La Fondation McConnell Foundation

Statement of Investment Policies and Procedures

[Management Guidelines for the Endowment Portfolio]

McConnell

Table of Contents

Overview of the Foundation

Established in 1937 by John Wilson McConnell (1877-1963), The J.W. McConnell Foundation grew out of Mr. McConnell's deep commitment to the public good and his lifelong involvement with charitable work in Canada. Renamed The J.W. McConnell Family Foundation following his death, the core purpose of the Foundation has remained constant since its founding: to improve the quality of life in Canada by building communities that help people develop their potential and contribute to the common good.

Over the years, the Foundation's approach to this work has evolved; for the past two decades, it has maintained a national focus, and many of its programs operate country-wide. The J.W. McConnell Family Foundation remains a private family foundation: The Board of Trustees is comprised of family members who set policy and assure the Foundation's good governance.

Purpose of the SIP&P

The purpose of the Statement of Investment Policies and Procedures (SIP&P) is to outline the principles governing the investment policy of the J.W. McConnell Family Foundation and to address key matters such as investment beliefs, principles and asset mix. This document will help to ensure consistency, continuity and good governance in the management of the Foundation's financial assets. It also aims to make certain that fiduciaries of the assets manage them in a responsible and prudent manner.

The Investment Committee

The Board of Trustees appoints the members of the Investment Committee. The composition of the Committee is determined as follows:

- Up to five outside members, including outside investment professionals with extensive investment management expertise and experience with endowments, foundations and/or pensions and at least one senior business executive from outside the financial services industry, with broad managerial and international experience;
- Up to three Trustees of the Foundation;
- The President & CEO of the Foundation; and
- The Treasurer of the Foundation

Allocation of Responsibilities

The Investment Committee's role is an advisory one and as such, it does not and cannot make investment decisions but will make precise recommendations for the Board's approval regarding:

- Meeting grant-flow needs and capital growth requirements
- Investment philosophy, objectives and constraints
- Investment policy and strategy
- Risk management
- Responsible investment considerations
- Asset class allocations and manager structuring
- Active manager selections and mandates
- Passive management and exchange-traded fund selections
- Performance and attribution reporting
- Rebalancing methodology
- Other investment related matters (e.g. fees, proxy voting, etc.)

If approved by the Board, the Foundation's investment team (made up of the Director of Investments, Secretary-Treasurer, Investment Analyst and Solutions Finance team) will implement the recommendations and will report back to the Investment Committee accordingly. More information on the Investment Committee can be found in its Terms of Reference.

Foundation investment staff is responsible for:

- Implementation of policy and policy updates
- Research and recommendations to inform investment decisions
- Monitoring responsible investment processes and outcomes
- Monitoring investment performance
- Meeting current and prospective investment managers
- Reviewing annual financial statements of portfolio investments
- Monitoring investment constraints, including ESG and impact investing criteria
- Validating fees charged by investment managers, custodians and consultants
- Managing the treasury
- Implementing the currency hedging program
- Custodian selection and securities lending

Investment Beliefs

Total Return

The core belief is based on the concept of total return being composed significantly of investment income rather than capital gains. Thus, revenue streams comprised of interest, dividends and rental income are expected to provide the major share of the return required to cover Foundation granting and operating costs over its long-term investment horizon (5 years plus).

Low Return Volatility & Inflation Protection

In setting the asset mix policy, the asset classes chosen should be sufficiently diversified to provide low return volatility at the total portfolio level - matching the generally risk averse nature of the Foundation - and inflation protection to maintain purchasing power over the long-term.

Growing Dividends

In selecting equities, the belief is that growing dividends lead to higher returns. There will therefore be an emphasis on conservative, steady, long-term growth in dividends that are expected to lead to higher cash yields and returns.

Responsible Investing

All assets are to be invested in a manner that is broadly consistent with the philanthropic goals of the Foundation. The Foundation believes that incorporating environmental, social and governance (ESG) factors in its decision-making is fundamental to conducting comprehensive investment assessments and for managing risks and opportunities. Examples of prominent ESG factors can be found in Appendix A.

Responsible Investing Approach

ESG Considerations

Managers that can demonstrate robust integration of environmental, social and governance considerations in their investment strategies, high level of subject matter expertise, and that have incorporated processes to identify, evaluate and potentially mitigate ESG risks will be considered over those managers that do not.

Engagement

We believe that shareholder engagement is an effective way to influence companies to adopt sustainable practices. This is a way to reduce risks as well as to contribute solutions to global challenges.

The Foundation will support and participate in shareholder engagement efforts through investor networks and initiatives. These include those led by portfolio managers and/or those initiated through collaborative platforms of which the Foundation is a member (UN PRI, CERES).

Negative Screens

The Foundation will require that its investment managers not invest in shares of companies in the following industries: tobacco, alcohol, gambling, weapons, pornography, marijuana and private correction facilities. This exclusion applies to companies that derive more than 10% of their revenues from these industries.

Proxy Voting

The Foundation believes that expressing its opinion via shareholder votes on management proposals is an important part of its responsible investing approach. External investment managers will be responsible for voting proxies on behalf of the Foundation and to report on it. In some cases, the Foundation will engage a third-party provider to vote proxies on its behalf, with ESG factors being given the highest consideration.

Investment Principles & Structure

Return target

4.5% real return for the entire portfolio, gross of fees, over the long-term. The 4.5% real return equals the approximated spend rate and should therefore be considered the minimum acceptable return.

Spend rate

The 4.5% spend rate is based on the 3.5% annual disbursement quota that has been defined by Canada Revenue Agency (this is the minimum amount that the Foundation must disburse on grants and charitable expenditures to maintain its charitable status). The remaining 1.0% is to cover operational and investment management costs, before considering inflation.

Risk management

The primary objective of risk management at the Foundation is to identify, evaluate and ultimately accept or mitigate investment risks across the entire portfolio. This does not require the elimination of risk but rather to achieve a balance between risk and return, as the Foundation must take on risk to achieve its return target.

The Foundation manages risk by diversifying its investment portfolio geographically, within asset classes (through defined allocation ranges and expected low correlations) and amongst investment managers (mix of investment styles and approaches). The Investment Committee, along with its sub-committee focused on risks, will be responsible for monitoring, evaluating and managing investment risks. These risks will be reviewed and reported on as required, and corrective action will be taken as necessary.

The Investment Committee will consider quantitative, macroeconomic, operational and emerging risks, including those related to environmental, social and governance factors.

Benchmarks

The Investment Committee sets the appropriate policy benchmarks and portfolio benchmarks for monitoring the performance of the endowment and the performance of each investment manager. The benchmarks can be relative benchmarks such as market indices or peer universes, or they can be absolute return benchmarks. Things to consider when selecting benchmarks include; performance goals, tolerance for risk, liquidity and investability.

Currency Hedging

The Foundation's investment assets are diversified globally, although a majority is invested in Canadian and US dollars. Thus, the Foundation has adopted a policy to partially hedge its USD holdings to reduce unwanted currency risk. The hedge is adjusted monthly based on the prevailing USD/CAD exchange rate, while settlement is spread out over three months to limit the possibility of large cash drawdowns. This dynamic hedge is neither active nor passive, and there is no expectation of alpha generation.

Ease of administration

Given the limited number of staff responsible for monitoring the Foundation's investment portfolio, it is imperative that the administrative burden be carefully managed. Therefore, the Investment Committee will strive to select a limited number of investment managers, although not too few to increase concentration risk.

Manager Selection & Monitoring

When selecting investment managers, the following attributes will be considered; investment objectives, investment strategies, investment risks, personnel, performance, ESG considerations, code of ethics and fees, amongst others. (please refer to our due diligence guide and questionnaires for more information)

More time and attention should be spent on the manager's investment process, philosophy and organizational structure versus investment performance. Operational items such as trade processing, valuation processes, reporting, technology, systems, counterparty oversight, legal and business continuity programs should also be considered. Onsite due diligence prior to hiring is recommended.

When monitoring investment managers, the following items should be reviewed: historical performance versus an appropriate benchmark, measures of risk such as standard deviation of returns and tracking error, compliance with management agreement terms, ESG considerations, proxy voting practices, trading procedures and client servicing. Monitoring meetings will be documented.

Termination of managers may occur when investment attributes have weakened or changed and where long-term performance is poor, amongst other reasons. Transition costs should be estimated, and replacement managers assessed prior to terminating a manager.

Asset Mix

The Investment Committee allocates assets across three broad, relatively uncorrelated asset classes: equities, fixed income and inflation-sensitive assets. Asset class targets and allowable ranges are found on the next page.

If an asset class range is breached, mandatory rebalancing back to the policy target will occur. At sub-asset class levels, actual weights will not be constrained by specific ranges. Deviations from targets at these levels will be monitored closely, but rebalancing will not be mandatory.

Short-Term Investments

Short-term investments (defined as investments maturing in less than one year) will be maintained at a level close to 2% to ensure Foundation liquidity needs are met.

To maintain the 2% allocation, Foundation investment staff, with approval from the Investment Committee Chair, will redeem overweight positions in the portfolio and invest the proceeds in the designated short-term investment vehicle. In the case where no overweight positions exist, the Mid-Term Bond portfolio will be redeemed. The investment committee will be informed of any rebalancing at its next meeting.

Equities

Equities are included in the portfolio to enhance returns while maintaining appropriate exposure to risk. The public equity portfolio is invested across geographic regions, capitalization and type. This will help to increase diversification and reduce risk over the long-term. Private equity investments are expected to provide additional return and are diversified across geographic regions, vintage and type.

Fixed Income

Fixed income securities are expected to produce income and mitigate risk. They act as a diversifier and should help to protect capital in volatile markets. Much of the fixed income allocation is invested in Canadian nominal bonds, while convertible bonds and private debt are expected to provide additional return.

Inflation-Sensitive

Inflation-sensitive assets in the portfolio are made up of real estate, real return bonds and infrastructure investments. Real estate and infrastructure investments are accessed through private pooled funds, while government-issued securities provide the exposure to real return bonds. The inclusion of inflation-sensitive assets in the portfolio is to preserve purchasing power over the long-term and to generate regular cash flow from distributions.

Investment Constraints

In addition to the asset class ranges below, each investment management agreement identifies the constraints by which each mandate is governed. Examples of investment constraints include maximum security weights, maximum sector/country weights, minimum credit scores, and acceptable counterparties. A summary of the investment constraints for each mandate can be found in the Foundation's "Investment Manager Compliance" document.

Table 1: Investment Policy

ASSET CLASS	POLICY WEIGHT	RANGE
Equity	50%	35-65%
Fixed Income	25%	15-35%
Inflation-Sensitive	25%	15-35%
TOTAL	100%	

Note: Mission-Related Investments are integrated into the asset mix policy while Program-Related Investments are excluded. (see Appendix B, Impact Investing)

Varia

Borrowing

The Trustees have adopted a borrowing resolution empowering the Management Committee of the Foundation to borrow funds, if necessary, on a short-term basis to resolve any cash flow requirements and/or to avoid a distress sale of securities.

The use of leverage will be permitted for investments in private market funds in the proportion limited by their respective investment policies. In the event of direct participation in a private market transaction (ex. purchase of a real estate asset), specific proposals will be presented to the Board for approval.

Conflicts of Interest

All Foundation Trustees, staff, investment committee members and contract service providers must sign a conflict of interest policy prior to engaging with the Foundation. Please refer to the Foundation's Conflict of Interest policy for more details.

Derivatives

The endowment may enter and invest in over-the-counter and exchange-traded contracts such as Forwards, Futures, Options and ETFs to manage its exposure to interest rates, currencies, commodities, securities and financial markets.

Securities Lending

The Foundation's securities lending program is administered by its custodian, RBC Investor Services, with whom revenues will be shared equally. This program has been implemented to generate additional revenues, which helps offset some of the costs of the custodial services.

Review

The SIP&P is subject to a thorough review by the Investment Committee in conjunction with asset allocation reviews, which in normal times would be every 3-4 years. This provides the Investment Committee with an opportunity to analyze and assess the Foundation's requirements and ensure that current investment policies and strategies are satisfactory to meet those needs.

Appendix A

Environmental, Social and Governance Factors

Environmental	Social	Governance
• Impact on climate/greenhouse gas emissions • Sustainability • Climate change risks • Energy Efficiency • Air and water pollution • Water scarcity and waste management • Site rehabilitation • Biodiversity and habitat protection	• Human Rights • Community impact • Respect for Indigenous people • Employee relations • Working conditions • Discrimination • Gender diversity • Child and forced labour • Health and safety • Consumer relations	• Alignment of interests between executives and shareholders • Executive compensation • Board independence and composition • Board accountability • Board diversity • Shareholder rights • Transparency and disclosure • Anti-corruption measures • Financial policies • Protection of property rights

Appendix B

Impact Investing Policy Statement

Preamble

For the past several years the McConnell Foundation has been a leader in the Social Finance field in Canada, which captures a wide range of financial instruments and institutions seeking blended value or triple bottom-line returns. It offers an opportunity for funders to align their investment strategies with their mission and program activities by implementing a range of approaches; one of which is impact investing.

Impact investments include multiple types of investments in companies, organizations and funds with the intention to generate positive social and/or environmental impact while earning market or below-market rates of financial returns. They can also take the form of guarantees that secure debt and increase access to capital.

Building on the recommendations of the Canadian Social Finance Task Force, the Foundation has already met and exceeded the 10% target of total assets invested in impact investments.

The Foundation's promotion of Social Finance and Impact Investing aims to encourage other Canadian grant-makers to explore these options. To view a table of current impact investments made by the Foundation, please visit:

www.mcconnellfoundation.ca/solutionsfinance/impactinvesting

Definitions

1. **Mission-Related Investments (MRI)** are financial investments made in either for-profit or non-profit enterprises with the intent of achieving mission-related objectives and normally earning market-rate financial returns. We distinguish between two types of MRIs: Institutional MRIs and Market-Building MRIs.

Institutional MRIs exhibit the following characteristics:

- Have an established track record in terms of financial performance.
- Have a deep, knowledgeable and experienced team.
- Clear, repeatable and proven investment process.
- Attracts institutional financial players (pension funds, endowments, etc.).
- Are of a significant size.

Market-building MRIs exhibit some or all of the following characteristics:

- Target the development of a new intermediary, financial instrument, investment thesis or scope of intervention.
- Play a role in building the marketplace and help attract larger pools of capital.
- The Foundation's participation could be considered catalytic.

2. **Program-Related Investments (PRI)** are investments that are made in not-for-profits organizations and social enterprises to further the foundation's programmatic objectives and to generate financial returns, with a tolerance for below-market rates of return. We distinguish between two types of PRIs: loan guarantees [1] and conventional PRIs.

Loan guarantees exhibit some or all of the following characteristics:

- Principal is at risk.
- Tend to be larger transactions.
- In addition to fees that may be charged, commitments made under the form of guarantees are still productive towards the endowment's financial return.

Conventional PRIs exhibit some or all of the following characteristics:

- Tolerance for risk is higher than other impact investments
- Target the development of a new intermediary, financial instrument, investment thesis or scope of intervention.
- Play a role in building the marketplace and help attract larger pools of capital.
- The Foundation's participation could be considered catalytic.

Return Targets & Allocation Policy

Impact Investments types	Return target	Allocation Policy	
		%	Comments
Institutional MRIs	4.5% real return	Uncapped	Must fit within existing SIPP asset classes.
Market-building MRIs		7%	Must fit within existing SIPP asset classes.
Loan guarantees	Inflation-hedge		Must be related to granting program(s).
Conventional PRIs		3%	Must be related to granting program(s).

Evaluation of Program-Related Investments

Any proposal recommended for a PRI is presented to and approved by the Board like any grant request, and staff is responsible for ensuring that due diligence has been done and professional advice sought (including from members of the Investment Committee where appropriate) before recommending it.

A PRI is an investment made by the Foundation, in support of a qualified or non-qualified donee. The investment's philanthropic impact will be the key determinant of its appropriateness; financial returns will be of secondary importance. Indeed, such investments may be in lieu of a grant that the Foundation would have otherwise made. Funds disbursed for a PRI are deemed to have exited the Foundation and are not included in the Foundation's investment portfolio.[2]

Criteria for approving a PRI would include that it be linked to the Foundation's program objectives and that the level of risk is acceptable. PRIs therefore are like grants in having a charitable purpose; however, like investments, they are subject to financial review and due diligence, including a careful assessment of risk and return. They are more flexible than grants and may make possible larger awards since there is the expectation of repayment. They can also attract capital from conventional sources unwilling to invest without some credible guarantee.

The process for evaluating and completing PRI transactions is:

- The Foundation's program and/or financial staff ("the team") will evaluate PRI opportunities as they arise, examining both its philanthropic, financial impact and other aspects (legal, regulatory, etc.). Financial issues may include investment type (equity, debt, etc.), financial consideration to the Foundation (interest, dividends, capital gains), processes for exiting the investment, fees, etc.

- The team will inform the Investment Committee of potential PRI opportunities. In addition, the team may ask the Investment Committee for advice and/or assistance. If the potential PRI is of significant size (≥ $5 million) the Investment Committee may recommend the source of funding, i.e. the sale of existing equity, bond or other holdings in the investment portfolio.

- The team will then seek approval for the PRI from the Trustees. Once the Foundation has invested in the PRI, the team will update the Investment Committee on the status of the investment and may ask the Investment Committee for advice and/or assistance as issues arise.

- Upon exit of a PRI, the Investment Committee may recommend how the Foundation should reintroduce the funds into the investment portfolio (i.e. purchasing equity, bonds, etc.), if necessary.

- The Foundation will, initially, channel its investments primarily through well-established intermediaries, as this will significantly reduce regulatory and legal constraints imposed on the Foundation

Evaluation of Mission-Related Investments

MRI proposals are reviewed by the members of the Investment Committee who seek financial returns approximating the average risk-adjusted returns of similar investments made without regard to social, cultural or environmental considerations. Mission alignment or purpose would be the responsibility of the Board of Trustees. The Foundation will consider any MRI to be part of the investment portfolio.

MRI proposals encompass both debt and equity investments in enterprises or intermediaries that deliver social, cultural or environmental benefits that further the Foundation's mission. They would be assessed based on the asset class to which they are assigned. Specifically, they would include bonds and deposits, loans and mezzanine capital, public equity, private equity and venture capital investments. The investment performance will be measured against financial benchmarks established by the Investment Committee.

The process for evaluating and completing MRI transactions is:

- The team will review potential MRI as they arise to ensure that their potential philanthropic impacts are consistent with the goals of the Foundation.

- Any potential MRI that passes a philanthropic evaluation will be referred to the Investment Committee, which will evaluate the expected financial returns and risks. The Investment Committee's analysis will include the investment type, term to maturity, exit strategies, legal/regulatory considerations, fees, financial, liquidity and other risks, etc.

- Any potential MRI which passes the financial analysis will be recommended by the Investment Committee to the Trustees for approval. The Investment Committee and the team will work together to determine the size of the proposed investment.

- If the MRI is of significant size, the Investment Committee may recommend the source of funding (i.e. the sale of existing equity, bond or other holdings in the investment portfolio).

- Once the Foundation has invested in the MRI, the team will update the Investment Committee on the status of the investment and may ask the Investment Committee for advice and/or assistance as issues arise.

- Upon exit of an MRI, the Investment Committee will recommend how the Foundation should reintroduce the funds into the investment portfolio (i.e. purchasing equity, bonds, etc.).

Building the Portfolio

Given that financial returns could be of equal importance to philanthropic impact when determining the merits of impact investments, risk will be a major consideration when building this portfolio. Therefore, the impact investing portfolio will strive to mitigate risk in the following ways:

- The Foundation will attempt to diversify its program-related and mission-related investments across different types of philanthropic impact, i.e. environmentally-focused, food-focused, aboriginal-focused, etc.

- The Foundation will attempt to diversify its mission-related investments across geographic regions. However, program-related investments will be made within Canada in order to comply with government regulations.

- The Foundation will consider both public and private investments and will consider investments at all levels of the capital structure (equity, junior debt, senior debt, etc.). The Foundation will normally seek pooled investment vehicles to reduce legal/regulatory risk.

- The nature of impact investing implies that most investment opportunities will be long-term (i.e. the Foundation should not expect a return of capital less than five years after the disbursement). However, if possible, the Foundation will attempt to diversify its portfolio into investments with short and long-term time horizons.

- Due to the complexities involved in sourcing, evaluating, and monitoring such investments, the Foundation will attempt to limit the number of investments it holds at any given time.

- Financial and philanthropic returns will be reported on by the respective managers. Additionally, the Foundation will conduct a returns analysis independent of the managers.

---

[1] Could be other credit guarantees – not as part of the current policy
[2] However, only a certain portion of the investment can be considered a "grant", in terms of meeting the Foundation's minimum disbursement quota under CRA rules.