



The Salvation Army

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The Salvation Army

Statement of Investment Beliefs

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Introduction & Purpose

The Governing Council of The Salvation Army in Canada ("GCSAC") is responsible for providing fiduciary oversight for the investment management of its General Investment Fund (GIF) and the Officers' Retirement Trust Fund (ORTF). In that capacity, the GCSAC relies on the formal recommendations of the Territorial Finance Council ("TFC"), which, in turn, receives advice from the Investment Advisory Committee ("Committee").

The purpose of this 'Statement of Investment Beliefs' is to document the primary beliefs of the Governing Council in order:

- 1) To provide the basic rationale for all investment policies, including those articulated in the formal 'Statement of Investment Policies & Procedures', and
- 2) To provide some context for the assessment of potential changes to the Governing Council's investment approach.

It is intended that this document will evolve over time based on changes in the circumstances of the Funds and in the investment environment. This 'Statement of Investment Beliefs' will be reviewed at least annually by the Investment Advisory Committee and any changes arising from the review will be recommended to the TFC.

Investment Beliefs

The specific investment beliefs of the Governing Council are:

1. Governance

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

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

2. Liabilities

The Governing Council believes that the asset mix of the GIF and ORTF should be appropriate for the liability structures of both funds and that the Committee should have access to a reasonable amount of information and analysis pertaining to their respective liability structures.

3. Risk & Return Expectations

A major risk for the GIF is that its returns may not provide sufficient funds for it to fulfil its spending-policy obligations and a major risk for the ORTF is that its returns, inclusive of a reasonable and sustainable level of contributions, may not provide sufficient funds to pay pensions.

To the extent that risk-free returns are insufficient to achieve the GIF spending-policy goals and ORTF sustainable contributions, 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 of the funds, particularly with respect to the ORTF and it believes that such risk is reasonable in order to maintain contribution rates at an acceptable level.

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

In particular, with respect to the GIF, the Governing Council bases its annual allocations of investment income to the operating budget on a long-term expected rate of return rather than the return achieved in a given year. This approach allows for a reserve to be maintained for those years when the actual return achieved is less than the expected rate of return, thereby mitigating the impact on operations resulting from the volatility of returns experienced from year to year. This practice, combined with a target reserve level of between 25% and 33% of the assets under investment, allows the Governing Council to maintain a higher allocation to equities than would otherwise be possible.

4. Investment Management

With respect to the investment management of the GIF and the ORTF, the Governing Council believes that there are several important factors to consider, viz.:

➤ **External versus Internal Management**

The Governing Council believes that it is appropriate to have the GIF and ORTF portfolios managed by external managers.

➤ **Diversification**

The Governing Council believes that, in order to achieve the highest rate of return per unit of risk, any investment program should be broadly diversified by asset class, country, and industry sectors. In addition, the Governing Council believes that it is appropriate to diversify the funds 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 funds, their 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.

➤ **Balanced versus Specialty Management**

The Governing Council believes that, in order to access highly competent managers in each asset class, 'specialty' management is appropriate for the GIF and ORTF portfolios.

➤ **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 (e.g. leverage) of doing so.

➤ **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.

5. Proxy Voting

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

The GC believes that proxy-voting rights should be considered an integral part of the investment management of the GIF and ORTF.