



# **Investment Policy**

**April 2019**

## **TABLE OF CONTENTS**

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1. MakeWay's Mission
  2. Investment Philosophy
  3. Roles and Responsibilities
  4. Investment Objectives
  5. Sustainable Investment Guidelines
  6. Investment Time Horizons
  7. Benchmark Portfolios and Portfolio Management
  8. Authorized and Restricted Investments
- Appendix A: Sustainable Investment Evaluation Criteria

## 1. MakeWay's Mission

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MakeWay's mission is to provide uncommon solutions for the common good by leading and supporting actions that foster a healthy environment and just Canadian society.

We advance our mission by:

- Creating opportunities to pool ideas and resources to solve complex environmental and social problems
- Partnering with private and public sector donors to facilitate strategic grantmaking
- Enabling charitable organizations and people with innovative project ideas to more effectively advance their missions
- Providing philanthropists with tax-efficient vehicles and solutions to amplify the impact and efficiency of their giving
- Aligning our investments with our mission as responsible and engaged investor

## 2. Investment Philosophy

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To advance its mission MakeWay seeks to operate in perpetuity. This necessitates wise stewardship of its assets. Accordingly, MakeWay invests in a manner that provides reasonable safety and preserves the current purchasing power of its invested funds, while achieving rates of return attainable by a knowledgeable and prudent investor through income, dividends, and capital growth.

MakeWay believes that a balanced consideration of the environmental, social, and governance (ESG) performance of securities can generate enhanced long term investment performance and is a prudent investment approach. MakeWay further seeks to align its investments with its mission to foster a healthy environment and just society and as such will ensure investments are aligned and engaged to these ends.

## 3. Roles and Responsibilities

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### The Board

The Board is responsible for the overall management of MakeWay's investments. In fulfilling its responsibilities the Board may delegate certain duties and responsibilities to committees of the Board and to the President and CEO and the Chief Financial Officer. The Board shall supervise management and establish a written investment policy. The Board and its delegates shall exercise prudence in its investment decisions.

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## Finance and Investment Committee

The Finance and Investment Committee is responsible for interpreting and applying the investment policy, and for monitoring compliance of the investment managers.

The Committee shall:

- Review MakeWay's assets and status of its investment accounts
- Determine asset allocations, diversification, risk assumption, and expected returns for each investment account
- Specify financial and sustainability objectives or restrictions
- Interpret and apply the sustainable investment guidelines
- Establish performance targets for investments
- Provide oversight over MakeWay's impact investments
- Monitor performance and compliance with this investment policy through progress reports and meetings with portfolio managers
- Annually review and update this investment policy as appropriate

The Committee is authorized to engage the services of one or more investment managers who possess the necessary specialized research resources and skills to meet the investment objectives of MakeWay. The selection of an investment manager will be made in a prudent manner, applying fair and reasonable identification, evaluation and selection standards.

The Committee is responsible for allocating funds to the investment managers for their management, and for monitoring the performance of the investment managers, and assessing their continuing suitability.

The Committee will consider the performance of each investment manager at least twice each year.

An investment manager's continued suitability may be reviewed at any time should the Finance and Investment Committee lose confidence in the investment manager's ability to succeed. Factors that might lead to a review include one or more of the following:

- Performance substantially below the performance target
- Changes in the investment manager's investment approach and decision-making processes
- Fundamental changes within the investment manager's firm, including changes in ownership, personnel or a substantial growth or reduction in assets under management
- Evidence of malfeasance by the investment manager
- Failure to adhere to this policy

Concerns about the performance of an investment manager shall be noted in the minutes of the Committee's meeting, and shall include the conclusions of the Finance and Investment Committee as to the next steps that may be taken in connection with the retention of such investment manager.

### **Chief Financial Officer**

At the end of each calendar quarter, the CFO will examine the asset allocation of the investment pool. If any of the percentages allocated to an asset class exceeds or falls short of the percentage allocated to that asset class in the Benchmark Portfolio by more than 5%, the CFO will request the investment manager re-balance the investment pool so that the asset allocation percentages fall within 5% of those of the Benchmark Portfolio, and notify the Committee at their next meeting.

### **Investment Managers**

Investment managers appointed by the Board shall perform the duties required of them pursuant to written agreements entered into from time to time. For each account with each investment manager there shall be an agreement in place as to the investment products to be used and the target asset allocation.

An investment manager, in performing their duties, shall:

- Exercise the care, diligence and skill of a prudent investment manager and shall at all times act on a basis that is fair and reasonable
- Be duly registered with the appropriate securities regulators
- Adhere at all times to the Code of Ethics and Standards of Professional Conduct adopted by the CFA Institute, and to the internal conduct guidelines established by the investment manager
- Manage the MakeWay portfolio in accordance with the terms of its investment management agreement with MakeWay, and the specific guidelines set out herein

Investment managers shall provide regular performance reports as follows:

- Monthly written statements itemizing portfolios and transactions
- Quarterly performance reports which include:
  - Actions taken during the period and rationale
  - Commentary on the current economic outlook
  - Commentary or recommendations on implementation of the sustainable investment guidelines
  - A schedule of fixed income investments
  - The income year-to-date by category
  - Information on current yields

- A comparison of returns to performance targets (showing results for the latest quarter, year-to-date, and since inception)
- Annual performance reports which include:
  - Reporting on financial and sustainable investment results
  - Proxy voting results, and actions
  - Information on any challenges related to managing the sustainable investment guidelines

All pertinent changes within the investment management firm shall be reported as they occur. Included among those changes, but not limited to, are the following:

- Significant changes in personnel
- Changes in firm ownership
- Major changes in areas of responsibility
- Changes in investment philosophy or major strategies

#### **4. Investment Objectives**

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The following investment objectives guide MakeWay's investment program:

1. Capital preservation and growth
2. Adequate liquidity based on the investment horizon
3. Environmental, Social and Governance integration

MakeWay seeks optimized investment returns within constraints of the investment policy.

#### **5. Sustainable Investment Guidelines**

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MakeWay assets will be invested in strategies that take the environmental, social and governance performance of securities into account, as outlined in the Investment Philosophy above. MakeWay will also use its asset ownership role to further its mission to foster a healthy environment and just society. The following is an outline of investment strategies MakeWay will pursue, subject to the size of assets under management and its growing capacity and experience in these areas.

##### **Sustainable Investment Strategies**

As a responsible and engaged asset owner, MakeWay includes the following approaches within its sustainable investment approach:

1. ESG Integration & Screening:

- Invest in companies that demonstrate strong sustainability (ESG) practices and performance, including best of sector approaches, to the extent that they affect long-term risk and return
  - Avoid investing in companies with poor sustainability (ESG) practices and performance where this performance may affect long-term risk and return
  - Avoid investing in companies that derive a significant portion of their revenues from tobacco, gambling, and military weapons and with operations in repressive regimes Appendix A provides details on the criteria to be applied in ESG evaluation.
2. Shareholder Engagement:
- Using active ownership strategies, engage with investee companies to encourage social and environmental performance improvement and responsible corporate governance through engagement, including letter writing, meetings, proxy voting, and shareholder resolutions

MakeWay will review the activities and outcomes of active ownership work undertaken by its investment managers to determine whether or not these are effective in furthering its mission.

MakeWay recognizes that there may be instances where shareholder engagement efforts are unsuccessful and divestment is the preferred approach. These will be discussed with investment managers on a case by case basis and addressed accordingly.

3. Impact Investing:
- Invest in securities that generate a positive social, environmental or economic impact in addition to financial returns

## **6. Investment Time Horizons**

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Upon receipt, MakeWay funds are categorized into one of three time horizons:

### **Short-Term Time Horizon**

These funds have short-term (one year) time horizons and are intended to be fully disbursed within one year.

### **Mid-Term Time Horizon**

These funds have medium term time horizons and are intended to be fully disbursed over 2 – 9 years, generating income and preserving capital over this time.

### **Long-Term Time Horizon**

These funds will generate income and preserve principal for 10 or more years.

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## 7. Benchmark Portfolio and Portfolio Management

The Benchmark Portfolio is the set of asset classes that in combination is expected to have the greatest likelihood of achieving the investment objectives as set out in Section 4.

The asset mix held in the Benchmark Portfolio is the composite of the target asset mixes for each category of funds held by MakeWay, which are detailed in the table below.

Asset Class	Benchmark Index	Target Asset Mixes:		
		Short-Term Time Horizon Funds	Mid-Term Time Horizon Funds	Long-Term Time Horizon Funds
Short-Term Securities	DEX 91-Day T-Bills	50%	15%	0%
Canadian Equities	S&P / TSX Total Return	5%	15%	30%
Global Equities	Morgan Stanley (MSCI) World ex-Canada (\$Can)	5%	15%	30%
Short-Term Bonds	DEX Short-Term Bonds	30%	20%	10%
Bonds	DEX Universe Bonds	10%	35%	30%

### Management of Asset Allocation

It is recognized that as the performance of the asset classes may differ, the actual asset allocation of a fund will vary from time to time from its Benchmark Portfolio.

Cash flow into a fund will normally be allocated to the asset classes in the proportions of the Benchmark Portfolio. If the actual asset allocation percentages of a fund vary by more than 2% from the asset allocation percentages of its Benchmark Portfolio, then the cash flow will be directed first to the asset classes for which the actual percentages are less than the Benchmark Portfolio percentages until the asset allocation percentages of the Benchmark Portfolio has been restored, and then to the asset classes in the proportions of the Benchmark Portfolio.

Cash flow out of a fund will normally be allocated from the asset classes in the proportions of the Benchmark Portfolio. If the actual asset allocation percentages of a fund vary by more than 2% from the asset allocation percentages of its Benchmark Portfolio, then cash flow will be directed first from the asset classes for which the actual percentages are greater than the Benchmark Portfolio percentages until the asset allocation percentages of the Benchmark Portfolio has been restored, and then from the asset classes in the proportions of the Benchmark Portfolio.



## Investment Performance Standards

The target rate of return, on average over rolling four-year periods, before the deduction of investment management expenses, is the rate of return of:

1. For an investment manager managing a money market fund, the DEX 91-Day T- Bill Index, plus 0.15%
2. For an investment manager managing a bond fund, the DEX Universe Bond - Bill index, plus 0.5%
3. For an investment manager managing an equity fund, the applicable equity index, plus 1.5% For an investment manager managing a balanced fund, the applicable Benchmark
4. Portfolio plus 1.0%

## Impact Donor Advised Funds

Investments related to Impact Donor Advised Funds are exempt from this investment policy and will not be included in any calculations related to overall asset mix and benchmarks.

## 8. Authorized and Restricted Investments Authorized Investments

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The following are authorized investments, subject to the Restrictions below:

- Money market funds investing in government-backed securities
- Direct obligations of the Canadian or Provincial governments, their agencies and instruments
- Commercial paper rated A or better by the Dominion Bond Rating Service (DBRS) and Canadian Bond Rating Service (CBRS)
- Bankers' acceptances of the major Schedule One banks
- Equities (Canadian, U.S. or International, including unit trusts)
- Private equity securities, including debt or shares in companies that are not publicly traded on a recognized stock exchange
- ESG pooled or mutual funds, that invest in individual securities that are authorized investments
- Impact investment securities approved by the Finance and Investment Committee
- Canadian, Global and Emerging Market Fixed Income securities with minimum DBRS (or equivalent) credit rating of BBB (low)

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## Restrictions

**Except by approval in advance by the Finance and Investment Committee, investment managers will not:**

- Invest more than 5% of the market value of the fixed income portfolio managed by them in the fixed income securities of any one issuer, with the exception of obligations of the Canadian or provincial governments or their agencies, or Bankers Acceptances of the major Schedule One banks
- Invest more than 5% of the market value of the equity portfolio managed by them in the equities of any one issuer
- Invest in the equity securities of any company that has a record of less than 3 years continuous operation including the operation of any predecessor
- Invest in equity securities unless such securities are publicly traded and listed on a recognized stock exchange, or unless such securities are issued by a major Canadian or foreign corporation are highly marketable in the Canadian over-the-counter market
- Invest for the purpose of exercising control of management
- Invest in letter stock
- Invest in commodities or commodity contract
- Purchase securities on margin
- Mortgage, pledge or hypothecate securities
- Make loans or purchase private placements
- Participate in “puts”, “calls” or “straddles”
- Invest in warrants to purchase stocks
- Purchase “derivative” securities other than publicly traded, mortgage backed securities. However, to the extent that mutual funds or pooled funds are used by MakeWay, the mutual funds or pooled funds owned may buy or sell derivatives for the purposes of managing portfolio risk
- Purchase securities for which the manager cannot price and account for under generally accepted accounting principles
- Purchase positions in partnerships or limited liability companies, other than those which are publicly traded
- Lend out securities, except within a mutual fund or pooled fund
- Invest more than 5% of a fund in total in private equity securities. Within this limit, a further cap of 2.5% on individual investments where investment losses are to be charged to specific donor advised funds, and where the investment is not charged to donor advised funds, the cap is 1% of investments

We recognize that Impact Investments usually take the form of one of these investment approaches and grant the Finance and Investment Committee the authority to approve such investments on a case by case basis.

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## **Appendix A**

### **Sustainable Investment Evaluation Criteria**

The following provides details on the criteria to be applied in ESG evaluation.

1. **Policy:** *Invest in companies which demonstrate strong sustainability (ESG) practices and performance, including best of sector approaches, to the extent that they affect long-term risk and return.*

Strong ESG practices include but are not limited to best of sector approaches in the following:

- Exceeds environmental regulation, reduces environmental impacts, including those from greenhouse gases, and risks of products, services, operations and supply and demand chains, and demonstrates environmental leadership and innovation
- Positive community impacts, human and indigenous rights records and practices, consumer, workplace and supply chain practices and social innovation
- Strong corporate governance practices including executive compensation, board accountability, diversity, shareholder rights, business ethics, reporting and disclosure

2. **Policy:** *Avoid investing in companies with poor sustainability (ESG) practices and performance where this performance may affect long-term risk and return.*

Weak ESG practices include but are not limited to the following:

- Poor environmental compliance, ongoing and significant negative environmental impacts and incidents, and poor environmental management systems
- Ongoing and significant poor or negative community impacts, human and indigenous rights records and practices, consumer, workplace and supply chain practices and social performance management systems
- Ongoing and significant poor corporate governance practices including but not limited to accounting irregularities, conflicts of interest, insider trading, corruption and bribery

3. **Policy:** *Avoid investing in companies which derive a significant portion of their revenues from tobacco, gambling, military weapons, and with operations in repressive regimes*



MakeWay will not invest in companies that meet any of the following criteria: MakeWay

- Direct Involvement:
  - Military Weapons: Where the company is involved in the manufacture of military weapons and/or weapons systems.
  - Gambling: Where the company is involved in the operation of casinos, racetracks, online, and other forms of gambling.
  - Tobacco: Where the company is involved in the growth, handling, manufacture, or sale of tobacco products.
  - Repressive Regimes: Where the company has operations in repressive regimes.
- Related Involvement:
  - Military Weapons: Where the company derives more than 10% of its annual revenues from weapons-related services or secondary components of weapons and/or weapons-systems.
  - Gambling: Where the company derives more than 10% of its annual revenues from gambling-related services or components.
  - Tobacco: Where the company derives more than 10% of its annual revenues from the supply of services, equipment, or supplies to organizations involved in the production and sale of tobacco products.
  - Repressive Regimes: Where the company derives more than 10% of its annual revenues from operations in repressive regimes.

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