

Canadian Cancer Society

Statement of Investment Policies and Procedures

**Background**

The Society wishes to invest funds in a prudent manner, with appropriate consideration given to managing investment risk. The primary investment risks are:

- Not meeting the budgeted expected return on investments affecting the income statement and results
- Negative change in market value of investment affecting the balance sheet

In order to manage these risks, the Society has established a number of investment options with different objectives, risks and horizons. The following table summarizes the options available:

	<b>Master Trust</b>			
	<b>Cash and Equivalents</b>	<b>Short Term Fund</b>	<b>Medium Term Fund</b>	<b>Long Term Fund</b>
Investment Objective and Risk	Capital preservation and liquidity	Capital preservation and liquidity	Capital preservation and maintenance of purchasing power	Income growth
Investment Horizon	0 - 1 year	1 – 3 years	2 – 5 years	Over 5 years

**Purpose**

The purpose of this Statement of Investment Policies and Procedures (SIP&P) is to set the goals and procedures for the Society’s investments and establish guidelines to measure effective management of these investments. The national board approves and annually reviews the SIP&P.

Competent external professional investment managers are employed to manage the assets in a portfolio approach and take advantage of enhanced returns, improved liquidity and reduced risk through diversification and professional investment management. The Society selects an investment manager with relevant experience and expertise, a suitable investment style, demonstrated financial stability, low turnover of key investment personnel, capacity to undertake management of the funds at an acceptable cost and a record of performance for at least 5 years at or above the



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benchmark performance objective of the SIP&P. The Society monitors the investment manager's performance against the SIP&P benchmarks.

The SIP&P outlines the responsibilities of the investment manager and the oversight committee, including semi-annual performance reviews and quarterly written reports of performance and compliance with the SIP&P.

The Society may employ a custodian for the asset portfolios, as well as an investment consultant, as it deems appropriate.

Investments are selected in accordance with the criteria and limitations, which reflect the prudent investor standard in the Trustee Act of Ontario, are in accordance with applicable laws affecting investment of trust funds and are consistent with the constating documents of the Society which prohibit investments in tobacco-related securities.<sup>1</sup>

## **Investment guidelines**

### **Banking**

The establishment and operation of bank operating accounts and any other deposit, cheque writing or clearing accounts is restricted and governed by this policy and the bylaws of the Society. Consequently, the establishment and operation of such accounts is restricted to specific financial institutions approved by the Society.

### **Cash and equivalents**

Cash and equivalents instruments shall be invested in high-quality, short-term investments or cash equivalents with maturities of less than 12 months<sup>2</sup>. Investments shall have a long-term rating of at least R-1 (low) by Dominion Bond Rating Service (DBRS) or A-1 by Standard and Poor's or the equivalent by a well-recognized credit agency. In addition, cash and equivalents investments shall only be made in Canadian federal government securities, Canadian provincial government securities or

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<sup>1</sup> There are additional restrictions where a substantial portion of the revenue of an entity is derived from the promotion, distribution or sale of any other goods or substances of any nature or kind in respect of which, in the opinion of the Society acting reasonably, there exists an objective and compelling body of evidence linking such goods or substances to the cause or perpetuation of cancer.

<sup>2</sup> An exception may be permitted when required by regulatory constraints or when the amount available for investment does not meet the investment minimum for the pooled funds. Exceptions must be approved by the VP Operations & CFO, National.



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securities guaranteed by a province, or debt instruments issued or guaranteed by Canadian financial institutions approved by the Society.

### **Fixed income**

Fixed-income investments must be investment grade debt and rated at least “BBB” according to FTSE TMX Global Debt Capital Markets methodology. If an issue’s rating drops below this quality, the Society shall be notified by the investment manager and a course of action be proposed and implemented.

Fixed income must be primarily Canadian dollar debt with no more than 5% of the market value of a bond portfolio invested in debt denominated in foreign currency.

Except for Canadian federal or provincial government securities, not more than 7% of the total value of the portfolio will be invested in securities of any one issuer.

A maximum of 15% of the market value of a bond portfolio may be invested in corporate bonds rated “BBB”, but no individual issuer can exceed 3% of a bond portfolio. The Society shall be notified on a quarterly basis if the “BBB” holdings of a bond portfolio exceed 7% and of any BBB individual issuer exceeding 1.25% of a bond portfolio.

### **Equities**

Equity investments can include common shares, convertible securities and options, rights, warrants, instalment receipts, income trusts, exchange-traded funds (ETFs), preferred shares, American depository receipts (ADRs) and global depository receipts (GDRs). Equities must be publicly listed and traded on a recognized stock exchange. The portfolio must contain at least 30 securities.

Equity holdings in an industry sector and in a specific security are limited to a range based on the weight of the industry sector in the appropriate equity benchmark.

A maximum of 15% of the market value of a foreign equity portfolio may be invested in emerging markets securities.

A maximum of 10% of the market value of a foreign equity portfolio may be invested in securities whose market capitalization is less than USD 1 billion.



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The dividend yield of the high dividend Canadian equity portfolio must be higher than the average dividend yield of the S&P/TSX Capped Composite index and the dividend yield of the high dividend global equity portfolio must be higher than the average dividend yield of the MSCI World index.

Other than as permitted, the funds shall not invest in derivatives except to specifically hedge the assets of the portfolio against currency or interest rate risk. The funds shall not engage in leverage practices or currency speculation.

Private investments are not permitted unless authorized by the Society. Loans, purchases on margin and short sales are not authorized.

#### **Pooled funds**

Investment in pooled funds is permitted provided that the pooled funds are invested within the guidelines stated in this policy which address industry diversification, single name and industry exposure, maximum cash weighting, debt rating, duration and foreign currency exposure and the prohibition of tobacco investments.

#### **Responsibilities of the parties**

Responsibilities of the investment manager

- (a) The investment manager shall invest the funds within the specified investment guidelines and asset mix as defined in this SIP&P.
- (b) The investment manager shall report in writing to the VP, Operations and CFO on a quarterly basis and in person to the Investment and Pension Advisory Committee (IPAC) at least annually. The report should cover such items as the asset holdings, past investment results against the objectives, adherence to investment guidelines, book and market value, current market assessment and investment strategy.
- (c) The investment manager will advise the VP, Operations and CFO and IPAC, in writing if, considering the expected rate of returns and risk tolerance, the provisions of the SIP&P are inappropriate or unnecessarily restrictive.

Responsibilities of the Investment Advisory Committee (IPAC)

- (a) The IPAC shall recommend selection of the investment manager to the Finance, Audit and Risk Management Committee for recommendation to the national board.



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- (b) The IPAC shall review and monitor performance of the pooled funds and the investment manager at least once annually and provide appropriate recommendations to the national board.

### **Conflicts of interest**

The SIP&P addresses conflicts of interest in relation to any person who provides services or advice relating to the investment of the funds and whose personal interest is, or is perceived to be, in conflict with the best interests of the funds, including:

- (a) any member of the Canadian Cancer Society Board of Directors
- (b) any member of the Finance, Audit and Risk Management Committee and members of the Investment Advisory Committee
- (c) Canadian Cancer Society management and staff
- (d) the investment manager
- (e) the investment consultant
- (f) the custodian
- (g) the service provider

Any person or agency listed above must disclose any direct or indirect association or material interest or involvement in aspects related to that person's role with regard to the selection and management of the funds that would result in any potential or actual conflict of interest.

Without limiting the generality of the foregoing, this would include any interest in any asset of the pooled funds and material ownership or membership on the boards of any corporation the securities of which are known or ought reasonably to have been known to be held by the investment manager.

The nature and extent of a conflict shall be disclosed to the chair of the IPAC in writing or the conflict shall be entered in the minutes of a meeting of the IPAC at the earliest of, upon becoming aware of the conflict, at the first meeting in which the matter in issue is discussed, or at the first meeting in which the person knew or ought to have known that a person has an interest in the matter discussed.

Such disclosure must be made verbally if knowledge of the conflict arises in the course of a discussion at a meeting of the IPAC.



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### **Asset mix and performance objectives**

Performance will be reported against the benchmark return on a quarterly basis. All returns will be assessed and measured before investment management fees, on an annualized basis, over moving 4-year periods.

### **Short-term Investment Fund**

Short-term investments are expected to be invested for a period of 12 months to 36 months (1 to 3 years) with the primary investment objective of ensuring capital preservation and liquidity. The portfolio is invested in high-quality, short-term investments and is focused on generating income via a total return strategy, subject to an appropriate level of risk.

The Short-term Investment Fund is expected to perform 0.2% per annum above the designated benchmark asset mix return.

Asset class	Policy range	Target benchmark weighting	Benchmark
Cash and equivalents	0–60%	35%	FTSE TMX Canada 91 Day T-Bill Index
Short-term fixed income	40–100%	65%	FTSE TMX Canada Short Term Bond Index

### **Medium-term Investment Fund**

Medium-term investments are expected to be invested for a period of 24 months to 60 months (2 to 5 years) with the primary investment objective of ensuring capital preservation via maintenance of purchasing power. The portfolio for these investments is focused on generating income with some growth through domestic equities via a total return strategy, subject to an appropriate level of risk.

The Medium-term Investment Fund is expected to perform 0.7% per annum above the designated benchmark asset mix return.



Asset class	Policy range	Benchmark weighting	Benchmark
Cash and equivalents	0–15%	5%	FTSE TMX Canada 91 Day T-Bills Index
Fixed income	65–85%	75%	FTSE TMX Canada Universe Bond Index
Canadian equities	10–30%	20%	S&P/TSX Capped Composite Index
Large capitalization	7–13%	10%	
High dividend	7–13%	10%	

### Long-term Investment Fund

Long-term investments are defined as assets that can remain invested for a time horizon greater than 60 months (5 years) with the primary investment objective of achieving income growth with a higher equity component and some foreign assets via a total return strategy, subject to an appropriate level of risk.

The Long-term Investment Fund is expected to perform 1% per annum above the designated benchmark asset mix return.

Asset class	Policy range	Target benchmark weighting	Benchmark
Cash and equivalents	0–10%	5%	FTSE TMX Canada 91 Day T-Bills Index
Fixed income	45–65%	55%	FTSE TMX Canada Universe Index
Canadian equities	10–30%	20%	S&P/TSX Capped Composite Index
Large capitalization	7–13%	10%	
High dividend	7–13%	10%	
Global equities	10–30%	20%	MSCI World Index (CAD)
Large capitalization	7–13%	10%	
High dividend	7–13%	10%	

