Foundation of Greater Montréal

Foundation of Greater Montreal

Distribution Policy

Latest amendments adopted by the Board of Directors
at its March 24, 2021 meeting
French version supersedes this translation

Section 1 – Background

The primary objectives of the Foundation of Greater Montreal (FGM) are to raise money for endowment funds, to ensure their sound management, and to distribute their revenues in support of local charities. To this end, the FGM must ensure optimal and prudent management of its investments.

The FGM must also see to the distribution and use of its investment revenue in accordance with a policy that is in keeping with both its goals and its legal and moral obligations.

Section 2 – Elements to be Considered

The elements that must be taken into account by the Distribution Policy are as follows:

INVESTMENT REVENUE

- The revenue generated by investments includes interest, dividends and realized capital gains or losses net of management fees. Furthermore, available revenue is composed of investment revenue net of distributions and administration fees.
- The FGM expects the long-term average rate of return on its investments, net of its investment advisors' fees, to exceed annual disbursements as specified under its distribution policy. Consequently, over the long term, the FGM expects the proceeds from its investments to exceed its disbursements.

OBLIGATION CONCERNING CAPITAL

- The FGM is required to comply with the agreements it has signed with the various donors. The agreements set out the conditions relative to gifts and capital preservation.
- Most existing agreements specify that the capital is to be preserved in perpetuity. Some agreements specify that the capital is to be maintained for a minimum period of 10 years, while a few provide for progressive depletion of the capital over periods of 5, 10 or 20 years.
- The agreements provide for the possibility of deducting administration fees from the capital if the revenue generated is insufficient. Some agreements provide for the possibility of making temporary deductions from capital to comply with the disbursement quota requirement.
- The agreements do not include a clause to protect capital against inflation.

DISBURSEMENT QUOTA

To retain its status as a charitable organization, the FGM must disburse amounts annually by way of gifts made to qualified donees, as specified under the *Income Tax Act*. The disbursement quota represents 3.5% of the prescribed amount of assets held by the FGM over the previous two years. It should be noted that the FGM is required to disburse a total of 3.5% of the prescribed amount, which does not mean that it must disburse 3.5% to each individual fund holder. Indeed, the FGM does not distribute from funds that have not been in existence for at least four quarters, nor from those that have not accumulated $10,000 as at December 31 of the preceding year.

Amounts distributed through flow-through funds increase the amounts disbursed for the purposes of our disbursement quota.

MANAGEMENT AND ADMINISTRATION FEES

To carry on its operations, the FGM charges the funds monthly management and administration fees. These fees are used to defray investment management costs and to cover the FGM's operating costs.

Section 3 – Distribution Rate

The distribution rate is set every year by the Board of Directors upon the recommendation of the Investment Committee at a minimum of 3.5% of the average closing market value of the philanthropic fund over the 12 quarters ended December 31 of the previous year. The Investment Committee considers the annualized returns of the fund over 5 and 10 year periods and ensures that the fund has sufficient income to cover the disbursement quota, fees and a portion of inflation. It assesses the impact of a 0.25% change in the distribution rate from year to year using stochastic projections to ensure that the capital is protected. In the case of new funds established less than 12 quarters earlier, the total amount of grants allocated in a given year is set at the rate approved by the Board of Directors multiplied by the average closing market value of the philanthropic fund for all quarters since the fund was established, up to December 31 of the previous year. To allocate grants from a new philanthropic fund, such fund must have been established before December 31 of the previous year and must have been open for a minimum of four quarters.

FUNDS CREATED UNDER THE 2018-2021 *MÉCÉNAT PLACEMENTS CULTURE* (MPC) PROGRAM

In the case of 2018-2021 MPC funds, the average closing market value of the fund is determined by adding the market value of the capital fund and the revenue fund. The constituent organization will have the possibility of setting a distribution rate higher than the rate set by the FGM's Board of Directors providing that, subsequent to the distribution, there remains a balance in the revenue fund equalling a minimum of 6% of the capital fund's asset value, as established December 31 of the preceding year. This percentage is conserved in the fund so as to counter any eventual declines in the value of the revenue fund.

Each year, the constituent organization will be advised in writing of the amount available for distribution from its revenue fund. The organization will have 90 days after receiving the notice to submit a written recommendation to the FGM concerning the amount to be distributed. In the absence of such recommendation from the organization within the prescribed time limit, the FGM will apply the distribution rate set by the Board of Directors.

Section 4 – Distribution of Capital and Other Special Clauses

For funds whose agreements provide for the gradual depletion of the capital over periods of 5, 10 or 20 years, the additional amount to be distributed, determined based on the rules set out in the agreement, shall be over and above the amount established in Chapter 3 above.

For funds containing special distribution clauses, the amount to be distributed shall be determined based on the stipulations in the agreements and shall be examined on a case-by- case basis.

Section 5 – Use of Investment Revenue

Investment revenue shall be used in the following order:

1. A sufficient amount shall be deducted to cover management and administration fees. If the total annual revenue is insufficient to cover these fees, the required amount shall be deducted from the capital of each fund.
2. An amount shall be distributed in the form of grants calculated according to the formula set out in Section 3 hereof.

   If the total amount of revenue generated during the year is insufficient to cover the amounts determined, the sums shall be taken first from the accumulated revenue available and then from the capital, provided this is allowed under the agreement.
3. Any excess amount shall be kept as available for distribution in future years.

Section 6 – Restrictions on Distribution

Funds established less than five years ago must have received capital contributions totalling the minimum required amount of $10,000 before a distribution can be made.

Section 7 – Notice to Donors

Each year, donors will be advised of the amount available for distribution from their respective funds.

In the case of donor-advised funds, donors must send their recommendations to the FGM concerning the charity or charities to be given a grant by no later than October 31 each year. Donors may also choose to designate a grants committee to make recommendations on their behalf.

In the absence of recommendations from donors before November 1 each year, the amounts available will be distributed at the FGM's discretion. In selecting the beneficiary organizations, the FGM will base its choice on the types of organizations chosen by the donors in the past.

Section 8 – Effective Date and Review

This policy takes effect on January 1, 2020 as decided by the Board of Directors.

The Board shall review this Distribution Policy at least once every three years.