# McConnell Foundation Statement of Investment Policies & Procedures



**Management Guidelines for the Endowment Portfolio**

Last updated: June 2026

Fondation McConnell Foundation

## 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 three 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 and the 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 non-board members, including outside investment professionals with extensive investment management expertise, impact investment 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 (not including the Board Chair);
- The President & CEO of the Foundation;
- The Chief Investment Officer 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:

- Investment beliefs (philosophy), objectives and constraints
- Investment policy and strategy
- Meeting grant-flow needs and capital growth requirements
- Risk management
- Impact and responsible investment considerations
- Asset allocation
- Manager selection
- Performance and attribution (both financial and impact)
- Other investment-related matters

If approved by the Board, the Foundation's investment team will implement the recommendations and report back to the Investment Committee as needed. More information on the Investment Committee can be found in its Terms of Reference.

Foundation investment staff is responsible for:

- Implementation of policy
- Research and recommendations to inform investment decisions
- Monitoring impact and ESG (responsible) investment processes and outcomes
- Monitoring investment performance
- Meeting current and prospective investment managers
- Monitoring investment constraints, including impact investing criteria and ESG
- Validating fees charged by investment managers and service providers
- Managing the treasury
- Custodian selection and securities lending

# Investment Beliefs

1

**Impactful:** Seek to achieve positive environmental and social outcomes that are intentional, measurable and additional. The outcomes should be quantified and verified while earning market rates of return.
*McConnell values alignment: Courage. Community & Equity. Integrity. Generational Thinking.*

2

**Diversified:** Allocate investments across asset classes, geographies and risk-return characteristics that will help protect the portfolio across all economic scenarios.
*McConnell values alignment: Generation Thinking. Humility.*

3

**Disciplined:** Maintain a simple investment structure and process, employ methodical rebalancing practices, be cost conscious. Stay focused on the long-term while staying true to policy objectives.
*McConnell values alignment: Humility. Integrity. Generational Thinking.*

4

**Income-Oriented:** Parts of the portfolio will be dedicated to earning investment income to help align cash inflows with disbursement requirements.
*McConnell values alignment: Generational Thinking. Integrity.*

# Investment Strategy

It is the Foundation's objective to use all of its capital, including investments, to help create lasting positive change for people and planet. Therefore, in 2022, the Foundation decided to align all of its assets with its mission by building a 100% impact aligned portfolio by 2028 and to achieve net-zero carbon emissions by 2050.

Our impact investing thesis is to accelerate the shift to an impact-first economy where all investments contribute to the creation of a resilient, inclusive and sustainable society that can successfully address its complex challenges.

In addition to aligning our investments with our mission and focus areas, our impact goals are to: scale social and environmental impact by increasing the volume of capital channeled to impact-first solutions, build and influence the market through financial innovation and by shifting corporate and institutional behaviour, and strenghten the capacity of the community sector by enabling new forms of finance for charities and non-profits.

Our commitment to an impact aligned portfolio comes with a need for consistency and transparency around impact performance to help ensure our investments are leading to positive social and environmental outcomes. Therefore, we have refined our approach to measuring, monitoring, and reporting on the impact – both positive and negative – that our investments generate. Our Impact Management process is aligned with international impact management best practices, including the integration of diversity, equity and inclusion considerations throughout the investment process.

# Mission-Related Investments (MRIs)

MRIs are financial investments made in either for-profit or non-profit enterprises with the intent of achieving mission-related objectives and targeting market-rate financial returns at an appropriate level of risk. We distinguish between two types of MRIs: Institutional MRIs and Market-Building MRIs.

**Institutional MRIs** exhibit some or all of the following characteristics:

- Managers have an established track record
- Investment teams are deep, knowledgeable and experienced
- There is a clear, repeatable and proven investment process
- The product attracts institutional financial investors
- They are of a significant size

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

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

**Evaluating MRIs**

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 or environmental impact considerations. Impact potential and outcomes are also assessed at the Investment Committee review stage. Mission alignment or purpose would be the responsibility of staff and the Board of Trustees.

MRI proposals encompass both debt and equity investments in enterprises or intermediaries that deliver social or environmental benefits that further the Foundation's mission. The investment performance will be measured against financial benchmarks established by the Investment Committee.

# Program-Related Investments (PRIs)

PRIs are investments that are made in not-for-profit 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 and conventional PRIs.

**Loan guarantees** exhibit some or all of the following characteristics:

- Principal is at risk
- Tend to be larger transactions
- Commitments are still productive towards the endowment's financial return

**Conventional PRIs** exhibit some or all of the following characteristics:

- Target the development of a new intermediary, financial instruments, investments 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

**Evaluating PRIs**

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.

Criteria for approving a PRI would include that it be linked to the Foundation's program objectives and overarching impact investment strategy 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.

# Responsible Investing Approach

In addition to considering the positive impact our investments generate, every investment is also assessed and monitored for its ESG characteristics. Fund managers with poor ESG track records will be excluded from the portfolio.

**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 the shares or debt of companies that directly derive more than 10% of their revenues from the following industries: tobacco, alcohol, gambling, weapons, pornography, marijuana, private correctional facilities.

In line with our Net Zero commitment, the Foundation will further require that its investment managers not invest in the shares or debt of companies that directly derive more than 10% of their revenues from upstream and midstream fossil fuel activities, including but not limited to: exploration, production, transportation (e.g., pipeline construction and/or management), and enabling technologies. Investments in companies with indirect exposure to these activities will be evaluated on a case-by-case basis such that they contribute positively to decarbonization, energy transition, and/or the Foundation's broader investment beliefs and impact goals.

**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 may engage a third-party provider to vote proxies on its behalf, with ESG factors being given the highest consideration.

**Net-Zero Carbon:** As stewards of capital, we have a fiduciary responsibility to consider all material factors that may impact the risk-adjusted returns of our investments, including climate-related financial risks and opportunities. We are also committed to reaching net-zero carbon emissions by 2050 at the latest. Alongside our long-term absolute net-zero target for our investment portfolio, we have set interim intensity based GHG targets (total emissions divided by million dollars of investment (tCO2e/$M AUM)), including 36% by 2025 and 60% by 2030.

To achieve our net-zero commitment we will implement **four interconnected strategies:**

- **Assess:** We manage climate-related portfolio risks by conducting regular climate assessments and evaluating investment managers on net-zero maturity.
- **Invest:** We invest in assets and climate solutions that are net-zero aligned and aim to transition our portfolio to 100% impact by 2028.
- **Steward:** We engage with fund managers, companies and market actors and encourage them to develop credible climate plans.
- **Communicate:** We commit to annually reporting on our progress towards achieving the goal of net-zero greenhouse gas (GHG) emissions for our investment portfolio by 2050 or sooner. This commitment aligns our portfolio with the Paris Agreement, the international treaty to limit global warming to 1.5 °C above pre-industrial levels. En route to our net-zero goal, we will prioritize "real economy reductions" and a "just transition."

# Investment Principles & Structure

**Return Target**
The nominal return target is 7.0%, within a range of 6.75-7.25%, net of fees, over the long-term. The target return is expected to cover charitable and operating costs, but not necessarily inflation.

**Expected Spending**
The Foundation must disburse at least 5.0% of the value of its assets on an annual basis to maintain its charitable status, as per Canada Revenue Agency regulations. The Foundation expects to spend 0.5- 1.0% of its assets on operating costs.

**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, across asset classes (through defined allocation ranges and expected low correlations) and amongst investment managers (mix of investment styles and approaches). The Foundation will also diversify its portfolio across impact themes and along a spectrum of possible impact outcomes. The Investment Committee 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.

**Liquidity Management**
Liquidity management is of primary importance to the Foundation given the need to make timely payments to partners. With an annual spend approaching $40M per year, the Foundation spends, on average, $3-4M per month, with lower spending in the early months of the year and higher spending in the later months.

To manage liquidity needs, a cash balance of approximately $20M (3% of assets) is maintained. Investment income also provides liquidity (averaging 50% of annual spending over the last three years). Real estate, infrastructure and private debt funds distribute monthly and quarterly income to the Foundation. Dividend and interest income are automatically reinvested in their respective portfolios but can be redirected to the Foundation upon instruction. Finally, a line of credit of $5M is available to the Foundation but would only be used in an emergency.

When the cash balance needs replenishing, liquidity will come from the sale of overweight positions. However, this will be evaluated on a case-by-case basis, based on market conditions.

At least once a year (or at the time of a proposed change to the asset mix) stress testing will be conducted to ensure the Foundation is liquid in different market scenarios. Stress testing will be done against the current asset mix and the target asset mix, with particular attention paid to the impact of illiquid assets (including future commitments).

**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 market indices, peer universes, or absolute return targets. When selecting benchmarks, performance goals, tolerance for risk, liquidity, investability and impact outcomes should be considered.

**Administration**
Given the limited number of staff responsible for monitoring the Foundation's investment portfolio, it is imperative that the administrative burden be managed carefully. 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 (amongst others): investment objectives, investment strategy, risks, personnel, performance, impact intentionality, impact outcomes, ESG considerations, code of ethics and fees.

Significant time and attention should be spent on the manager's investment process, philosophy and organizational structure. 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 and impact outcomes, proxy voting practices, engagement and stewardship activities and outcomes, 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 considered 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, rebalancing back to the policy target will occur over a reasonable amount of time, as determined by the IC. Deviations from the target asset class weights will be monitored closely. Actual weights will be kept as close to target as possible and reviewed at least quarterly. At sub-asset class levels, actual weights will not be constrained by specific ranges.

### 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 positions in the portfolio and invest the proceeds in the designated short-term investment vehicle. 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 will be invested across geographic regions, capitalization, type and impact thematic. 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 private debt is expected to provide additional return.

### Inflation-Sensitive

Inflation-sensitive assets in the portfolio are made up of real estate, infrastructure and other real assets. The inclusion of inflation-sensitive assets in the portfolio is to contribute to the inflation-adjusted value of the portfolio over the long-term (as measured by Canadian CPI) and to generate regular cash flow from distributions.

**Asset Allocation Policy**

| ASSET CLASS | CAN | USA | EAFE | EM | TARGET | RANGE | BENCHMARK |
|---|---|---|---|---|---|---|---|
| Cash | 1% | 1% | 0% | 0% | 2% | 0–4% | TBD |
| Public Equity | 10% | 15% | 15% | 10% | 50% | 35–65% | TBD |
| Private Equity | 4% | 5% | 4% | 0% | 13% | 8–16% | TBD |
| Nominal Bonds | 7% | 0% | 0% | 0% | 7% | 5–10% | TBD |
| Private Debt | 4% | 4% | 4% | 0% | 12% | 8–16% | TBD |
| Real Estate | 3% | 3% | 2% | 0% | 8% | 4–12% | TBD |
| Infrastructure | 0% | 3% | 5% | 0% | 8% | 4–12% | TBD |
| **TOTAL** | **29%** | **31%** | **30%** | **10%** | **100%** | | |
| **RETURN TARGET** | | | | | **6.75–7.25%** | | |

Note: Program-Related Investments are excluded from the Asset Allocation Policy.

# Varia

### Borrowing

The Trustees have adopted a borrowing resolution empowering the Senior Leadership Team 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. Foundation investment staff, with approval from the Investment Committee and Board Chair, will implement borrowing through the line of credit established with the Royal Bank of Canada.

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.

### Investment Constraints

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.

### 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 an asset allocation review, at least 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.

### Top Up Criteria

A top-up (additional) investment in an existing McConnell portfolio will be considered if each of the following criteria are sufficiently met:

- Strong risk-adjusted financial performance, or financial performance trajectory, of more than one year (when possible).
- No significant markdowns or concerns about valuation processes since the initial commitment.
- Strong impact performance, or impact performance trajectory, of more than one year (when possible).
- No material negative environmental or social impacts since the initial commitment.
- No material change in the manager's investment strategy (financial or impact).
- No material change in the manager's investment objectives (financial or impact).
- No material change in key manager personnel (including key portfolio managers and impact/sustainability managers).
- No material change in the market environment (that could increase risk).
- No material legal, regulatory, compliance or reputational concerns have arisen since the initial commitment.

# Appendix A: Terms of Reference

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

- Up to five non-board members, including investment professionals with extensive investment management expertise, impact investment expertise and experience with endowments, foundations and/or pensions and at least one senior business executive, from outside the investment industry, with broad managerial and international experience;
- Up to three Trustees of the Foundation (excluding the Board Chair);
- The President & CEO of the Foundation;
- The Chief Operating Officer of the Foundation; and
- The Chief Investment Officer of the Foundation

**Staggered Term**
The non-board members are appointed for a four-year term. Thereafter, they can be reappointed for a staggered one, two, three or four-year term. Board member terms are determined at the discretion of the Board of Trustees.

**Termination**
Any non-board member has the right to resign by written notice and the Board can terminate the appointment of any non-board member by written notice without giving reason or cause.

**Honorarium**
In lieu of honorarium, non-board members will receive an annual granting allowance of $10,000 per annum (effective for new non-board members as of June 2, 2022). Donation receipts will not be issued.

Non-board members who joined the IC prior to June 2, 2022, are entitled to an annual retainer and a meeting fee, both payable quarterly. The Board set the retainer at $12,000 per annum and the meeting fee at $1,000. Travel expenses will be reimbursed upon submission of receipts.

**Meetings, Quorum & Vote**
Meetings will be held at least semi-annually, though more likely quarterly. Meetings can be held in person at any location convenient to the members or by telephone or electronic means.

Five IC members, two of which must be from the Foundation, form a quorum. Either the IC members or the Chair of the Board can elect the IC Chair. The IC Chair can remain as Chair as long as they are an IC member. The Chair has one vote, as do all other IC members.

The IC will always strive to reach consensus conclusions, but in the unlikely case that this is not possible or that one member abstains from voting for conflict of interest reasons, a two-third vote will carry the motion.

**Open to Foundation Trustees**
To ensure transparency and understanding, IC meetings are open to all Foundation Trustees who are not IC members, and up to one non-Trustee designated by the Foundation Board.

**Empowerment**
The IC, appointed by and reporting to the Foundation's Board of Trustees, does not and cannot make investment decisions but will make precise recommendations for the Board's approval. If approved by the Board, Foundation staff will implement the recommendations and will report back to the Investment Committee accordingly.

**Urgent Response Mechanism**
Inevitably, there could be a delay between the IC's recommendations and the next regularly scheduled Board of Trustees meeting. Since "time will be of the essence" for some of the IC's recommendations, it is imperative to develop an urgent response mechanism. Therefore, the Foundation's Board has authorized its Chair to call on the Executive Committee of the Board to accept the IC recommendation if it was unanimously recommended by those IC members present for the vote, including at least two Trustees of the Foundation.



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