipts;
- e) Income trusts, domiciled in provinces with limited liability legislation in place.

All equity securities must trade on an internationally recognized stock exchange.

### **7.4 Real Assets**

Direct or Indirect investment in the debt or equity of entities focused on investments including; infrastructure, real estate, timber, agriculture, and other real asset categories.

### **7.5 Derivative Instruments**

Futures, forwards, and swaps are permitted when used to achieve the following investment objectives:

- a) to hedge existing exposures or risks, including currency exposures;
- b) for bond derivatives, to manage yield curve exposures;
- c) to equitize cash balances;
- d) to synthetically replicate the performance of a security, index or risk factor; and
- e) to facilitate asset mix rebalancing decisions and transition management.

### **7.6 Other Investment Structures**

Units of pooled funds, including exchange traded funds, are permitted, provided such investments are in compliance with section 11 below.

Real estate, and infrastructure investments may be held through participating debentures or shares of corporations or partnerships formed to hold these types of investments.

## **8. Fixed Income Quality Restrictions**

Minimum quality standards are established to limit the Plan's exposure to credit risk from borrower default. All quality ratings must be rated by a recognized Canadian or international rating agency and are applied at the time of purchase:

- a) The minimum quality standard for individual fixed income and private placement securities is "BBB" or equivalent.

- b) The minimum quality standard for individual short-term investments is "R1 mid" or equivalent.
- c) The minimum quality standard for preferred shares is "p2" or equivalent.

Should the rating on a security fall below the minimum standards outlined above, the Investment manager must notify The Salvation Army and seek approval of their plan to address the issue.

## **9. Fixed Income Quantity Restrictions**

Quantity restrictions are established to ensure an acceptable level of diversification is maintained in the fixed income portfolio.

- a) A maximum of 25% of the market value of the investment manager's fixed income portfolio can be invested in securities rated BBB and below and a maximum of 2% of the investment manager's fixed income portfolio can be invested in any single BBB rated corporate issuer;
- b) A maximum of 5% of the investment manager's fixed income portfolio can be invested in any individual security, with the exception of Government of Canada and provincial bonds, and BBB rated bonds (as noted in section 9 a) above;
- c) A maximum of 10% of the investment manager's fixed income portfolio can be invested in private placements and no more than 2% of the market value of the investment manager's fixed income portfolio at the time of purchase may be invested in an illiquid private placement of a single issuer;
- d) A maximum of 10% of the total market value of the investment manager's fixed income portfolio can be invested in mortgages;
- e) A maximum of 30% of the investment manager's fixed income portfolio can be invested in non-Canadian fixed income securities.

## **10. Equity Quantity Restrictions**

Quantity restrictions are established to ensure an acceptable level of diversification and risk is maintained in the Equity Portfolio.

No single equity investment may have a weight larger than, the greater of:

- a) 5% of the investment manager's equity portfolio at market value; or
- b) 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 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.

## **11. Environmental, Social and Governance Factors**

The Governing Council expects its investment managers to incorporate environmental, social and governance

("ESG") factors in the choice of instruments to hold in the Fund, and to monitor the portfolio to ensure that companies continue to adhere to best practice. Investment managers are encouraged to become signatories to the United Nations Principles for Responsible Investment.

In addition, the Governing Council has established certain restrictions that are consistent with the values and beliefs of the Army, as set out below.

- a) Investment managers must not invest in companies which derive more than 10% of their revenues from any of the following categories:
  - alcohol
  - armaments
  - gambling
  - marijuana
  - pornography
  - tobacco
- b) Investment managers must not invest in companies with disregard for human rights and/or pollution of the environment.

For pooled funds, at the point of investment the individual stocks must adhere to the restrictions set out in parts a) and b) above. The investment manager must review the investments periodically and immediately report any breach of the policy to the Army, along with a proposed course of action to resolve it.

## **12. Pooled Fund Restrictions**

With the prior written approval of the Army, the Investment manager may hold up to 20% of the investment portfolio in one or more pooled or co-mingled funds managed by the Investment manager, provided that such pooled fund or funds are operated within constraints reasonably similar to those described in this Statement of Investment Policy.

While the guidelines in this Statement of Investment Policy are intended to guide the management of the Fund, it is recognized that there may be instances where there is a conflict between this policy and the investment policy of a pooled fund. In that case, the pooled fund policy shall dominate. However, wherever such a conflict results in non-compliance with the Policy, the investment manager must report this conflict explicitly in its quarterly compliance report.

## **13. Compliance with Legislation and Regulations**

Notwithstanding all of the provisions stated in this 'Statement of Investment Policy', the assets of the Fund will be invested in accordance with all legislation and regulations that are relevant to charities.

## **14. Compliance Reporting by the Investment Manager**

Each Investment manager must submit a compliance report each quarter. The compliance report should indicate whether or not the Investment manager's portfolio was in compliance with this policy during the quarter. In the event that the Investment manager's portfolio is not in compliance with this policy, the Investment manager is required to detail the nature of the non-compliance and to recommend an appropriate course of action to remedy the situation. Unless otherwise agreed upon, in writing, the Investment manager's portfolio will be deemed to be



out of compliance until the situation has been fully remedied.

#### **15. Related Party Transactions**

Where investments are proposed to be undertaken in entities related to the investment manager, prior written approval should be obtained from the Army.

#### **16. Liquidity**

The assets are invested primarily in publicly traded securities to ensure that there is sufficient liquidity in the portfolio to meet the ongoing needs of The Army. However, given the long-term nature of the liabilities of the Fund, a portion of the assets is also invested in less liquid, non-publicly traded investments, such as real estate and infrastructure, in order to achieve the illiquidity premium on those asset classes.

#### **17. 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.

If the Fund is invested in a pooled fund, securities lending will be governed by the terms and conditions of the pooled fund contract.

#### **18. 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.

#### **19. Valuation of Securities**

The custodian is responsible for the valuation of all securities with the exception of pooled fund investments and real estate and infrastructure investments.

In the case of pooled funds, the trustee of the pooled fund shall be responsible for the valuation of pooled fund units.

In the case of real asset investments, the general partner or the trustee/administrator of the pooled fund shall be responsible for the valuation of investments, and the pooled fund will be audited annually by an independent third party.

In the situation of any investment without a daily market value, the custodian, the trustee, or the general partner shall use generally accepted accounting principles or acceptable industry valuation techniques for the valuation of such investments.

## **20. 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 Management Board, 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 Army as to the appropriate course of action.

## **21. 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.

## **22. Review of Investment Policy**

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