



INVESTMENT POLICY STATEMENT

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Table of Contents

BACKGROUND	4
Vision Statement.....	4
Mission Statement	4
The Funds	4
History of Funds	4
Trustee Act.....	4
LONG TERM FUND	5
Purpose of the Long Term Fund	5
Investment Objectives.....	5
Fund Distributions.....	5
Investment Horizon.....	5
Return Expectation	5
Liquidity.....	5
Investment Guidelines	6
Policy Compliance	6
Quarterly Rebalancing.....	6
Money Market Parameters.....	6
Fixed Income Parameters	6
Equity Parameters.....	7
Absolute Return Parameters	7
Currency Exposure.....	8
Investment Reporting/Monitoring.....	8
Manager Termination	8
Investment Manager Search and Selection	9
SHORT TERM FUND.....	9
Purpose	9
Investment Objective	9
Investment Horizon/Liquidity.....	9
Return Expectation	9
Investment Guidelines	9
SOCIALLY RESPONSIBLE INVESTING	9
GLOSSARY.....	10

Table of Contents Continued

Appendix #1 – TRUSTEE ACT.....	11
Appendix #2 – REAL RETURN ESTIMATE	14
Appendix #3 – LEITH WHEELER	15
Appendix #4 – ONGOING MONITORING AND REVIEW	18
Appendix #5 – EXAMPLES	19
Appendix #6 – MANAGERSEVALUATION: DUE DILIGENCE PROCESS	20

CHILDREN'S HEALTH FOUNDATION INVESTMENT POLICY STATEMENT

BACKGROUND

Children's Health Foundation is a Canadian registered charity.

Vision Statement

Inspiring our community to help save and improve our kids' lives.

Mission Statement

We mobilize our community to support excellence in healthcare, rehabilitation and research for our children and their families.

The Funds

The Foundation's investments are comprised of two distinct portfolios: the Long Term Fund (Board Restricted Fund) and the Short Term Fund.

History of Funds

The Foundation began a Building Fund campaign in 2000. At that time, the Foundation had liquid assets of \$16.2M. \$3.9M was set aside for Children's Health Research Institute (CHRI) for their new space on the 5th and 6th Floors, Victoria Research Laboratories, LHSC Victoria Hospital, 800 Commissioners Road. Approximately \$4M was invested in short term paper and \$8.3M was designated a Board Restricted Fund. Russell Investments was selected as Investment Manager for the restricted fund in January 2001 and \$8.3M was transferred for their management. Russell subsequently failed to meet the Foundation's expectations and a search was conducted for a new fund manager in 2005. In June 2005, Leith Wheeler Investment Counsel Ltd. was appointed and Russell Investments terminated. On transfer of management to Leith Wheeler the Fund's market value was \$9.2M. The Foundation's Building Fund commitment was successfully met in December, 2010.

In June, 2011, the Children's Health Foundation Board of Directors approved the first Investment Committee, and delegated to them the responsibility for review, monitoring, and recommendation of the Funds' investments.

Trustee Act

The intention of the Foundation is to adhere to the Trustee Act.
(Relevant Sections 26 to 31.) Please see [Appendix #1](#) for further details.

LONG TERM FUND

Purpose of the Long Term Fund

The Foundation will maintain a Board Restricted Fund (the Fund) classified as Long Term on the financial statements.

The purpose of the Fund is to finance capital and operating grants, as approved by the Board of Directors of the Foundation and ensure sustainability of funding to the Children's Health Foundation Health Care Partners.

Investment Objectives

Grow and protect the Foundation's capital through a prudently diversified portfolio with adequate liquidity for annual distribution requirements.

- **Target an overall annual absolute return of 5%-7%.**
- Maximize the long-term return with a prudent level of volatility and risk.
- Maintain between 2-3 times the annual Grant commitments.

Fund Distributions

Grant coverage ratio is a financial ratio tool for assessing a charity's reserves. It compares funding reserves (liquid assets of cash, cash equivalents and investment securities, less interest-bearing liabilities) relative to the granting envelope.

The Long Term Fund will aim to have a Grant Coverage Ratio between 200%-300%, meaning less than 3 years' worth of funds available to fund grant commitments and costs. Any deviation to this distribution policy will require Board approval. Assuming the Grant Coverage Ratio is between 200-300%, it is the intent, by motion of the Board of Directors to disburse up to 4%.

Investment Horizon

The Fund is intended to be a permanent fund with an investment horizon of over 10 years.

Return Expectation

The return objective is a real return of 4%+ (rate of inflation plus 4%) over a 10-year rolling average. The current Bank of Canada inflation target range is 1%-3% with a goal of maintaining a 2% mid-point. Adding our 4% real return objective to the 1%-3% expected inflation range provides for the 5%-7% nominal return objective for the aggregate portfolio. See [Appendix #2](#).

Liquidity

It is expected that investing in a diversified portfolio of marketable securities will provide sufficient liquidity to meet annual distribution requirements.

It is also anticipated that the liquidity available in the "short-term" portfolio will be sufficient to address any immediate and/or emergency cash flow needs of the Foundation. Cash and

equivalents (Money Market) in the long-term portfolio will be considered a tactical asset allocation supporting certain capital preservation goals of the long-term fund.

Investment Guidelines

The fund shall be invested in various fixed income, securities and absolute return strategies in the following ranges:

	Minimum	Target	Maximum
Money Market	0%	5%	10%
Fixed Income	30%	40%	50%
Equity	35%	40%	50%
Absolute Return Strategies	0%	15%	25%

Policy Compliance

On a monthly basis the asset allocation will be reviewed by the Investment Committee Chairperson and the Finance and Information Systems Director. On occasions when the current asset allocation does not conform to policy guidelines, an Investment Committee meeting will be held either in person or via teleconference. The Committee will then make specific recommendations to rebalance the portfolio to comply with policy guidelines. The Finance and Systems Information Director will ensure implementation. The Committee will ensure portfolio allocations do not deviate from policy minimum or maximum allocations for more than 45 days.

Quarterly Rebalancing

At a minimum, the Investment Committee will consider rebalancing the portfolio on a quarterly basis in March, June, September and December. The Committee reserves the right to consider rebalancing on an ad hoc basis as market conditions change. A motion will be required to record the decision. The Committee will report all transactions to the Board of Directors at their next meeting.

Grant coverage ratio will be reviewed quarterly. Should the ratio be above or below the target the committee will advise the Board. The Board will have 12 months to determine strategy to return to compliance.

Grant Coverage Ratios will be reviewed and reported to the Board on a quarterly basis.

Money Market Parameters

Investments may be made in Investment grade debt of corporations and government, denominated in Canadian dollars with maturity of less than 1 year. GIC's, Term Deposits, Bankers Acceptances and Treasury Bills would be typical money market investments contemplated.

Fixed Income Parameters

The fixed income component, exclusive of absolute return strategies, shall have the following target allocation ranges (as a percentage of the aggregate portfolio):

Domestic government (Federal/Provincial/Municipal) – <u>including real return bonds</u>	30-60%
Domestic/International Sovereign and Investment Grade Corporate (>BBB- rated)	20-40%
Domestic/International High Yield and Emerging Market (< BBB- rated)	0-20%

The asset allocation may be rebalanced by the incumbent Investment Manager/s, as directed by the Investment Committee, when an asset class is 5% above/below the target.

It is expected that the Children's Health Foundation's Investment Manager(s) will prudently diversify the portfolio to reduce risk and avoid concentration in any individual security, industry, region, or issuer. The incumbent Investment Manager's Investment Policy Statement, outlining these diversification and risk reduction measures is attached in [Appendix #3](#).

If at any time the portfolio does not conform to these guidelines, the Investment Committee and Investment Manager shall exercise their best judgment as to the timing and action required to comply with the IPS. Board approval is required if it is determined prudent to remain outside of the guidelines for a prolonged period of time.

Equity Parameters

The equity component, exclusive of absolute return strategies, shall have the following target allocation ranges (as a percentage of the aggregate portfolio):

Canadian Equity	10 - 20%
Rest of World	20 - 40%
Emerging Market Equity	a sub-component of the rest of world will be capped at 15% of total portfolio

Absolute Return Parameters

Alternative investments such as hedge funds use a variety of securities and investment strategies to achieve performance in excess of their respective benchmarks or to take advantage of favorable risk/reward market opportunities. Alternative investments are defined as investment vehicles or funds that have generally lower correlation to publicly traded equity and bond markets. Alternative investments can range between 0 and 25% of the portfolio. The use of alternative investments are designed to reduce volatility and risk while enhancing the probability of achieving the foundation's targeted rate of return. Therefore, any alternative investment selected by the committee should strictly adhere to the above description, emphasizing the reduction of risk.

The absolute return component shall have the following aggregate characteristics:

Overall allocation:	No more than 25% of the total portfolio
Leverage:	No more than 3x leverage for bond portfolios and 2x leverage for the equity portfolios.
Liquidity:	50% monthly and 100% semi-annually. Gating Policies: There shall be no gating provisions.

Derivatives: Certain of the Fund's managers may be permitted under the terms of their specific investment guidelines to use derivative instruments. Derivatives are contracts or securities whose market value is related to the value of another security, index, or financial instrument. Investments in derivatives include (but are not limited to) futures, forwards, options, options on futures, warrants, and interest-only and principal-only strips. No derivative positions can be established that create portfolio characteristics outside of portfolio guidelines. Examples of appropriate applications of derivative strategies include hedging market, interest rate, or currency risk, maintaining exposure to a desired asset class while making asset allocation changes, gaining exposure to an asset class when it is more cost-effective than the cash markets, and adjusting duration within a fixed income portfolio. All derivative positions must be fully collateralized. Investment Managers must ascertain and carefully monitor the creditworthiness of any third parties involved in derivative transactions.

Each manager using derivatives shall (1) exhibit expertise and experience in utilizing such products; (2) demonstrate that such usage is strategically integral to their security selection, risk management, or investment processes; and (3) demonstrate acceptable internal controls regarding these investments.

Currency Exposure

At no time will the aggregate portfolio be less than 50% exposed to the Canadian dollar.

Investment Reporting/Monitoring

The Investment Committee will undertake a consistent monitoring and evaluation process. The Committee will be responsible to ensure adherence to this Investment Policy Statement and commit to a periodic review of the IPS to ascertain effectiveness relative to the goals of the Foundation every four years at a minimum. The Committee will also be responsible to monitor and review Investment Managers and will undertake both an informal and formal review process as outlined in [Appendix #4](#). The informal review will be completed twice per year and the formal review will be completed every four years or sooner at the discretion of the Committee. An independent consultant may be hired to assist with the completion of the formal review process. (Refer to examples in [Appendix #5](#).)

Manager Termination

Aside from any “Material” changes affecting the selected Investment Manager(s), Managers may be terminated at the discretion of the board upon completion of the formal review process.

“Material” changes can include, yet not limited to: significant personnel departures, significant “style drift”, ownership structure changes, large fluctuations in overall assets under management, regulatory violations, significant decline in overall service levels.

Investment Manager Search and Selection

For the selection of any Investment Manager(s) we will adhere to a due diligence process as outlined in [Appendix #6](#).

SHORT TERM FUND

Purpose

The Short Term Fund represents monies generally required in the near term by the Foundation.

Investment Objective

Preserve the capital, maintain liquidity and earn a competitive rate of return.

Investment Horizon/Liquidity

The funds are for near term use and should not have a maturity exceeding one year. Where possible, the Fund should be invested to match known cash flows.

The balance of the Short Term Fund will not exceed more than the current year expenses plus the balance in Externally Restricted Funds (i.e. totals of general and externally restricted columns within the budget) Should the balance exceed this target, the Board will have 12 months to review and determine the allocation of the funds.

Return Expectation

Competitive rate of return for cash or cash equivalent investments.

Investment Guidelines

The capital is to be invested in Canadian dollar denomination investments as follows:

- Government of Canada debt, provincial debt or the debt of the five major Schedule A banks (BNS, TD, RBC, CM, BMO)
- GIC's, Certificates of Deposit, term deposits, or similar financial instruments of insurance companies, trust companies, banks or other issuers
- Cash or money market securities issued by governments or corporations
- Money market mutual funds

SOCIALLY RESPONSIBLE INVESTING

Socially responsible investment involves investing to reflect individual or collective religious, social, economic and political beliefs or priorities. Some individuals are concerned that assets may be invested in companies or countries whose activities or policies they do not personally agree. Others, some of whom make their personal investment decision based on social criteria, believe that there should be no restriction on investing for a common cause and that the focus should be solely on maximizing investment returns.

The Investment Committee has considered these two different points of view. While individual Committee members undoubtedly have their own views and beliefs which may limit their investment decisions, it is recognized that the Board has a fiduciary responsibility to act in the best interests of the Children's Health Foundation and its health care partners. Accordingly, the Committee does not place these limitations on the mandate given to its various investment managers.

GLOSSARY

Definition of Terms

Absolute Rate of Return - a measure of the gain or loss on an investment portfolio expressed as a percentage of invested capital. The adjective **absolute** is used to stress the distinction with the "relative return" measures often used by long-only equity funds.

Absolute return strategies aim to produce a positive absolute return regardless of the directions of financial markets. They typically achieve this by investing the portfolio's assets in cash or other low volatility investments and then taking [hedge](#), [long](#) and [short](#) positions in portfolios of securities that when combined are expected to have modest exposures to market returns. The resulting portfolio should have low [correlation](#) with financial market performance

Real Rate of Return - the annual percentage return realized on an investment, which is adjusted for changes in prices due to inflation. This method expresses the nominal rate of return in real terms, which keeps the purchasing power of a given level of capital constant over time.

Grant Envelope – the annual grants funding for Health Care Partners, approved by the Board of Directors.

Appendix #1 – TRUSTEE ACT

Sections 26-31 of the Trustee Act

Investments authorized by other Acts or regulations

26. If a provision of another Act or the regulations under another Act authorizes money or other property to be invested in property in which a trustee is authorized to invest and the provision came into force before section 16 of Schedule B of the *Red Tape Reduction Act, 1998*, the provision shall be deemed to authorize investment in the property in which a trustee could invest immediately before the coming into force of section 16 of Schedule B of the *Red Tape Reduction Act, 1998*. 1998, c. 18, Sched. B, s. 16 (1).

Investment standards

27. (1) In investing trust property, a trustee must exercise the care, skill, diligence and judgment that a prudent investor would exercise in making investments. 1998, c. 18, Sched. B, s. 16 (1).

Authorized investments

(2) A trustee may invest trust property in any form of property in which a prudent investor might invest. 1998, c. 18, Sched. B, s. 16 (1).

Mutual, pooled and segregated funds

(3) Any rule of law that prohibits a trustee from delegating powers or duties does not prevent the trustee from investing in mutual funds, pooled funds or segregated funds under variable insurance contracts, and sections 27.1 and 27.2 do not apply to the purchase of such funds. 2001, c. 9, Sched. B, s. 13 (2).

Common trust funds

(4) If trust property is held by co-trustees and one of the co-trustees is a trust corporation as defined in the *Loan and Trust Corporations Act*, any rule of law that prohibits a trustee from delegating powers or duties does not prevent the co-trustees from investing in a common trust fund, as defined in that Act, that is maintained by the trust corporation and sections 27.1 and 27.2 do not apply. 1998, c. 18, Sched. B, s. 16 (1); 2001, c. 9, Sched. B, s. 13 (3).

Criteria

(5) A trustee must consider the following criteria in planning the investment of trust property, in addition to any others that are relevant to the circumstances:

1. General economic conditions.
2. The possible effect of inflation or deflation.
3. The expected tax consequences of investment decisions or strategies.
4. The role that each investment or course of action plays within the overall trust portfolio.
5. The expected total return from income and the appreciation of capital.
6. Needs for liquidity, regularity of income and preservation or appreciation of capital.
7. An asset's special relationship or special value, if any, to the purposes of the trust or to one or more of the beneficiaries. 1998, c. 18, Sched. B, s. 16 (1).

Diversification

- (6) A trustee must diversify the investment of trust property to an extent that is appropriate to,
- (a) the requirements of the trust; and
 - (b) general economic and investment market conditions. 1998, c. 18, Sched. B, s. 16 (1).

Investment advice

(7) A trustee may obtain advice in relation to the investment of trust property. 1998, c. 18, Sched. B, s. 16 (1).

Reliance on advice

(8) It is not a breach of trust for a trustee to rely on advice obtained under subsection (7) if a prudent investor would rely on the advice under comparable circumstances. 1998, c. 18, Sched. B, s. 16 (1).

Terms of trust

(9) This section and section 27.1 do not authorize or require a trustee to act in a manner that is inconsistent with the terms of the trust. 2001, c. 9, Sched. B, s. 13 (4).

Same

(10) For the purposes of subsection (9), the constating documents of a corporation that is deemed to be a trustee under subsection 1 (2) of the *Charities Accounting Act* form part of the terms of the trust. 2001, c. 9, Sched. B, s. 13 (4).

Trustee may delegate functions to agent

27.1 (1) Subject to subsections (2) to (5), a trustee may authorize an agent to exercise any of the trustee's functions relating to investment of trust property to the same extent that a prudent investor, acting in accordance with ordinary investment practice, would authorize an agent to exercise any investment function. 2001, c. 9, Sched. B, s. 13 (5).

Investment plan or strategy

(2) A trustee may not authorize an agent to exercise functions on the trustee's behalf unless the trustee has prepared a written plan or strategy that,

- (a) complies with section 28; and
- (b) is intended to ensure that the functions will be exercised in the best interests of the beneficiaries of the trust. 2001, c. 9, Sched. B, s. 13 (5).

Agreement

(3) A trustee may not authorize an agent to exercise functions on the trustee's behalf unless a written agreement between the trustee and the agent is in effect and includes,

- (a) a requirement that the agent comply with the plan or strategy in place from time to time; and
- (b) a requirement that the agent report to the trustee at regular stated intervals. 2001, c. 9, Sched. B, s. 13 (5).

Trustee's duty

(4) A trustee is required to exercise prudence in selecting an agent, in establishing the terms of the agent's authority and in monitoring the agent's performance to ensure compliance with those terms. 2001, c. 9, Sched. B, s. 13 (5).

Same

- (5) For the purpose of subsection (4),
 - (a) prudence in selecting an agent includes compliance with any regulation made under section 30; and
 - (b) prudence in monitoring an agent's performance includes,

-
- (i) reviewing the agent's reports,
 - (ii) regularly reviewing the agreement between the trustee and the agent and how it is being put into effect, including considering whether the plan or strategy of investment should be revised or replaced, replacing the plan or strategy if the trustee considers it appropriate to do so, and assessing whether the plan or strategy is being complied with,
 - (iii) considering whether directions should be provided to the agent or whether the agent's appointment should be revoked, and
 - (iv) providing directions to the agent or revoking the appointment if the trustee considers it appropriate to do so. 2001, c. 9, Sched. B, s. 13 (5).

Duty of agent

27.2 (1) An agent who is authorized to exercise a trustee's functions relating to investment of trust property has a duty to do so,

- (a) with the standard of care expected of a person carrying on the business of investing the money of others;
- (b) in accordance with the agreement between the trustee and the agent; and
- (c) in accordance with the plan or strategy of investment. 2001, c. 9, Sched. B, s. 13 (5).

No further delegation

(2) An agent who is authorized to exercise a trustee's functions relating to investment of trust property shall not delegate that authority to another person. 2001, c. 9, Sched. B, s. 13 (5).

Proceeding against agent

(3) If an agent is authorized to exercise a trustee's functions relating to investment of trust property and the trust suffers a loss because of the agent's breach of the duty owed under subsection (1) or (2), a proceeding against the agent may be commenced by,

- (a) the trustee; or
- (b) a beneficiary, if the trustee does not commence a proceeding within a reasonable time after acquiring knowledge of the breach. 2001, c. 9, Sched. B, s. 13 (5).

Protection from liability

28. A trustee is not liable for a loss to the trust arising from the investment of trust property if the conduct of the trustee that led to the loss conformed to a plan or strategy for the investment of the trust property, comprising reasonable assessments of risk and return, that a prudent investor could adopt under comparable circumstances. 1998, c. 18, Sched. B, s. 16 (1).

Assessment of damages

29. If a trustee is liable for a loss to the trust arising from the investment of trust property, a court assessing the damages payable by the trustee may take into account the overall performance of the investments. 1998, c. 18, Sched. B, s. 16 (1).

Regulations, agents

30. The Attorney General may make regulations governing or restricting the classes of persons or the qualifications of persons who are eligible to be agents under section 27.1 and establishing conditions for eligibility. 2001, c. 9, Sched. B, s. 13 (6).

Application, ss. 27-30

31. Sections 27 to 30 apply to a trust whether it is created before or after the date section 13 of Schedule B to the *Government Efficiency Act, 2001* comes into force. 2001, c. 9, Sched. B, s. 13 (6).

Appendix #2 – REAL RETURN ESTIMATE

The following illustrates the assumptions made in calculating an estimate of real return expectations for the investment portfolio. This estimate will assist in determining an appropriate spending policy with the intention of maintaining the inflation adjusted value of the capital. This estimate shall be reviewed every 2 years to ensure it adequately reflects the then current economic environment and return expectations.

	Nominal <u>Market Return</u>	Excess Net Return Generated by <u>Investment Managers</u>	Total <u>Nominal Return</u>	<u>Inflation</u>	<u>Real Return</u>
Fixed Income	2.00%	0.25%	2.25%	2.0%	0.25%
Equity	5.75%	1.0%	6.75%	2.0%	4.75%
AR	5.0%	1.0%	6.0%	2.0%	4.0%

<u>Current Asset Allocation</u>	<u>Estimated Real Return</u>	<u>Weighted Real Return</u>
33% FI	0.25%	.0825%
47% Equity	4.75%	2.2325%
20% AR	4.0%	0.8%
Estimated Real Return Portfolio		3.115%

NOTES

- (1) The yield on the Government of Canada 10 year bond on January 14, 2016 was 1.207%.
- (2) Over the very long-term, Equity Risk Premiums have averaged between 2% and 4%.
Lower end of range used
- (3) The CPP (a balanced fund) real return estimate stated as 4.0%
- (4) Reports reviewed by the Investment Committee to assist with calculating the real return estimate are on file with the Foundation
- (5) Updated: January, 2016.

Appendix #3 – LEITH WHEELER



Quiet Money.

Leith Wheeler Core Active Bond Fund Investment Policy Statement

Fund Objective

To provide investors with a moderate level of income and the opportunity for capital appreciation by investing in a portfolio of fixed income securities issued by both Canadian and International corporations.

Investment Return Objective

- The primary return objective is to achieve, over moving four-year time periods, the annualized total return of the FTSE TMX Universe Bond Index plus 0.60%.
- The secondary return objective is to rank, over moving four-year time periods, in the top quartile of a universe of Canadian bond funds as measured by a comparative measurement service.

Risk Profile

Leith Wheeler has a Fixed Income Fund which is intended to have a risk profile similar to that of the DEX Universe Index. The Leith Wheeler Core Active Bond Fund will contain more material differences relative to the DEX Universe Index and to our Fixed Income Fund.

Asset Mix

Under normal circumstances, the Fund will keep its portfolio fully invested, to the greatest extent possible, in Fixed Income and Fixed Income related securities.

Investment Guidelines

The Fund may be invested in any of the following investment categories along with current constraints:

Cash

The Fund may invest in cash, short term notes, banker's acceptances, deemed deposits, treasury bills, corporate paper, asset-backed securities, or similar investments.

Fixed Income Investments

The Fund may invest in Bonds, debentures, mortgage loans, mortgage backed securities, medium term notes, asset-backed securities, and preferred shares.

Investment in Fixed Income securities will have the following constraints (*All percentage limits apply to the net market value of the Fund unless specified*):

Page 1

Quantity Restrictions

Exposure To	Maximum
Canada	100%
Provincial	75%
Corporate	70%
Municipal	15%
Mortgage-Backed Securities	30%

Quality Requirements

	Limits
Deviation in duration from the benchmark ¹	Index +/- 2 years
Minimum average credit quality for the fund (market value weighted)	"A"
Minimum credit rating by at least one rating agency at time of purchase	"BBB (low)"
Maximum exposure to securities with a credit rating less than "A (low)"	20%
Maximum exposure to a single province with a rating of "A (low)" or higher	25%
Maximum exposure to a single province with a rating of "BBB"	15%
Maximum exposure to a single corporation with a rating of "A (low)" or higher	10%
Maximum exposure to a single corporation with a rating of "BBB"	5%
Maximum exposure to investment grade private placements (excluding Maples)	25%
Maximum exposure to Maple bonds	10%
Maximum exposure to hedged foreign pay issues from Canadian issuers ²	10%

¹ Due to daily fluctuations in market prices the duration of the fund may go as far as an additional 0.1 yrs shorter or longer than the band of +/- 2 years before a rebalancing trade returns it within range.

² Limited to the currencies of major developed countries

- Debt quality ratings refer to the Dominion Bond Rating Service (DBRS), Moody's, Standard & Poors, Fitch, or equivalent, unless explicitly rated otherwise by the manager. If a rating change causes the maximum to be exceeded, the Manager will normally return the portfolio to compliance within 3 trading days.

Derivative Guideline

The Fund may invest in exchange traded futures.

Investment in Derivatives will have the following constraints:

- Positions will be limited to interest rate, foreign currency and bond exchange traded futures contracts

- Positions will be limited to contracts trading on either the Montreal Exchange or the Chicago Mercantile Exchange Group
- At all times, the total notional exposures from all futures transactions shall not exceed the notional value of the fund.

Security Lending

The Fund is not allowed to participate in securities lending.

Conflicts of Interest

Leith Wheeler and its employees shall not knowingly permit their interests to conflict with their duties and powers in respect of the Fund. Both actual and perceived conflicts of interest shall be deemed to be conflicts of interest coming within the scope of the above policy.

Retention or Delegation of Voting Rights

Leith Wheeler retains all voting rights with respect to individual investments in the Fund.

Reporting

The year-end of the Fund is December 31st. The Fund will be audited annually by an external auditor who will prepare annual financial statements for the Fund.

Appendix #4 – ONGOING MONITORING AND REVIEW

The Children's Health Foundation Investment Committee will commit to the ongoing monitoring and review of both the Investment Policy Statement (IPS) and the Foundation's Investment Managers.

Investment Policy Statement (IPS)

It is the Investment Committee's responsibility to ensure the incumbent investment manager consistently adheres to the IPS.

The IPS will be reviewed on a semi-annual basis, and compared to the actual portfolio, to ensure compliance.

Investment Managers

It is the Investment Committee's responsibility to ensure incumbent Investment Managers remain appropriate for the purposes of the Fund.

The Investment Committee will undertake both an informal and formal approach to Investment Manager monitoring and review.

Informal Review

The informal review will consist of regular reviews of the following:

- Performance vs. relevant benchmarks. Relevant benchmarks are to be determined at the time the managers are hired.
- Manager's adherence to their IPS
- Investment Manager personnel
- General service levels

If deemed necessary at any time the Investment Committee can recommend a formal review process.

Formal Review

Every four years or sooner, at the discretion of the Investment Committee, a formal review process will take place consisting of:

- A complete review of the manager evaluation process ([Appendix #6](#)) for current Investment Managers

Appendix #5 – EXAMPLES

In circumstances where the Foundation's investment resources are limited, the following scenarios illustrate the possible benefit of hiring an independent consultant in the formal review process. Analysis of situations such as the scenarios described enable prudent decision making within the context of monitoring and termination of Investment Managers.

Scenario 1: Hiring or Maintaining an Underperforming Investment Manager

There are times when a disciplined investment manager's "style" or philosophy is temporarily out of favour, yet in the longer-term they are greatly rewarded for adhering to their discipline. For example, many managers that practice the "value" style of investing grossly underperformed the Canadian stock markets in 1999 due to the absence of some tech high flyers, like Nortel, from their portfolios. These same managers subsequently outperformed benchmarks by wide margins over the ensuing 3-5 year period.

Scenario 2: Firing an Outperforming Manager

There are times that outperforming managers have experienced material changes that could reduce their chance of success in the future. For example, if key investment personnel were to depart the investment firm, the track record built by the departing personnel may no longer be a predictor of the skill of the remaining or new personnel. The manager may have to be replaced even though their performance had been strong.

Appendix #6 – MANAGER EVALUATION: DUE DILIGENCE PROCESS

Both quantitative and qualitative analysis will be performed in the evaluation of incumbent and/or prospective managers. At the discretion of the Investment Committee, a qualified independent consultant may be retained.

Qualitative

- People and Organization
- Philosophy and Process

Quantitative

- Portfolio Characteristics
- Performance

PEOPLE AND ORGANIZATION

Objectives

- Assessing organizational uncertainty
- How well has philosophy and process been institutionalized
- Sustainability of intellectual capital

Criteria to Consider

- Leadership strength and experience
- Suitability of compensation program
- Capability of attracting intellectual capital
- Innovativeness and adaptability
- Continuity of professionals
- Succession program
- Integrity and objectivity
- Team versus star approach
- Intangibles: character, attitude and desire to excel – passion
- Strategic direction of the company
- Strengths and weaknesses of the organizational structure
- Servicing capabilities and sustainability to client's needs

PHILOSOPHY AND PROCESS

Objective: What is the Information Edge?

- Articulation of philosophy and process – conceptually sound
- Breadth and depth of research capabilities
- Consistency between philosophy and research
- Clear decision-making process
- Buy and sell disciplines – implementation skill
- Risk Management techniques
- Technological superiority
- Quality control

PORTFOLIO

Objective: Validation of Style and Adherence to Philosophy

- Characteristics Analysis – compare p/e, yield, ROE
- Return pattern analysis
- Turnover
- Buys and sells review

PERFORMANCE

Objective: To Fairly Measure the Results and to Arrive at a Valid Explanation

- Peer group comparisons
- Excess returns
- Attribution
- Return to risk – Risk/Return Scatter – 5 years
- Information Ratio = $\frac{\text{Excess Return}}{\text{Volatility of returns}}$
- Beta, duration, capture ratios

The Investment Committee will analyze its qualitative and quantitative research and will recommend to the Board to either recommit to the incumbent manager or to initiate a search and selection process.