

STATEMENT OF INVESTMENT POLICIES AND PROCEDURES

**The Canadian Red Cross Society
Legacy Fund**

Effective: November 1, 2023

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Introduction

1.1 The Fund

The Canadian Red Cross Society (the “Society”) established its Legacy Fund (the “Fund”) in order to:

- hold a minimum amount of available capital as per the recommendation of the Society’s board of directors, as well as additional capital beyond this minimum;
- provide a steady influx of income to help fund the annual budget of the Society.

The Fund’s assets (the “Assets”) are invested with the purpose of using financial markets to help reach and maintain the desired capital reserve and generate a certain level of income to help fund the Society’s annual budget. The Society’s Audit and Finance Committee (the “Committee”) is responsible for ensuring that the Assets are managed in a prudent and effective manner.

1.2 Purpose of the SIPP

The purpose of the Statement of Investment Policies and Procedures (the "SIPP") is to provide guidelines for the prudent and effective management of the Assets, and to define the management structure and procedures adopted for the ongoing operation of the Assets.

The SIPP is not designed to satisfy any specific legislation, but is expected to demonstrate prudent management of the Assets and provide a framework for the management of the amount invested.

This version of the SIPP amends and replaces the prior version of the SIPP that became effective in 2020.

The effective date of this revised SIPP is November 1, 2023.

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Allocation of Responsibilities

The Committee is responsible for the overall management of the Fund; however various agents may be retained to assist in the management of the Assets. The Committee has allocated its responsibilities in respect of the Assets as set out below. Appendix B of the SIPP presents the parties appointed for the roles of Custodian, Consultant and Manager.

2.1 The Committee will:

- Recommend changes to the SIPP to the Society's Board of Directors and implement as required.
- Oversee the application of the SIPP.
- At least annually, review the SIPP and recommend changes, if necessary.
- Select and appoint the custodian (the "Custodian") to hold the amount invested in the Fund.
- Delegate tasks relating to the overall management of the Assets to selected agents retained by the Committee, including the selection and appointment of the investment consultant (the "Consultant") and the manager of investment managers (the "Manager").
- Review and evaluate quantitatively and qualitatively the Assets' performance at least annually.
- Retain the authority to delegate any responsibilities not specifically mentioned.

2.2 The Custodian will:

- Fulfil the regular duties required by law of a custodian.
- Perform the duties required of the custodian pursuant to agreements entered into from time to time with the Committee.
- Provide the Committee, or its delegate, with reports, at least quarterly, detailing the assets of the Assets and all transactions during the period.

2.3 The Consultant will:

- Provide consulting services and make recommendations to the Committee with respect to the strategic asset allocation of the Assets, in order to best position the Assets to attain the objectives defined in the SIPP.

2.4 The Manager will:

- Provide ongoing oversight with respect to the implementation of the SIPP.
- Appoint and terminate investment managers within each of the Manager's investment funds (each a "Fund of Funds") in order to implement the investment strategies set out in the SIPP.
- To the extent possible, rebalance the portion of the Assets under its discretion to within its permitted ranges.

SECTION 2: ALLOCATION OF RESPONSIBILITIES

- At least quarterly, provide a written report detailing the performance of the Assets, each Fund of Funds and relevant benchmarks; the allocation of assets relative to the target asset allocation; and a certification of compliance with all applicable agreements, policies and regulations.
- At least annually, perform a quantitative and qualitative evaluation of the performance of the underlying managers of each Fund of Funds and their adherence to the profile and criteria which led to their inclusion in said Fund of Funds.
- Perform ongoing monitoring of the underlying managers of each Fund of Funds.
- Notify the Committee of all modifications to the structure of a given Fund of Funds which significantly alter its risk-return profile.
- Meet with the Committee as required.

2.5 The underlying investment manager(s) of each Fund of Funds will:

- Manage and select securities in accordance with their mandate within the Fund of Funds in which they are included.
- Abide by all rules and legislation applicable to the Fund with respect to the responsibilities, functions and tasks of the investment manager.
- Vote all proxies relating to portfolio securities in accordance with the investment manager's internal guidelines and in the best interest of all their clients.
- Provide, at the request of the Manager, a copy of their proxy voting policy, as well as a report detailing their past votes.
- Provide, at the request of the Manager, a certificate of compliance with their applicable investment policy or pre-established guidelines applicable to their mandate.

Any person to whom the Committee delegates responsibilities with respect to the investment of the Assets must adhere to the provisions of the SIPP.

The Committee may amend or revoke delegations of responsibilities at any time in its sole discretion.

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Investment Objectives, Targets and Risk

3.1 Investment Objective of the Assets

The Fund's objective is to grow capital at a rate that is superior to inflation, in order to not only protect the purchasing power of existing capital, but to also:

- increase the capital reserve that is available to the Society; and
 - provide a stable income to the annual budget of the Society representing 3% of the average value of the assets over the last 3 calendar years;
- all while taking an acceptable level of risk to do so.

3.2 Risk Tolerance

Given the nature of the Assets and its investment objectives, its risk tolerance (i.e. the "acceptable level of risk") has been defined as no more than a 12% probability of a negative nominal return over a four-year period in the current economic environment.

3.3 Return Objective

In order to meet the investment objectives, it has been determined that in the current economic environment, the Assets' return objective over the long term (e.g. 10 years) is to obtain a return in excess of inflation (i.e. a real return) of at least 3% per annum.

3.4 Target Asset Allocation

In order to position the Assets to best achieve its objectives, the current target asset allocation has been determined as follows:

Asset Class	Target Asset Allocation
Fixed Income	41%
Cash & Short-Term Investments	1%
Overall Universe	10%
Canadian Corporate Bonds	10%
Canadian Mortgages	10%
Growth Fixed Income	10%
Equity	44%
Canadian Large Cap Equity	10%
Global Large Cap Equity	14%
Global Low Volatility Equity	10%
Emerging Market Equity	5%
Global Small Cap Equity	5%
Alternative Assets	15%
Real Estate	10%
Infrastructure	5%
TOTAL	100%

3.5 Fund Benchmark

The Fund benchmark is a reference for the performance of the above Target Asset Allocation and for assessing the Manager's ability to implement it. The current Fund benchmark composition is as follows:

Index	Weight
FTSE Canada 91-Day Treasury Bill Index	1%
FTSE Canada Universe Bond index	10%
FTSE Canada All Corporate Bond Index	10%
FTSE Canada Short Term Overall Bond Index	10%
Opportunistic Fixed Income Blended Benchmark	10%
S&P/TSX Composite Index	10%
MSCI World (Net) Index (C\$)	24%
MSCI Emerging Markets (Net) Index (C\$)	5%
MSCI World Small Cap (Net) Index (C\$)	5%
NCREIF	10%
CPI + 4%	5%

- The Opportunistic Fixed Income Blended Benchmark is defined as follows:
 - 50% JPMorgan Emerging Market Government Bond Global Diversified Index (C\$)
 - 50% Bank of America / Merrill Lynch Global High Yield Bond Index (C\$)

3.6 Expected Return and Degree of Risk

Based on the current target asset allocation and expectations for inflation and each of the underlying asset classes, the Assets' expected real return as at December 31, 2022 over the next 10 years is approximately 4.4% per annum. However, as a result of investment risk, actual results may be significantly above or below this level in any given year and may be different over a full 10-year period.

The following table presents the probability distribution for the Assets' real return over one-year and 10-year periods. The probability indicated is that of the Assets obtaining a real return that is equal to or greater than each value presented.

Real Return (per annum)	Probability (Equal or Greater)	
	Over One Year	Over Ten Years
0.0%	73%	96%
1.0%	68%	92%
2.0%	64%	83%
3.0%	59%	71%
4.0%	54%	56%
5.0%	48%	40%

These probability distributions are based on the current target asset allocation and assumptions

SECTION 3: INVESTMENT OBJECTIVES, TARGETS & RISK

about the risk and return characteristics of each asset class and the correlations between them. These assumptions are presented in Appendix A.

Furthermore, based on the same assumptions and the current target asset allocation, the probability that the Assets obtain a negative nominal return over a four-year period is approximately 6%.

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Investment Guidelines

4.1 Permitted Investments

The Assets are limited to pooled funds investing in the asset classes identified in section 3.4 (Target Asset Allocation). To the extent that such funds will be used, the provisions of the investment policies of these funds will apply, provided they are disclosed to the Committee upon request. There is a preference for using open-ended funds for Infrastructure and Real Estate investments.

As such, eligible investments, including the types of securities allowed and any regional, issuer, quality or other restrictions shall be based on the investment policies of the pooled funds. Any modification to a pooled fund's investment policy must be disclosed to the Committee without delay and a revised pooled fund investment policy should subsequently be provided.

4.2 Permitted Asset Class Ranges

Asset Class	Permitted Range Relative to the Target Allocation
Cash & Short-Term Investments	+/- 1%
Canadian Broad-Market (Universe) Bonds	+/- 2%
Canadian Corporate Bonds	+/- 2%
Canadian Mortgages	+/- 2%
Growth Fixed Income	+/- 2%
Canadian Large Cap Equity	+/- 2%
Global Large Cap Equity	+/- 2%
Global Low Volatility Equity	+/- 2%
Emerging Market Equity	+/- 2%
Global Small Cap Equity	+/- 2%
Real Estate	+/-4%
Infrastructure	+/-2%

4.3 Rebalancing

Divergent market performance between different asset classes may, from time to time, cause the asset allocation to deviate from the target asset allocation stated in the SIPP. Periodically, the Manager may consider appropriate action to address the deviation of a given asset class from its target, but within the permitted range. Examples include, but are not limited to, liquidation of securities; allocation of withdrawals or contributions; and the transfer of cash from an overweight

asset class to an underweight asset class.

From time to time (e.g. as a result of major market fluctuations or major capital expenditures), allocations may move outside of their permitted ranges, as defined above. If the allocation to a given asset class moves outside of its permitted range, the Manager will rebalance the portfolio back within the permitted range within 60 days, in a manner which controls transaction costs.

For reasons of limited liquidity for some asset classes, implementation and rebalancing of these mandates may be temporarily outside their permitted limits. Rebalancing will occur depending on available liquidity.

4.4 Liquidity and Valuation of Investments

It is expected that the Assets will be invested primarily in pooled funds that are valued daily and that are highly liquid under normal circumstances. It is also expected that the underlying securities held by these funds will have an active market and that the values of such securities will be based on their market values.

In the event that a pooled fund holds one or more investments that are not regularly traded, these shall be valued at least annually by the Manager or the underlying investment manager, or a third party that has been hired by one of the aforementioned. In making such valuations, considerations shall be given to bid and ask prices, previous transaction prices, discounted cash flows, independent appraisal values, the valuations of other comparable publicly-traded investments and other valuation techniques that are judged relevant to the specific situation.

4.5 Derivative Instruments

Investments in derivative instruments such as options, futures, swaps, forward contracts, repurchase agreements and delayed settlement bonds are permitted only through investments in a pooled fund. Derivative instruments cannot be used for speculative purposes and may only be used to:

- Hedge fully or partially any investment risk, including market, interest rate, credit, liquidity and currency risk.
- Replicate direct investments in the underlying assets or group of assets so as to achieve some advantage of lower cost, transactional ease or market exposure.

4.6 Cash and Securities Lending

The Assets themselves may not enter into cash or securities lending agreements, although the underlying investment managers may do so within the portions of the Funds of Funds they manage if the investment policies of such Funds of Funds or investment policies of the relevant underlying pooled fund so permit.

4.7 Borrowing of Funds

The Assets themselves may not borrow funds to acquire securities or otherwise deal in margin trading or short sales, although the underlying investment managers may do so within the portions of the Funds of Funds they manage if the investment policies of such Funds of Funds or investment policies of the relevant underlying pooled fund so permit.

4.8 Related Party Transactions

Related party transactions are prohibited. Related parties are defined as persons or entities which have influence over the Fund. These include the persons or entities listed in Appendix B of the SIPP.

4.9 Ethical Restrictions

The Assets shall not be invested directly in securities issued by companies that are directly involved in the production of land mines, defense equipment and military equipment. Notwithstanding, such investments made through the purchase of pooled funds or other similar commingled vehicles may be permitted if the policies of these funds so permit.

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Conflicts of Interest and Disclosure Requirements

This section applies to:

- a) Any member of the Committee
- b) Employees of the Society
- c) The Custodian
- d) The Consultant
- e) The Manager
- f) Any underlying investment manager of the Funds of Funds
- g) Any delegatee of the Society or of the Committee
- h) Any person retained by the Committee, its delegatee or a person listed above to provide services to the Assets

5.1 Conflict of Interest

Any person listed above must disclose any direct or indirect material association or material interest or involvement in aspects related to his or her role regarding the Assets that would result in any potential or actual conflict of interest.

Without limiting the generality of the foregoing, this would include material benefit from any asset held in the Assets, or any significant holdings, or the membership on the boards of corporations, or any actual or proposed contracts.

5.2 Procedure for Disclosure

The person involved in the conflict must disclose the nature and extent of the conflict in writing to the Chief Financial Officer upon first becoming aware of the conflict. Thereafter, the person shall abstain from decision making with respect to the area of conflict.

The notification made by the party in conflict shall be considered a continuing disclosure on that issue, subject to any future notification by the party, for the purpose of the obligations outlined by these requirements.

APPENDIX A

Assumptions Used for Expected Return and Degree of Risk

Asset Class	Median 10 year return	Standard deviation	Correlations												
			1	2	3	4	5	6	7	8	9	10	11	12	13
1 Treasury Bills	2.3%	1.5%	1.00	0.09	0.17	(0.20)	(0.08)	(0.26)	(0.24)	(0.30)	(0.05)	0.07	(0.04)	(0.01)	(0.11)
2 Overall Universe	4.1%	5.4%	0.09	1.00	0.43	0.45	(0.15)	(0.07)	0.31	(0.11)	(0.01)	0.22	0.05	(0.23)	0.78
3 Commercial mortgages	4.7%	3.5%	0.17	0.43	1.00	0.38	0.01	(0.10)	(0.11)	(0.05)	0.08	0.28	(0.31)	(0.17)	0.48
4 Opportunistic fixed income	6.8%	7.5%	(0.20)	0.45	0.38	1.00	0.14	0.42	0.57	0.42	0.40	0.40	0.36	(0.26)	0.59
5 Canadian equity (large cap.)	6.3%	19.5%	(0.08)	(0.15)	0.01	0.14	1.00	0.68	0.31	0.73	0.78	0.21	(0.19)	0.25	0.27
6 Global equity (large cap.)	6.3%	16.1%	(0.26)	(0.07)	(0.10)	0.42	0.68	1.00	0.77	0.95	0.71	0.29	0.21	(0.05)	0.21
7 Global low vol equity	5.8%	13.0%	(0.24)	0.31	(0.11)	0.57	0.31	0.77	1.00	0.69	0.37	0.25	0.43	(0.10)	0.37
8 Global equity (small cap.)	6.7%	17.6%	(0.30)	(0.11)	(0.05)	0.42	0.73	0.95	0.69	1.00	0.71	0.25	0.12	0.01	0.24
9 Emerging equity	7.5%	25.0%	(0.05)	(0.01)	0.08	0.40	0.78	0.71	0.37	0.71	1.00	0.38	(0.06)	(0.03)	0.35
10 Infrastructure	6.6%	13.0%	0.07	0.22	0.28	0.40	0.21	0.29	0.25	0.25	0.38	1.00	0.22	0.02	0.23
11 Global real estate core	7.0%	15.1%	(0.04)	0.05	(0.31)	0.36	(0.19)	0.21	0.43	0.12	(0.06)	0.22	1.00	(0.12)	(0.15)
12 Inflation	2.1%	2.6%	(0.01)	(0.23)	(0.17)	(0.26)	0.25	(0.05)	(0.10)	0.01	(0.03)	0.02	(0.12)	1.00	(0.08)
13 Corporate Universe	5.1%	5.0%	(0.11)	0.78	0.48	0.59	0.27	0.21	0.37	0.24	0.35	0.23	(0.15)	(0.08)	1.00

Source: Mercer's Canadian long-term capital market assumptions (December 31, 2022). Expected return represents expected return over the next 10 years.



The figures presented above were provided by Mercer (Canada) Limited (“Mercer”) and were established according to the global harmonized methodology applied by Mercer’s investment consulting business. All assumptions are as at December 31, 2022.

The expected return for fixed income is estimated using current and equilibrium yield curves. Expected returns for equities are calculated based on projected ratios such as gross domestic product (GDP) growth, inflation, forward price-to-earnings ratios, earnings growth, and expected dividend yield.

The standard deviation for fixed income is estimated using historical data and adjusted with a duration model. Standard deviations for equities are estimated using historical data as well.

All correlations between asset classes are estimated using historical data over the last nine years, adjusted for consistency.

Annual returns are assumed to be log-normally distributed. The use of different assumptions for returns, standard deviations and correlations would produce different estimates for the return and risk characteristics of the target asset allocation.

APPENDIX B

Appointed Parties

The Investment Committee, either directly or through its delegatee, has appointed the following parties in connection with the management of the Assets:

- Custodian: RBC Investor & Treasury Services
- Consultant: Mercer (Canada) Limited
- Manager: Mercer Global Investments Canada Limited