Evangelical Lutheran Foundation

of Eastern Canada

ELFEC

responsible investing • gift planning

Investment Policy Statement

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1. Adoption of Investment Policy Statement

The Board of Directors of the Evangelical Lutheran Foundation of Eastern Canada approved this revised Investment Policy Statement on November 13, 2019.

__________________________________ __________________________________

Signature Date

Bill Gastmeier, Board Chair

Policy Record

Date Previous Policy Adopted	April 28, 2016
Date for next required Policy Review	April 30, 2022

2. Purpose of the Foundation

The Evangelical Lutheran Foundation of Eastern Canada (ELFEC) is a federally incorporated charity registered by the Canada Revenue Agency as a public foundation.

ELFEC's purposes are:

A) To receive and maintain a fund or funds and to apply all or part of the principal and income therefrom, from time to time, to charitable organizations that are also registered charities under the Income Tax Act (Canada);

B) To operate exclusively as a charity to support and further the life, work and mission of the Eastern Synod of the Evangelical Lutheran Church in Canada, its congregations and affiliated institutions, and other faith-based organizations with similar purposes, which are qualified donees within the meaning of section 248(1) of the Income Tax Act.

* The *purposes of the corporation are set out in ELFEC's Articles of Continuance under the Canada Not-for-profit Corporations Act. The Certificate of Continuance was granted by Corporations Canada on April 10, 2013.*

Because our head office is in Ontario, we are required to follow the Ontario Trustee Act when making investments. This means taking into consideration the following criteria:

- general economic conditions;
- the possible effects of inflation or deflation;
- the expected tax consequences of the investment decisions or strategies;
- the role each investment or course of action plays within the charity's overall portfolio;
- the expected total return from income and growth of capital;
- needs of the charity for liquidity, regularity of income and preservation or appreciation of capital. The need to produce sufficient income to allow the charity to carry out its purposes must be balanced against the need to maintain and, if possible, increase the capital for the future; and
- an asset's special relationship or special value, if any, to the purposes of the charity or to its beneficiaries;

as well as the requirement to diversify "to an extent that is appropriate to the requirements of the trust and general economic and investment market conditions".

Some of the assets we manage belong to the Foundation, most having been transferred by individuals or other charities. Other assets are managed on behalf of faith-based charities which retain ownership. We refer to this latter group as investment partners.

In all cases our over-arching purpose is to act as a good steward, preserving assets while generating income that will be used to advance God's mission through the Church and maintaining the Foundation's reputation and supporting its purposes.

3. Purpose of the Investment Policy Statement

The Investment Policy Statement (IPS) describes the key principles, factors and processes to be used by the Foundation's Board of Directors (Board) and financial advisors in making investment decisions.

It is intended to help the Board achieve its investment objectives while managing risk and to guide the Board in the selection, supervision and evaluation of external asset managers.

We expect external asset managers to follow the terms of the IPS whenever investment decisions are made.

4. Investment Objectives

The Foundation operates two investment portfolios with modestly different objectives and risk profiles.

4.1. Income and Security Portfolio

This portfolio emphasizes the generation of annual income with a moderate degree of investment risk.

The investment objectives for this portfolio are ranked as follows:

- 4.1.1. The preservation of capital in real terms.
- 4.1.2. Generation of annual income.
- 4.1.3. Capital appreciation to provide additional protection against inflation.

4.2. Growth Portfolio

This portfolio emphasizes places a higher emphasis on capital appreciation and therefore tolerates a higher degree of investment risk.

The investment objectives for this portfolio are ranked as follows:

- 4.2.1. Preservation of capital in real terms.
- 4.2.2. Capital appreciation to exceed the rate of inflation.
- 4.2.3. Generation of annual income.

5. Investment Beliefs

The Foundation's investment practices are guided by our belief that our investment practices must make a positive contribution to the health and sustainability of the communities in which we invest to deliver long-term investment returns.

The Foundation further believes:

1. Not all investment decisions will be equally successful.
2. The assumption of investment risk is necessary to meet our long-term objective of earning a competitive rate of return, and we should be compensated for the risk we take.
3. We are loss averse and would rather take a less volatile position with more moderate returns to protect against the risk of capital drawdown given our distribution requirements.
4. Active management of assets by skilled, professional asset managers is necessary to meet our long-term objectives.
5. The selection of our overall asset allocation is the primary determinant of the risk and return of our portfolio in the long run.
6. As a long-term investor, we can benefit from the premium placed on illiquid investments.
7. Value can be added and risk reduced by
   7.1. diversifying the number of holdings
   7.2. limiting the percentage of the portfolio invested in a single security or issuer
   7.3. diversifying across asset classes, market sectors, , national, regional or international markets, public markets and private offerings.

5.1. Responsible Investment Beliefs

The Foundation believes that responsible investing is both morally obligatory and economically prudent.

Responsible investing is an investment strategy that incorporates environmental, social and governance (ESG) factors into investment decisions.

The Foundation further believes:

1. a sustainable, viable world is necessary to generate sufficient returns over the long term.
2. That responsible investments have less investment risk, generate sustainable long term returns and bring about positive social change.
3. that fair and transparent financial markets build the trust and accountability needed for economic success.
4. that companies that perform well on environmental, social, and governance factors will have better long-term investment outcomes than those that perform poorly on these factors.
5. that incorporating environmental, social, and governance factors into the investment process for every asset class is necessary and prudent.
6. that by engaging with companies on environmental, social, and governance factors we can influence positive change, enhance long-term financial performance and reduce risks related to poor environmental, social and governance practices as well as reputational risks.

7. that by incorporating environmental, social, and governance considerations into our proxy voting we can positively influence corporate behaviour and make positive change for managing risk within the corporation.
8. that monitoring and evaluating companies on environmental, social and governance issues are part of our fiduciary obligation to our donors and partners.

6. Acting on Our Responsible Investment Beliefs

6.1. Principles for Responsible Investment

The Foundation supports international initiatives that inform responsible investment activity. These include the United Nations Principles for Responsible Investment (PRI), the Human Capital Management Coalition, the Workforce Disclosure Initiative and the United Nations Declaration on the Rights of Indigenous Peoples.

Where appropriate, we will seek managers that are signatories to these initiatives.

Under the UNPRI we have committed to the following:

1. Incorporating ESG issues into investment analysis and decision-making processes.
2. Incorporating ESG issues into our ownership policies and practices.
3. Being active owners.
4. Seeking appropriate disclosure on ESG issues by the entities in which we invest.
5. Promoting acceptance and implementation of the Principles within the investment industry.
6. Working with other organizations to enhance our effectiveness in implementing the Principles.
7. Reporting on our activities and progress towards implementing the Principles.

6.2. Responsible Investment Guidelines and Procedures

The Foundation subscribes to the Christian understanding that God's economy is based on justice for people and care for creation. Thus, we are committed to stewardship of the assets entrusted to us in a manner described as "Responsible Investing": weighing environmental, social and governance (ESG) factors alongside financial ones. The universe of ESG issues is broad so we have chosen to focus on issues pertinent to our mission and to our investment partners. This approach allows us to exert a greater influence on specific issues relevant to our stakeholders.

Essential Characteristics
Companies in which the Foundation invests must have the following characteristics

1. **Respect human rights and dignity**
   Companies must respect the rights outlined in the Universal Declaration of Human Rights and other international covenants that protect the freedom, dignity and safety of workers, citizens and other stakeholders.

2. **Respect workers' rights**
   Companies must respect the rights outlined in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, which includes the right of association and the effective recognition of the right to collective bargaining, the prohibition of forced, compulsory or child labour, and the elimination of discrimination in respect of employment and occupation.

3. **Enhance economic and social justice**
   Companies must deal fairly and openly with the governments and peoples of the countries in which they do business, recognizing the right of citizens and communities to participate in decisions that affect their welfare and avoiding practices that exploit people who are economically or socially disadvantaged.

4. **Operate in an environmentally sustainable manner**
   Companies must not act in ways that deprive future generations of a healthy, safe or abundant natural environment through their consumption of resources, generation of harmful by-products, including greenhouse gases, or the destruction of species or habitats.

5. **Support a global culture of peace**
   Companies must not engage in the manufacture or trade of weapons used in military conflicts or violence against civilians.

6.3. Positive and Negative Screening

The Foundation will employ both negative (excluded) and positive (included) screens in the selection of investments. It aims for strict implementation of its negative screens. Positive screens are aspirational.

6.3.1. Exclusionary Screens

The Foundation will not invest in companies that:

1. Generate 10% or more of their revenues in the gambling industry, either directly, or as a primary use of their products.
2. Generate 10% or more of their revenues in the production of adult entertainment and/or owns/operates adult entertainment establishments.
3. Generate 10% or more of their revenues in the manufacture, distribution, or sale of tobacco products.
4. Engage in the manufacture of weapons and/or weapon systems used in military conflicts.
5. Are involved in the exploration for or primary production of non-metallurgical fossil fuels.

6.3.2. Qualitative Screens

6.3.2.1. Negative Screens

The Foundation will seek to avoid investing in companies whose products or services are not aligned with our beliefs and conflict with our principle to act as a good steward of God's creation.

We will try to avoid companies that have:

1. Violated human rights, including the rights of indigenous people affected by their operations as defined by the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP).
2. Violated their employees' labour rights or complicit in similar violations within their supply chain.
3. Involvement in corruption or bribery or other major controversies over business ethics.

4. A reputation of damaging the communities in which they operate.
5. Faced major controversies over the negative environmental impacts of their operations, goods or services, whether malicious or not.

6.3.2.2. Positive Screens

The Foundation will seek opportunities to invest in companies that:

1. Explicitly recognize the rights of all peoples and communities within their sphere of influence and actively promote a work environment that encourages diversity and equal opportunity.
2. Recognize employee rights to organize and bargain collectively.
3. Minimize their employees' exposure to health and safety risk.
4. Actively consult and engage with the communities affected by their operations, while recognizing indigenous peoples' right to free, prior and informed consent regarding development that affects their interests and well-being.
5. Have strong policies and management systems in place to monitor and mitigate the negative environmental impacts of their operations especially with respect to carbon emissions.
6. Develop and market products and services that directly contribute to the development of a sustainable economy.

6.4. Responsible Investment Approaches and Procedures

6.4.1. Security Selection

Asset managers will not acquire any securities that fail to conform to the exclusions or qualitative screening criteria defined above. If a company's business activities change such that it now fits the negative exclusion or screens, the manager is expected to divest the holding within the shortest reasonable time.

Asset managers are expected to seek opportunities to adhere to positive screen criteria defined above while still giving full consideration to traditional financial metrics and without compromising the Foundation's overriding fiduciary duty to its investment partners.

Managers will regularly report on their compliance with negative screening criteria as well as on their efforts to adhere to positive criteria.

6.4.2. Integrated Asset Selection

Asset managers are expected to integrate environmental, social and governance factors into investment analysis and decision-making processes in order to account for all risks and opportunities.

6.4.3. Research

Asset managers are expected to use a range of objective, reputable research to inform responsible investment decisions.

6.4.4. Proxy voting

The voting agent will vote proxies in the best interests of the foundation, voting in favour or voting against/withholding support for resolutions in a manner that encourages companies to improve their environmental, social and governance performance The voting agent will report fully quarterly on how all votes were exercised, including reasons for all votes cast against management recommendations.

The fund reserves the right to direct the voting agent how to vote any ballot item for shares held in segregated accounts.

The Foundation's asset managers are its voting agent. The Foundation may appoint a third-party agent such as SHARE as its voting agent at some future date.

6.4.5. Corporate engagement

The Foundation will engage companies represented in its portfolio on environmental, social and governance issues through SHARE.

SHARE will provide a quarterly report on all engagement activity. We will monitor whether its engagement activity is producing positive outcomes.

6.4.6. Impact investing

Impact investing refers to investments made in companies, organizations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return. The Foundation will seek investments that contribute positive outcomes in alignment with its goals through impact investments up to the limits specified in its Asset Allocation, and the criteria further detailed in Appendix A.

6.4.7. Reporting

The Foundation will include a section on responsible investment in its annual report. This report will be made available to members at the annual general meeting and to the general public through our website.

7. Governance of the Investment Policy Statement

7.1. Board of Directors

ELFEC's Board of Directors is ultimately responsible for the investment of the Foundation's assets (the portfolio.) Section 16 (1) of the Canada Not-for-profit Corporations Act confers on corporations "the capacity and, subject to this Act, the rights, powers and privileges of a natural person." Section 124 of the Act, states that "the directors shall manage or supervise the management of the activities and affairs of a corporation."

The Board, always subject to the terms of the IPS, has a responsibility to:

1. Carry out its activities in conformity with all applicable legislation, particularly the Income Tax Act (Canada) and the Ontario Trustee Act. It is understood that where funds are donated with donor conditions that confer special investment powers, restrict the spending of principal or specify the purpose of a gift, the Board will honour those conditions;
2. Act honestly, in good faith and in the best interest of the Foundation;
3. Exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances;
4. Approve and periodically review and amend the Investment Policy Statement at a minimum of every 3 years;
5. Maintain an understanding of legal and regulatory requirements and constraints applicable to the portfolio;
6. Select and engage the custodian and one or more asset managers as its agent[s] and delegate to the managers most asset selection decisions in public markets;
7. Directly make asset selection decisions in private markets, unless delegated to asset managers;
8. Monitor the performance of both the asset manager and the portfolio as well as compliance with the IPS and any specialized instructions and mandates that have been given;
9. Formulate specialized instructions and mandates for the asset managers.
10. Ensure adequate liquidity to cover operating expenses and grants;
11. Resolve conflict of interest issues of asset managers as provided in Section 10.

7.2. Investment Committee

The Investment Committee (IC) is a standing committee of the Board whose composition and mandate have been approved by Board policy.

The Investment Committee is responsible for:

1. Monitoring investment results including meetings with asset managers.
2. Reviewing the IPS and advising the Board on appropriate amendments.
3. Informing the Board of additional investment instruments that could be considered for inclusion in the portfolio.
4. Leading the search for asset managers, doing the appropriate due diligence and research, and reporting the pros and cons to the Board.

5. Reporting to the Board in a timely manner.

The Investment Committee does not have authority to bind the Board, and the Board remains solely responsible for all investment decisions. The Investment Committee is designed to assist the Board in fulfilling its fiduciary responsibilities. The Board expects the Investment Committee to provide the pros and cons of potential courses of action, as opposed to making recommendations.

7.3. Foundation Staff

Foundation staff is the primary interface between asset managers and the Foundation, as well as the conduit for information to the Board and Investment Committee.

The Executive Director is responsible for:

1. Ensuring that unedited asset managers' quarterly reports are distributed to the Investment Committee and the Board in a timely manner.
2. Reporting to the board any fact or circumstance that may cause the Board to revise its investment policies.
3. Providing assistance to the Investment Committee and Board with respect to the wishes and concerns of the Foundation's stakeholders and partners.
4. Reporting to the Board any fact or circumstance that, in his/her opinion, may cause the Board to revise these responsible investment policies. The Board will, at its earliest opportunity, review the policy in light of the information presented.
5. Maintain an understanding of legal and regulatory requirements and constraints applicable to the portfolio;

7.4. Asset Managers

Asset managers manage the actual investment process on behalf of the Board in accordance with this policy.

Asset Managers will:

With respect to delegated authority

1. Make investment decisions subject to the terms of the IPS.
2. Have full discretion in day-to-day investment management of the portfolio (or some portion thereof) consistent with the IPS or any specialized instruction and mandates issued by the Foundation.
3. Ensure that all transactions are completed on a best execution basis.
4. Have the authority to vote all proxies and, in exercising this authority, act prudently and solely in the interest of the Foundation, which retains the right to instruct the asset manager how to exercise voting rights. The Foundation reserves the right to withdraw voting authority at its discretion.
5. Exercise the care, skill and diligence that can reasonably be expected of a prudent person and adhere to the CFA Institute's Code of Ethics and Standards of Professional Conduct.

6. Apply the environmental, social and governance factors listed in Section 6 to the portfolio in the following manner:
    6.1. When acquiring a new investment, the asset manager will provide a report on the company's compliance with the Foundation's Responsible Investment criteria.
    6.2. The asset manager will assist the Foundation to be an active shareholder by notifying the Executive Director of all shareholder actions relating to holdings in the portfolio. In such cases the Board reserves the right to direct the asset manager how to respond.
    6.3. The asset manager will assist the Executive Director in the planning and implementing educational activities that support an understanding of responsible investment among the directors, members and investment partners.

With respect to meetings

7. Meet regularly with the Investment Committee, at least two times per year;
8. Provide advice and counsel with respect to the portfolio and discuss key investment strategies with the Investment Committee at its regular meetings.

With respect to reporting and communications

9. Report to the Executive Director all investment activity in detail on a monthly basis.
10. Report immediately to the Executive Director any time sensitive developments that might cause the Board to revise any aspect of the IPS.
11. Communicate to the Executive Director recommended changes to an asset manager's mandate or the IPS.
12. Provide quarterly reports on the portfolio to the Foundation within 30 days of quarter-end.
13. Provide certification of appropriate errors and omissions insurance coverage on an annual basis.

Additional Terms

1. The term of appointment will not exceed a period of five years, with the possibility of renewal of the appointment after review.
2. This IPS will form part of the written contract between the parties.

7.5. Custodians

Custody of portfolio assets shall be delegated to a financial institution recognized as a depository for securities.

The Custodian is responsible for:

1. Providing safekeeping for portfolio assets;
2. Processing security transactions as directed by the asset manager and/or the Foundation;
3. Collecting all interest, dividend and other proceeds from securities when due and payable;

4. Informing the asset manager of pending corporate actions (e.g. name changes, mergers, odd lot offerings, redemptions) and processing instructions related to such matters;
5. Depositing funds and paying portfolio expenses including custodial fees from portfolio income as directed by the Foundation;
6. Maintaining records of all transactions;
7. Providing monthly custodial reports to the Foundation;
8. Providing asset managers and other agents of the Foundation with information required to fulfill their duties, or as directed by the Foundation;
9. Providing applicable information as may be requested by the Foundation's auditor.

7.6. Review and Amendment

This policy may be amended at any time by resolution of the Board.

The Board will ordinarily undertake a review of the Investment Policy Statement at least every three years.

8. Risk Tolerance

The portfolio should be structured and managed to provide for a competitive rate of return commensurate with the appropriate level of investment risk as determined in the IPS. The investment risk inherent in the portfolio can also be viewed in terms of the likelihood that it will generate negative investment returns.

The level of portfolio investment risk exposure will be managed by diversifying holdings, not only by asset class, but by issuer, by industry, by geography, and by term to maturity for fixed income investments.

9. Constraints and Definitions

9.1. Time Horizon

For planning and strategic portfolio structuring purposes, it is assumed that the investment time horizon of the portfolio is long (i.e. greater than ten years).

Because the invested assets under management have a long-term perspective, investment decisions will focus on longer term trends in economic conditions and will not usually pay close attention to changing short-term conditions in the general economy. Changing short-term economic conditions are expected to influence tactical asset allocation decisions by the asset manager, within the ranges set out in this policy as a matter of active risk management.

9.2. Taxation

The Foundation is registered with the Canada Revenue Agency (CRA) as a charitable organization and is exempt from income tax.

9.3. Liquidity Requirements

The Foundation requires liquidity to satisfy its regulatory distribution requirements and meet its operational expenses. Additional liquidity could be used to take advantage of market opportunities and to meet unexpected contingencies.

Liquidity will be maintained in the fixed income allocation of the portfolios by holding high-quality fixed-income securities and securities that are traded on major stock exchanges and by the portion of the portfolio in cash or short-term investments.

Since the Foundation manages non-endowed capital on behalf of other organizations, it is liable to the liquidation and withdrawal of the principal of these funds. Therefore, the Foundation must maintain sufficient exposure to marketable securities so that it could meet these potential obligations in a timely manner without being left with a remaining portfolio that is over concentrated or too illiquid.

The Executive Director will inform the asset manager if there is a need to quickly convert assets into a large amount of cash.

9.4. Unique Circumstances

Unique circumstances refer to an asset's special relationship or special value, if any, to the purposes of the trust or to one or more of the beneficiaries.

None of the securities in the portfolio currently has a special relationship or special value to the purposes of the trust or to one or more of the beneficiaries.

10. Investment Eligibility and Manager Restrictions

10.1. Accredited Rating Agencies

Where credit ratings are specified in this policy, the acceptable rating agencies are:

1. Dominion Bond Rating Service (DBRS);
2. Moody's Investors Service; and
3. Standard and Poor's Ratings Services (S&P).

10.2. Eligible Asset Classes

10.2.1. Cash Equivalents

Cash equivalents, excluding deposits issued by Canadian chartered banks, must have a minimum credit rating of R1 (mid) or equivalent and will consist of:

1. deposits,
2. short-term instruments with an original term-to-maturity of 12 months or less and
3. fixed income investments with a remaining term to maturity of 12 months or less.

The following short-term instruments are permitted:

1. treasury bills issued by the Government of Canada or its provinces,
2. deposit accounts in, or term deposits/deposit notes/bankers' acceptances issued by domestic Canadian banks with a long-term debt rating of A+ or better, and
3. commercial paper issued in Canada by Canadian corporations.

Asset-backed commercial paper is not permitted.

10.2.1.1. Fixed Income

The objective of the fixed income portfolio is to maintain a well-diversified portfolio of high overall quality through investment in a majority weighting of good credits rather than a mix of very high and very low credits. Bonds rated the equivalent of BBB - or equivalent and above are considered to be of investment grade.

Investments in the following fixed income investments are permitted:

1. Bonds; debentures; notes; coupons and residuals; N.H.A. mortgage-backed securities; guaranteed investment certificates; supranational debt securities; Maple bonds; Commercial Mortgage-Backed Securities (CMBS).

Such instruments must be issued by one of the following:

1. Issued by the Government of Canada or one of its agencies and guaranteed by the Government of Canada;

2. Issued by a Canadian provincial government or one of its agencies and guaranteed by the provincial government;
3. Issued by a Canadian municipality or regional government;
4. Issued by a Canadian corporation or in the case of Maple bonds, a foreign corporation. *

   * *Maple bonds must be issued by a high-quality foreign issuer in the Canadian market with principal and interest denominated in Canadian dollars and be assigned a minimum AA credit rating equivalent. Maple bonds should not comprise more than 10% in aggregate of the fixed income asset class.*

Such instruments must meet the following quality thresholds:

5. All municipal bonds will carry a minimum credit rating equivalent of A.
6. Commercial Mortgage-Backed Securities (CMBS) will carry a minimum credit rating equivalent of AAA.
7. Supranational debt must be issued in Canada by an international government institution with principal and interest denominated in Canadian dollars, and it must carry a AAA rating or equivalent.

The fixed income portfolio will maintain a high degree of safety through the use of credit ratings and thorough analysis. Unless explicitly authorized by the Board, all bonds shall have a minimum credit rating of BBB - equivalent upon purchase. Should a bond's rating fall below BBB – or equivalent, the security will be sold as soon as possible at the manager's discretion.

10.2.2. Common Equities

The common equity portfolio provides the opportunity to generate investment income through dividends, while at the same time offer the possibility of capital appreciation to possibly offset the impact of inflation.

Common equity investments will primarily be focused on high quality, dividend- paying corporations with strong balance sheets and solid earning power operating in stable industries.

The portfolio may include pooled funds where necessary to achieve investment objectives. If a conflict arises between this IPS and the policies of the pooled fund, the policies of the pooled fund shall prevail but the asset manager must notify the Foundation in writing as soon as possible.

The following common equity investments are permitted:

1. Shares issued by Canadian corporations, including real estate investment trusts (REITs) that are listed on the Toronto Stock Exchange.
2. Shares issued by US corporations, included in the S&P 500 or NASDAQ Composite Index.
3. Shares issued by major international corporations.
4. Non-leveraged exchange traded funds (ETFs) listed on major US or Canadian exchanges and sponsored by a major ETF provider.
5. Pooled funds offered by a recognized asset manager.

As responsible investors, we prefer not to hold non-voting common shares. However, such shares may be needed for portfolio diversification purposes.

a) Asset managers will report our holdings of non-voting shares.
b) Outside of pooled funds, the concentration of non-voting shares may not exceed 5% of the equity allocation.

10.2.3. Alternative Investments

Alternative Investments are permitted if they meet the financial and responsible investment requirements of the Foundation. The Foundation may consider investments that produce an investment income but that may not be rated by a recognized rating agency and may not be marketable securities.

These include, but are not limited to:

1. Mortgage funds
2. Real estate
3. Private Bonds
4. Private Debt Funds
5. Impact Investments

10.3. Issuer Limits

Unless explicitly authorized by the Board, limits on total investments (at market value) in any one issuer are as follows:

10.3.1. Cash and equivalents

No more than $500,000 may be invested in deposits with, or short-term debt issued by, any one issuer. An exception is made for holding of securities issued or guaranteed by the Government of Canada or its provinces, where no overriding limit is set. However, diversification by provincial issuer is advised.

10.3.2. Fixed Income and Alternatives

No more than 7% of the fixed income portfolio may be invested in debt issued by any one bond issuer. An exception is made for holdings of securities issued or guaranteed by the Government of Canada or its provinces, where no overriding limit is set. However, diversification by provincial issuer is still advised.

10.3.3. Common Equities

No more than 7% (at market value) of the common equity portfolio may be invested in shares of any one issuer and its affiliates and no more than 5% in any one REIT. No more than 10% of the common equity portfolio may be invested in REITs combined.

10.3.4. Overall Issuer Limits

No more than 10% of the total investment portfolio may be invested in any securities issued by one issuer. An exception is made for holdings of securities issued or guaranteed by the Government of Canada or its provinces, where no overriding limit is set. However, diversification by provincial issuer is advised.

10.3.5. Concentration in Associated Entities

The aggregate exposure to entities with an associated relationship shall not exceed 10% of the total investment portfolio. Two or more entities are deemed to be "associated" if one company, directly or indirectly, exerts a controlling interest in the other(s) by way of ownership greater than 20% of outstanding voting shares or two or more companies are effectively controlled by a third company by way of ownership greater than 20% of outstanding voting shares. Participants in a joint venture are deemed to be associated with the joint venture vehicle.

10.4. Additional Constraints, Inclusions and Exclusions

1. The use of leverage or leveraged securities is not permitted. Securities may not be purchased on margin.
2. The lending of securities will not be permitted.
3. Unless explicitly authorized by the Board, currency hedging is not permitted.
4. Derivatives are not permitted. For purposes of the IPS, derivatives are defined as exchanged-traded instruments where the notional value of the contract exceeds the value of the initial investment and over-the-counter forward, option or swap contracts.

11. Asset Mix and Target Allocations

11.1. Income and Security Portfolio

Asset Class	Allocation Range	Target Allocation
Fixed Income		
Cash Equivalents	0 – 10%	0%
Bonds	20 – 40%	30%
Common Equities*		
Canadian	10 – 30%	20%
US	5 – 25%	15%
International	5 – 25%	15%
Alternatives		
Private Real Estate	0 – 15%	10%
Impact Investments	0 – 10%	5%
Private Debt	0 – 10%	5%

- *Total Equities must not exceed 60%

11.2. Growth Portfolio

Asset Class	Allocation Range	Target Allocation
Fixed Income		
Cash Equivalents	0 – 10%	0%
Bonds	15 – 35%	25%
Common Equities*		
Canadian	15 – 35%	25%
US	7.5 – 27.5%	17.5%
International	7.5 – 27.5%	17.5%
Alternatives		
Private Real Estate	0 – 10%	5%
Impact Investments	0 – 10%	5%
Private Debt	0 – 10%	5%

- *Total Equities must not exceed 70%

11.3. Difference Between Portfolio's Allocations

By design the aggregate target concentration of bonds and private real estate in the Income and Security Portfolio is 10% higher than in the Growth Portfolio.

Again, by design the Growth Portfolio has a target concentration of equities that is 10% greater than in the Income and Security portfolio.

By granting more exposure to equity markets the Growth Portfolio opens to investors the potential for greater long term returns than would normally be achieved by exposure to fixed income and private real estate markets. However, such potential gains come with the assumption of the greater risk and volatility of equity markets versus bond and real estate markets.

12. Reporting and Monitoring

Total returns in the portfolio shall be measured relative to the degree of risk assumed, using appropriate risk-adjusted return calculations for common equities and risk assessment criteria for bonds.

12.1. Performance Benchmarks

In order to factor risk into the assessment of asset manager performance, the risk-adjusted return relative to a corresponding benchmark, expressed in Canadian dollars, shall be measured for both the Income and Security and Growth portfolios.

Asset class managers will be measured against their asset class specific benchmark

The overall portfolios will be measured against the performance of two Composite Benchmarks calculated using the following market indices combined in the same proportion as the portfolio's target asset mix as follows:

Asset Class	**Benchmark Index***	**Weight for Composite Benchmark**	
		Income & Security	**Growth**
Cash & Equivalents	*To be determined with the manager at the time of investment* (e.g., FTSE TMX Canada 91-day Treasury Bill Index)	0%	0%
Bonds	*To be determined with the manager at the time of investment* (e.g., FTSE TMX Canada Short Term Bond Index)	30%	25%
Canadian Equities	*To be determined with the manager at the time of investment* (e.g., Jantzi Social Index for asset class specific benchmarking)	20%	25%
Global Equities Ex-Canada	To be determined with the manager at the time of investment *(e.g.,* MSCI World Index (CAD))	30%	35%
Real Estate	To be determined with the manager at the time of investment (e.g., MSCI/REALPAC Canada Annual Property Index)	10%	5%
Impact Investments	4% annual net return	5%	5%
Private Debt	To be determined with the manager at the time of investment	5%	5%

*The Benchmark Index indicates the return a passive investor would earn by employing the target asset allocations.

12.2. Performance Assessment

1. Overall asset manager performance will be measured net of investment management fees and is expected to exceed the investment performance of their appropriate Benchmark Index over a rolling four-year period;
2. To assess the value added through the asset mix, the following measure shall be used:
   Value Added = Performance of Portfolio – Performance of Composite Benchmark
3. The performance of each individual asset class will also be evaluated and is expected to:
   3.1. Exceed the investment performance of the corresponding individual benchmark index over a rolling four-year period;
   3.2. If pooled funds are used for certain asset classes, the fund should rank in the top 50% of comparable funds on a rolling four-year basis.
4. Further, the asset manager will also be continuously evaluated;
   4.1. for compliance with the IPS, including responsible investment performance criteria
   4.2. compliance with any specific instructions issued by the Foundation; and,
   4.3. the quality of reporting and client service.

12.3. Reporting Responsibilities

12.3.1. Performance Measurement Periods and Reporting

Performance shall be measured annually and on a rolling 4-year basis, in conjunction with the Foundation’s fiscal year-end of December 31st. Performance will be reported and reviewed quarterly.

12.3.2. Reporting Responsibilities

Asset managers shall submit reports with sufficient detail to measure performance as outlined above. Asset managers will submit to the Board, for each investment portfolio defined in Section 12 above, a quarterly report that includes:

1. A summary of all transactions for that period with an overview of the portfolio strategy;
2. An asset listing report of all securities held.
3. Information on portfolio performance relative to the agreed-upon benchmarks and, if a pooled fund is used for certain asset classes, relative to comparable funds.
4. Rate of return information for the investment portfolios they manage.
5. A summary of the quality of the portfolio.
6. A list of any holdings in the Fixed Income portfolio rated below BBB - or P-2.
7. A list of all holdings in the portfolio with non-voting shares.
8. Verification that all investments and activity are in compliance with the IPS and documentation of any instance of non-compliance.
9. Compliance with exclusionary and qualitative screening criteria.
10. How all votes were exercised, including reasons for all votes cast against management recommendations.
11. A list of all non-voting common shares held.

Appendix A: Impact Investment Framework

Impact investing refers to investments made in companies, organizations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return.

This framework is intended to provide guidance to the Foundation's staff when identifying and screening Impact Investment Opportunities (IIOs) to bring to the Investment Committee for consideration. It is also intended to provide a template for the Investment Committee's evaluation and reporting on IIOs to the Foundation's Board.

Impact Priorities

Building upon Section 6, Acting on Our Responsible Investment Beliefs, the priorities of the Evangelical Lutheran Church in Canada, and the guidance provided by the UN Sustainable Development Goals, the Foundation has chosen to prioritize specific outcomes for its impact investments. While we recognize many other goals are worthwhile, we believe that we have the potential to create greater impact by prioritizing fewer areas with our limited resources.

The priority areas are as follows:

Priority	**Relationship to U.N. Sustainable Development Goals**
Elimination of poverty in Canada	1. No poverty 2. Zero hunger 4. Quality education 10. Reduced inequalities
Reconciliation with Indigenous peoples and advancement of Indigenous social and economic goals	3. Good health and well-being 8. Decent work and economic growth 16. Peace, justice and strong institutions
Promotion of the sustainable use of our environmental resources, including the atmosphere, land, and water	6. Clean water and sanitation 7. Affordable and clean energy 12. Responsible consumption and production 13. Climate action 14. Life below water 15. Life on land

Geographic Focus

We will target 80% of the impact investing allocation (i.e. 4% of the assets of the Income and Security portfolio) to opportunities producing impacts for Canadian communities, and 20% (i.e. 1% of the assets of the Income and Security portfolio) to opportunities producing impacts for International communities.

For Canadian projects, we will prioritize opportunities that are producing impacts in multiple communities, ideally across multiple provinces.

Financial Considerations

All types of investments will be evaluated on the criteria identified in the assessment matrix detailed below.

For the impact investment allocation as a whole, an average annual total net return for the sub-portfolio of 4% will be targeted. This implies that some investments may be above or below this return target as long as the combined average return is achieved.

Eligible Investment Types

While all types of investments may be considered, the Foundation will privilege investments with the capacity to produce investment income to support its recurring obligations. Example investments which may be considered include, but are not limited to:

1. Shares (common and preferred)
2. SAFEs (Simple Agreement for Future Equity)
3. Limited partnerships
4. Community bonds
5. Social Impact Bonds
6. Debentures
7. Promissory Notes

Impact Measurement and Management

The Foundation considers the intentional monitoring and management of impact to be an important accountability practice for investment providers claiming to produce these benefits. We consider the risk of intended impacts not being achieved (i.e. impact risk) as a material risk in the evaluation of these investments.

At the same time, we recognize that impact measurement is a non-standardized process, and that many impact investment providers are smaller organizations for whom unique or specialized reporting requirements provide an additional burden.

Therefore, the Foundation will give priority to organizations and opportunities that are able to provide a relevant means of measuring and communicating the impact they are achieving. The ability to capture and communicate these results is a valuable factor for the Foundation's stakeholders.

We will also continue to work with relevant partners and experts to improve our capacity to assess the impact risk and to evaluate measurable, beneficial social or environmental benefit of the opportunities.

<u>Impact Investment Assessment Matrix</u>

Factor	Rating (1-5)	Weight	Weighted Score	Notes
Capital Preservation		15%	0	
Liquidity		5%	0	
Income/Cash Yield		10%	0	
Geographic Diversification		5%	0	
Diversification from existing holdings		7.5%	0	
Track Record		7.5%	0	
Target Return		15%	0	
Alignment of Principles		5%	0	
Strength and Depth of Management Team		10%	0	
Impact Measurement		10%	0	
Impact Risk Management		10%		
Total Weighted Score		100%	0	