



The Salvation Army
Territorial Headquarters for Canada & Bermuda
2 Overlea Boulevard, Toronto, Ontario M4H 1P4

The Salvation Army
Officers' Retirement Fund

Statement of Investment Policy

February 2016

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1. Description of Assets

Funds have been contributed by The Governing Council of The Salvation Army in Canada to a pension trust to provide pensions to the officers of The Salvation Army in Canada & Bermuda (“the Army”).

The Plan is a non-contributory, final earnings defined-benefit pension plan covering all officers who have completed twenty-four months of active service with The Salvation Army in Canada and Bermuda. Under this type of plan, the Army is required to contribute all amounts necessary to fund the benefits on both an ongoing basis and a wind-up (solvency) basis with the benefit payable being a percentage of final covered earnings multiplied by years of pension service.

The pension fund is held in trust by CIBC Mellon and is invested in accordance with this ‘Statement of Investment Policy, which is established by The Salvation Army on the recommendation of its Investment Advisory Committee.

Contributions to the Trust are made on the basis of an actuarial valuation which is performed at least every three years. The last actuarial valuation was performed on March 31, 2014 at which time the Plan had a net ‘going-concern’ actuarial surplus of \$22.5 million.

The Plan is registered with the Financial Services Commission of Ontario (registration number 0343038) and The Governing Council of The Salvation Army in Canada is the Plan Administrator.

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. As this Statement of Investment Policy is being revised in February 2016, it is estimated that it may take up to eighteen months to reach the target of 10% for both real estate and infrastructure.

Operating Range	Asset Class	Target
15% - 25%	Canadian Equities	20%
15% - 25%	Canadian Fixed Income	20%
35% - 45%	Global Equities	40%
5% - 15%	Real Estate	10%
5% - 15%	Infrastructure	10%
0% - 10%	Cash	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 that the percentage of such holdings, in aggregate, does not exceed 10% of the market value of the pooled fund.

When The Salvation Army selects investment managers, it delegates the responsibility for environmental, social and governance factors (ESG) to its external managers, who may, but are not required to, consider ESG factors.

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 this Statement of Investment Policy', 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 25% of the bond component of the portfolio being managed with a maximum exposure to any single BBB-rated corporate issuer being set at 2% 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) The purchase of conventional mortgages is allowed up to a maximum of 10% of the total market value of the actively-managed fixed income portfolio, using a pooled fund solution.
- 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 5.3 (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 R1 low.

- 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 5.3 (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 Statement of Investment Policy, non-Canadian bonds, issued in Canadian dollars (i.e. 'Maple bonds') are not considered to be 'private placements for purposes of item 5.3 (b) but are considered non-Canadian bonds for purposes of item 5.3 (h).

6. Roles & Responsibilities

The Governing Council of The Salvation Army in Canada has overall fiduciary responsibility for the governance of the Officers' Retirement Plan and the Officers' Retirement Fund. Responsibility for administration of the Plan has been delegated to the Officers' Retirement Benefits Administrative Committee.

Responsibility for the management of the Officers' Retirement Fund has been delegated to the Territorial Finance Council of The Salvation Army.

The Territorial Finance Council 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 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

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 Finance Council for approval.