

***MUTUAL INTEREST:***  
**Options for Cause-Related Marketing  
with the Mutual Fund Industry**

***AN INTERACTIVE TEMPLATE***  
**for the Voluntary Sector**

by  
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Canadian Council  
for International  
Co-operation  Conseil canadien  
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internationale

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of Canada  Centraide  
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*Mutual Interest* builds upon research conducted for CCIC in 1998 by Catherine Moser, compiled in a report entitled *An Exploration of Mutual Fund-Related Sharing Options*. Both this manual and the original research report are available in electronic form on the CCIC Web site ([www.ccic.ca](http://www.ccic.ca)).

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## FREQUENTLY ASKED QUESTIONS

**How will I know if cause-related marketing is appropriate for my organisation?** This template requires you and your organisation to undertake significant research before you approach any company with a cause-related marketing plan. CCIC provides private sector engagement (PSE) tools that will assist your organization in exploring options and performing the necessary due diligence. Just as with a good business plan, this type of research will help you to identify both the benefits and challenges of a CRM. Table 3 of this template gives a good overview of these challenges. Once you have performed all the necessary research you may decide that CRM is not for you.

**Which of the five options for CRM in this template should my organisation pursue?** We have researched five cause-related marketing campaigns that a non-profit or charity could use with a mutual fund company in Canada. In our opinion, establishing a stand-alone mutual fund (Option 1/Shared Return Fund) is very onerous for both the non-profit and the mutual fund company. The mutual fund companies we surveyed are most responsive to a CRM that uses their already existing financial systems and involves front-line employees and customers in the campaign. All the options in this template should be tailored to your own organisation's needs.

**What should I do if the mutual fund company I approach thinks I am asking for a philanthropic donation?** You will need to be very clear with the mutual fund company that you are approaching them with a marketing campaign. Though you will want to involve the Corporate Affairs Department, your primary approach is to the Marketing Department. Your well-researched business case will help you to clarify that a CRM is not corporate giving. Your organisation has a lot to offer the mutual fund company and your business case will demonstrate that fact.

**Can I use this template for a cause-related marketing campaign that is with another type of company than a mutual fund?** Many aspects of this template apply to any cause-related marketing campaign between a non-profit or charity and a business enterprise. Several of the examples we use in our CRM success stories demonstrate how varied and original these campaigns can be. The five options we explored in this template are designed for a mutual fund/ non-profit CRM, however you can build a successful campaign by following the steps laid out in this template. Most important is the initial research you will need to do to prepare your business case found in Section III of the template and your written proposal outlined in Section IV. Once you have a CRM agreement with a company you should follow through on the checklists and contracts suggested in Section V to ensure a successful campaign.

## EXECUTIVE SUMMARY

The Canadian Council for International Co-operation and the United Way of Canada – Centraide Canada have designed this template to assist non-profits, NGOs and charitable organizations develop cause-related marketing campaigns with the mutual fund industry in Canada. The template provides essential background information which may be adapted and used to create a persuasive business case by interested non-profit organizations. It builds upon exploratory research in the area of shared return options conducted by Catherine Moser for the Canadian Council for International Co-operation and the United Way in 1998.

Cause-related marketing (CRM) is one of the fastest growing business marketing strategies in North America. Companies look for innovative ways to distinguish themselves in the marketplace, while non-profits and charities look for new sources of revenue to fund their activities and new ways to advance their cause. Our research indicates there are a number of opportunities for non-profits and charities to partner with mutual fund companies and create cause-related marketing campaigns that benefit both the mutual fund companies and the non-profits. Eight in every ten Canadians make charitable donations biannually, and seven in every ten Canadians say they would be more likely to buy goods or services from a company that commits resources to social and community concerns. Mutual fund companies want to attract these potential new clients and partnering with a non-profit or charity gives them this reach.

This template explores in detail five options for cause-related marketing campaigns between interested non-profits or charities and mutual fund companies in Canada. These five options, which were examined in *An Exploration of Mutual Fund-Related Sharing Options*, include a shared return fund, a return sharing plan, management fee sharing, trailer fee sharing, and affinity sales. We provide detailed information on each option including expert advice on their regulatory and tax impacts that can be used when presenting any one of these options to a mutual fund company. We also offer insights from mutual fund officials on each of these options.

Most importantly this template recognizes the rigorous process any non-profit, NGO or charity must go through to develop a successful cause-related marketing campaign. The template takes you step-by-step through each stage of CRM business case development. Before embarking on the development of a business case, however, it is assumed that your organization has closely examined its mission and ethical base to determine if such an approach is right for you. You will find resources in this template to assist you in your initial research to determine if cause-related marketing is suitable for your organization.

The template also includes polling and survey data that you will want to include in your written business case, as well as expert opinions on the tax and legal aspects of the option that you choose. The final section of the template provides a useful checklist of issues you will need to address once you and a company have agreed to engage in a cause-related marketing campaign.

Cause-related marketing partnerships with the mutual fund industry are the focus of this template. However, CRM campaigns are not restricted to this industry alone. The steps identified in the template--assessing the challenges for your own organization; researching the company; preparing a written business case; and establishing contracts and obligations between the non-profit and the company--are all necessary components for any successful cause-related marketing campaign. It is our hope that this template encourages non-profits, NGOs and charitable organizations to explore cause-related marketing and the potential new opportunities it brings.

## I. WHAT IS CAUSE-RELATED MARKETING?

Cause-related marketing is one of the fastest growing business marketing strategies in North America. Increasingly in this era of global competition, companies must fight for consumer recognition and loyalty. Simply offering a quality product or service does not guarantee success in the twenty-first century.

Companies must look for innovative ways to distinguish themselves in the market. One successful strategy is cause-related marketing. Partnership with a worthwhile cause attracts consumers, who when faced with roughly equal products or services, choose one that has an impact on an issue they care about. You need only think of The Body Shop or Ben and Jerry's Ice Cream to see how successful cause-related marketing can be for a company in a crowded marketplace.

A recent survey by the Conference Board of Canada indicates 72% of Canadians are more likely to buy goods or services from a company that commits resources to social and community concerns and 68% are more likely to invest their money in companies that demonstrably support the community. Another recent American survey reported in *Time* magazine, found that 76% of consumers would choose a product or service that advances a cause they care about as long as the quality and price were on par with other goods. The overwhelming response of consumers to corporate social responsibility is not just found in North America. Results of the global "Millennium Poll on Social Responsibility" conducted by Environics International concluded that "major companies in the 21<sup>st</sup> century will be expected to demonstrate their commitment to society's values and their contribution to society's social, environmental, and economic goals through action." These responses are the drivers behind successful cause-related marketing campaigns that benefit everyone involved.

As a non-profit or charity, your organization provides the cause that many companies wish to partner with. This template is aimed at one specific partnership, creating a successful alliance with a mutual fund company that wants to associate its product with your cause. Our research finds considerable support for a cause-related marketing campaign between a non-profit or charity and a mutual fund company.

In January of 2001 the polling firm Environics undertook specific polling on questions of charitable giving for the Canadian Council for International Co-operation. They found that eight in ten Canadians had made a charitable contribution in the past two years and that the likelihood of charitable giving increases with age, level of income, and education. These are the same individuals mutual fund companies wish to attract to their product.

On the specific question of charitable giving through mutual fund donations, Environics found that younger people (age 18 – 34) are most likely to respond positively to this approach, with 56% of this age group indicating support for the contribution of mutual fund earnings to charities. This level of support indicates that a cause-related

marketing campaign can attract new investors to the mutual fund company and new donors to the NGO or charity.

For the non-profit or charity a cause-related marketing partnership with a mutual fund company develops a new source of revenue for your organization. This is important in an era of government cutbacks and growing program needs. But to be successful, your relationship needs to be measured in more ways than simply by how much money you receive. Equally important is the increased opportunity to promote your cause that comes from a major marketing campaign. You will be able to raise the profile of your own organization and strengthen your brand with an important demographic group of Canadians. Finally you will have an opportunity to expose a mutual fund company to your issues, values and ethical concerns as you work in partnership toward a common goal.

Martha Parker in a presentation to the Muttart Foundation Fellowship Program presented the attributes of leading non-profits and corporations. She further explores this topic in a soon to be released book.

**Table 1: Leading Corporations**

<b>Cheque Book Philanthropy</b>	<b>Strategic Philanthropy</b>	<b>Community Investment</b>	<b>Corporate Social Responsibility</b>	<b>Corporate Citizenship</b>
<ul style="list-style-type: none"> <li>• Reactive</li> <li>• Arms length</li> <li>• Financial donations</li> <li>• Isolated from other business functions</li> <li>• Traditional causes</li> </ul>	<ul style="list-style-type: none"> <li>• Focus giving</li> <li>• Employee volunteerism</li> <li>• Competitive markets</li> <li>• Image building</li> </ul>	<ul style="list-style-type: none"> <li>• Linked to business</li> <li>• Proactive stakeholder involvement</li> <li>• External partnerships</li> <li>• Policy development</li> <li>• More accountability</li> </ul>	<ul style="list-style-type: none"> <li>• Integrated with other business functions</li> <li>• Value added strategies</li> <li>• Expanded partnerships, internal and external</li> <li>• Social vision</li> </ul>	<ul style="list-style-type: none"> <li>• Mutuality of corporate and social concerns</li> <li>• Corporate best practice re: social, environmental &amp; ethical practice</li> <li>• Established standards of accountability</li> <li>• Demonstrated leadership</li> </ul>

**Table 2: Leading Not-for-Profits**

<b>Service Provider/ Entitlement</b>	<b>Strategic Repositioning</b>	<b>Partnerships &amp; Collaborations</b>	<b>Not-for-Profit Social Responsibility</b>	<b>Not-for-Profit Citizenship</b>
<ul style="list-style-type: none"> <li>• Do "good" works</li> <li>• Deserving</li> <li>• Dependent on key funders</li> <li>• Isolated</li> <li>• Poverty mentality</li> <li>• Focus on mission</li> </ul>	<ul style="list-style-type: none"> <li>• Diversified funding needs</li> <li>• Sectoral collaborations</li> <li>• Competition for dollars and volunteers</li> <li>• Focus on mission and markets</li> </ul>	<ul style="list-style-type: none"> <li>• Knowledge of issue</li> <li>• Proactive</li> <li>• Sustainability focus</li> <li>• Enterprise thinking</li> <li>• Build business capability</li> <li>• Cross sectoral partners</li> <li>• More accountability</li> </ul>	<ul style="list-style-type: none"> <li>• Value added strategies</li> <li>• Tackle broad social issues vs. narrow organizational issues</li> <li>• Increased involvement in public policy decisions</li> </ul>	<ul style="list-style-type: none"> <li>• Commitment to build community capacity</li> <li>• Promote civil society</li> <li>• Not-for-profit best practice re: social, environmental &amp; ethical practices</li> <li>• Establish standards of accountability</li> <li>• Demonstrate leadership</li> </ul>

A mutual fund company also stands to gain substantially from investing in a cause-related marketing (CRM) partnership with you.

- CRM improves the perception of the firm or product.
- It boosts sales.
- It helps a firm stand out in a crowded marketplace.
- It builds a company that employees are proud to work for.

Essentially your organization is offering its reputation, good will, and in some cases access to its membership in exchange for a new source of revenue and greater exposure of the organization and cause. The charities and non-profits most likely to benefit from this type of relationship will have national brand recognition.

Therefore before you begin work on this template, your organization will need to perform all necessary due diligence to ensure that the mutual fund company you approach will be the right fit for your organization. You will need to examine the core business activities of your corporate partner to determine if any would damage your reputation or undermine your mission. After working through this process some organizations may find that cause-related marketing is not for them. Because you are offering your reputation and a lot more, the challenges can be daunting.

Beyond reputation and mission management, cause-related marketing poses additional challenges to both the non-profit and the business partner. At a recent NGO seminar convened by Bond with the Prince of Wales Business Leaders Forum participants discussed the challenges of NGO and business partnerships including but not limited to cause-related marketing. They identified the following challenges:

**Table 3**

<b>Challenges of partnership from an NGO perspective</b>	<b>Challenges of partnership from a business perspective</b>
There is always a risk of co-option, that by working with a company, you ally yourself with those with power, to the cost of those without.	There is a risk of losing focus. Where a business is not profitable there will be no chance of undertaking projects. Partners may not understand this.
Different time scales for work. Companies commit significant human resources to projects and run through a process of problem / decision / action. NGOs risk compromising 'best practice' / participatory methodologies in order to please a corporate partner.	NGOs work slowly, with few staff committed to projects, and needing time for consultation and consensus building - 'the process approach'. Social processes are necessarily slow. This can be difficult for businesses who are used to working with machines, not people.
Businesses challenge NGOs to professionalise. Setting targets introduces greater rigor to NGO work.	NGOs often bring a very unstructured approach, which challenges corporates to 'let go' of standard procedures.
NGOs may have to be brave enough to face the skepticism and criticisms of colleagues.	NGOs are not clear about either development economics or the economics of business.
Press profile drops as NGOs move from campaigning on an 'obvious' platform to complex negotiation behind closed doors. This restrains campaigners and reduces opportunities for education of supporters.	In starting a project, a company is admitting publicly that there is a problem, which is dangerous because it is easy for journalists to do hatchet jobs based on admitted problems. It takes time to explain complex work.
NGOs risk becoming very technocratic consultants and monitoring experts. NGO work needs to be inspiring.	NGOs still see business as 'the enemy'. This creates a difficulty of reaching a situation of trust and respect.
Engagement may expose NGO ignorance / ineffectiveness. NGOs must keep hold of their mystique and moral force.	

Source: Bond Guidance Notes 02: *“Partnerships with the Private Sector”*

Facing these challenges requires a number of steps in order to build a successful campaign for both parties. This template will take you through the considerations required in this type of cause-related marketing campaign. It will also point out a few pitfalls to avoid along the way. Finally, it will help you build a strong presentation when you are ready to approach a mutual fund company with your cause-related marketing proposal.

***SUCCESSFUL CAUSE-RELATED MARKETING STRATEGIES***

It is important to remember that you are approaching a mutual fund company with a marketing strategy, not a proposal for charitable giving or sponsorship. While you will want to work closely with all parts of the organization, especially the corporate affairs department, you are approaching the mutual fund company with a marketing strategy beneficial for both parties. Firms can expect substantial benefits from a successful cause-related marketing campaign.

Examples of company benefits include:

*Increased Sales:* Some of the most successful cause-related marketing strategies have been in the financial sector. The 1983 partnership between American Express and the project to restore the Statue of Liberty demonstrated the benefits associated with an effective CRM strategy. The result of the campaign was a 28% increase in AMEX card use, with a 17% rise in new card applications, while raising \$1.7 million for the Statue of Liberty repairs. Following their initial success with CRM, AMEX is now working with an American national hunger relief organization, raising over \$20 million dollars for them since 1988.

*Perception and Sales:* Other successful cause-related marketing campaigns include Canadian technology giant Nortel who forged an alliance with the Industry Cooperative for Ozone Layer Protection and the World Bank to take on the issue of CFC use in developing countries. Through this partnership, Nortel was able to provide significant technology transfer to both reduce CFC use in developing countries and by extension create new markets for Nortel's more sophisticated products.

*Reputation and Employee Satisfaction:* The reputation of Lenscrafters Canada is enhanced through their Gift of Sight campaign. Their campaign collects used eyeglasses for distribution in developing countries. This CRM campaign is a focal point of Lenscrafters advertising, and also provides an employee team building and development tool. Not only do customers feel positively about a company's involvement with a worthy cause, so do employees. A recent survey by the Conference Board of Canada found that 79% of Canadians are more likely to want to work for a company that demonstrates corporate social responsibility.

### ***WHY TARGET THE MUTUAL FUND INDUSTRY?***

In 1990 there were \$25 billion of assets held by the mutual fund industry in Canada. Today this industry manages over \$420 billion of Canadians' retirement savings. In the mid-nineteen nineties, with asset growth of 35% annually, many fund companies could succeed in a relatively crowded marketplace. Today with greater competition for new assets, mutual fund firms must compete vigorously for customer recognition and loyalty.

One of the fastest growing segments of the mutual fund industry is socially responsible investing (SRI). In Canada today \$50 billion is invested with some form of social criteria. In the United States SRI is even stronger, with over \$2.2 trillion dollars invested in a socially responsible manner. The trend toward SRI offers non-profits and NGOs more opportunity to find potential mutual fund company partners that share their goals.

In addition, today's climate of closer regulatory scrutiny and enhanced consumer knowledge of mutual fund investment practices mean a new emphasis on reputation in this industry as a whole. Association with a strong social cause can have a desired halo effect for many of these firms.

Finally, the positive impact on consumers when businesses act with broad corporate social responsibility is on the increase. A major national study of Canadian's values conducted in 1998 by the Toronto firm Ideation found that a majority of Canadians (53%) are interested in investing in ethical mutual funds. A 1999 Cone/Roper U.S. Study reported:

- 83% of consumers have a more positive image of a company that is doing something to make the world a better place.
- 79% of "influential Americans" report that they would not only switch brands, but also retailers, to support a cause.
- While 66% of consumers (up from 31%) say that when price and quality are equal, a company's responsible business practices are an important factor in deciding whether to buy a brand or not."

(Steckel 1999 p.26)

Today's combination of factors makes this an ideal time to approach one of Canada's mutual fund families to engage in a cause-related marketing partnership.

## II. FIVE MUTUAL FUND CAUSE-RELATED MARKETING OPTIONS

This template explores five potential cause-related marketing options a non-profit or charity can propose to a mutual fund company in Canada.

- **A Shared Return Fund:** A stand-alone mutual fund designed for the express purpose of generating a stream of revenue for non-profits and NGOs from the annual returns on the fund's principle. Individuals donate to the capital base of the fund and designate how much of the annual return they would like to donate to the associated non-profit or charity.
- **A Return Sharing Plan:** A small percentage of the annual return of any of the company's standard mutual funds is donated annually to the associated non-profit or charity.
- **Management Fee Sharing:** A small percentage of the annual management fee charged to clients by the mutual fund company is donated to the non-profit or charity.
- **Trailer Fee Sharing:** A small percentage of the trailer fee paid by mutual fund companies to brokers and sales agents for mutual fund sales would be donated to the associated non-profit or charity.
- **Affinity Sales:** A small fee paid to the non-profit or charity by the broker or sales agent for the ability to associate their mutual funds with the non-profit or charity and market the funds directly to the organization's membership base.

You will need to work through which option works best for your organization. You may find a combination of elements from several options is the approach you would like to use. The following table gives an overview of the level of involvement each option requires from both the non-profit and the mutual fund company.

**Table 4**

CRM option	Non-profit Involvement	Company Involvement
<b>Shared Return Fund</b>	<b>High:</b> Uses significant management and financial resources.	<b>High:</b> Uses significant management and financial resources.
<b>Return Sharing Plan</b>	<b>Medium:</b> Reputation management with co-branding your mission with a mutual fund company. Revenues depend on fund performance.	<b>Medium:</b> Uses existing mutual fund company systems. Individual donor is involved in donation decisions.
<b>Management Fee Sharing</b>	<b>Low:</b> Mutual fund company shares % of management fee. Close association of your mission with mutual fund company.	<b>Medium:</b> Shares revenue as part of a marketing campaign to increase customer base.
<b>Trailer Fee Sharing</b>	<b>Low:</b> Broker/dealer shares % of trailer fee. Close association of your mission with broker/dealer.	<b>Medium:</b> Shares revenue as part of a marketing campaign to increase customer base.
<b>Affinity Sales</b>	<b>Medium:</b> Reputation management with sharing of membership and donor lists with broker/dealer or mutual fund company.	<b>Low:</b> Utilizes membership and donor lists to build new client base. Pays a small finders fee for lists.

## ***OPTION 1: A SHARED RETURN FUND***

*Concept:* A Shared Return Fund is an open-end investment fund created for the sole purpose of offering unit holders the opportunity to donate all or a portion of the fund's annual distributions to a charitable organization. The mutual fund is owned by the non-profit or charity and individuals donate to its capital base. Individuals are able to designate how much of the annual distributions are given to the sponsoring organization, the remainder stays in the capital base to grow the fund. "Annual distributions" are defined as: the amount of investment income earned by the fund during the year and passed on to unit holders in the form of a distribution.

*Structure:* A Shared Return Fund is an open-end investment fund that would allow investors to make tax-deductible charitable donations of 50, 75 or 100% of their annual return to non-profit and charitable organizations. This fund is modelled on the successful U.S. fund, DEVCAP Shared Return. You can find out more about DEVCAP on their Web site <http://www.devcap.org> (See also Moser, *An Exploration of Mutual Fund-Related Sharing Options* for more information on the DEVCAP Shared Return Fund.)

*Regulatory Requirements:* In Canada, as a security distributed by investment dealers and financial advisors, a Shared Return Fund would fall under provincial securities law. This option requires a significant amount of regulatory oversight. The Income Tax Act applies to the tax treatment of charitable donations. The current regulatory regime allows donations of mutual fund units to be treated similar to donations of equity stock. See Appendix 1: PricewaterhouseCoopers for a detailed analysis of tax treatment.

*Advantages of a Shared Return Fund:* This option has the potential to raise a significant amount of revenue and increase the profile for a non-profit or charity or a consortium of such organizations.

*Disadvantages of a Shared Return Fund:* This option requires substantial time, energy and resources from both the mutual fund company and your organization. From the perspective of a charitable organization, a huge commitment of management resources as well as substantial financial resources (start-up and seed capital) are involved in the development and launch of a new mutual fund. Partnering with other charitable organizations, selecting and contracting with financial institution service providers, development and implementation of marketing strategy are among the key management activities involved in developing a new mutual fund. In terms of financial resources, start-up capital to cover the cost of developing and launching the fund as well as seed capital, a sum of money invested in the new mutual fund on the date of its inception, can easily amount to half a million dollars or more.

The start up of a new fund would involve a significant amount of work and resources for any mutual fund company. Our research indicates that mutual fund marketing executives are receptive to easy-to-set-up and easy-to-administer programs that fit well with existing systems and approaches. (Moser, *An Exploration of Mutual Fund-Related Sharing Options* pp. 22-23) We find that given the small size of the Canadian market and extensive regulatory requirements needed to establish a single,

stand-alone Shared Return Fund in Canada, this is the least desirable option of the five cause-related marketing options explored.

### ***OPTION 2: A RETURN SHARING PLAN***

*Concept:* Mutual fund unit holders are given the option of donating all or a portion of their annual gains and distributions in an already existing mutual fund. The capital in the fund remains the property of the individual investor.

*Structure:* Investors could choose to donate from 1% or 2% up to 100% of their fund's annual gains and distributions. Donation of mutual fund units could be made to one designated charitable organization or distributed among a number of charitable organization partners.

*Regulatory Requirements:* The mutual fund company would be required to obtain approval of provincial securities regulators for this new option, probably at the time of the fund's annual prospectus filing. Tax treatment of charitable donations is defined by the Income Tax Act. The current regulatory regime allows donations of mutual fund units to be treated similar to donations of equity stock. (See Appendix 1)

*Advantages of a Return Sharing Plan:* This option works within the mutual funds' existing office and record keeping systems and is relatively easy to set up and administer. It requires less regulatory oversight, as individual mutual fund account holders are involved in the donation decision-making, which is seen positively by mutual fund companies.

*Disadvantages of a Return Sharing Plan:* Currently 60% of all mutual fund assets are held in individual RRSP accounts. There would be no tax advantage to individuals to make donations from an RRSP mutual fund. In addition, the message most Canadians hear is to leave their money in the RRSP account until retirement. However this type of plan would work for the 40% of assets held in mutual funds outside RRSPs. Many of these accounts are held by wealthy or elderly Canadians, a group that are also strong philanthropic donors, and a market segment that many mutual fund companies look for in their wealth management business.

The stream of revenue generated from this option is dependent on the performance of the mutual fund in any given year.

### ***OPTION 3: MANAGEMENT FEE SHARING***

*Concept:* A mutual fund company partners with one or more charitable organizations and designates a portion of its management fee to be paid to a non-profit or charity.

*Structure:* A U.S.-based model of this concept, Vintage Funds, an Indianapolis mutual fund company has developed the VOICE program (Vision for Ongoing Investment in Charity and Education). It donates a percentage of its management fee to the charitable sector, but allows the investor to designate the charitable recipient. Investors in any of

Vintage's mutual funds can designate a charitable recipient. Vintage donates 0.25 per cent of the investor's net asset value each year. Vintage makes the donation out of its management fee of 0.75 per cent. With this structure, the gift neither reduces the unit holder's profits, nor earns the unit holder a charitable deduction. The VOICE program helps Vintage to differentiate itself in the crowded field of investment management companies. As with the Return Sharing Option, distribution of the underlying investment and administration of the program are performed by the mutual fund partner.

*Regulatory Requirements:* Some type of disclosure of a management-fee sharing program would likely be required in the mutual fund's prospectus. A management fee-sharing program based on the VOICE model, in which donations are made by the mutual fund company from its own income results in a charitable tax benefit to the company. Appendix 1, PricewaterhouseCoopers (p.4), gives detailed information of the effect of generating a charitable tax credit for the mutual fund company.

*Advantages of Management Fee Sharing:* Mutual fund marketing executives are receptive to cause-related marketing proposals that support their business objectives. If it can be demonstrated that a proposed program will produce new clients, new sales or improve client retention and is cost-effective, it has a higher probability of being accepted.

*Disadvantages of Management Fee Sharing:* Mutual fund companies do not perceive themselves as having excess profits that they should be using for social betterment. They believe that they are already giving generously to charity. To gain a company's interest and attention, the charitable sector must be able to demonstrate clearly how the company's business needs can be met through partnership.

With competitive pressures from US mutual fund companies entering the Canadian market with low management fees, there is increasing pressure to cap or reduce the management fees by Canadian mutual fund companies.

#### ***OPTION 4: TRAILER FEE SHARING***

*Concept:* A broker-dealer partner donates a portion of trailer fees earned on their clients' mutual fund assets to a non-profit or charitable organization(s).

*Structure:* Mutual fund companies use broker-dealers as their distribution network, paying them through a quarterly trailer fee. Typically, the trailer fee is a fixed percentage of the average asset value of their clients' mutual fund accounts. It is common industry practice for the broker-dealer to keep part of the quarterly trailer fee and pay the remainder to the advisor/salesperson who is responsible for providing ongoing service to the accountholder/investor. This division of fees suggests trailer fee sharing could be with either the broker-dealer or the advisor/salesperson.

*Regulatory Requirements:* An arrangement to share trailer fees would require little regulatory oversight. The sharing of these fees will generate a charitable tax credit for

the broker/dealer or advisor/salesperson and will be of benefit if these firms or agents have net tax payable each year.

*Advantages of Trailer Fee Sharing:* Our research indicates that mutual fund companies respond favorably to cause-related marketing programs that involve various links in the distribution chain activated by a client's decision to contribute. Mutual fund executives are particularly open to such campaigns if they actively involve front-line staff and customer choice. Therefore, the trailer-fee sharing option is attractive when the decision to participate in the cause-related marketing campaign is triggered by a client's decision.

*Disadvantages of Trailer Fee Sharing:* As with management fee sharing, the broker/dealer or advisor/salesperson is foregoing a part of their remuneration in a cause-related marketing strategy. These individuals are often already actively involved in community giving, and will not respond as positively if they feel the partnership is a donation or sponsorship. They will respond to a CRM campaign that shows how the partnership will produce new clients, new sales or improve client retention and is cost-effective.

It should be noted that trailer fees may one day be a thing of the past if the recommendation to eliminate them called for in the Stromberg Report to the Ontario Securities Commission is implemented.

#### ***OPTION 5: AFFINITY SALES***

*Concept:* A direct-sales mutual fund company or a broker/dealer network partners with non-profit or charitable organization(s) and pays a trailer fee (or makes a donation) to the charitable organization based on mutual fund sales and/or assets generated from mailing lists supplied by its charitable organization partners.

*Structure:* The non-profit or charitable organization partners with a mutual fund and uses the organization's mailing list to solicit new clients for the mutual fund usually under the organization's name and letterhead. A Canadian model for affinity sales is the partnership between the Affinity Group Inc. and the University of Toronto. Affinity Group is an independent mutual fund dealer registered in Ontario which offers retail investors in this province mutual funds from several leading Canadian companies, such as Trimark, Mackenzie and Templeton. The Affinity Group generates its revenues from the trailer fees paid by the mutual fund company and splits that fee with the non-profit organization. Affinity Group is interested in exploring partnerships with non-profit and charitable organizations having a loyal, wealthy donor base. The affinity sales option can be used as a direct approach with mutual fund companies who distribute their own products or with broker/dealer networks such as financial planners in order to develop a direct affinity sales CRM strategy.

*Regulatory Requirements:* As with trailer fee splitting, affinity sales requires little regulatory oversight and works within existing mutual fund administrative systems.

*Advantages of Affinity Sales:* Depending on the contract, affinity sales gives the organization more control over how your membership will be approached and solicited in the CRM campaign. It can also generate more revenue for the organization as a greater percentage of the available trailer fee can be directed to the non-profit or charity in exchange for the use of the membership list and product endorsement.

*Disadvantages of Affinity Sales:* Because your organization is going directly to your own members and supporters with a commercial offer there is a tacit endorsement of the product or service by your organization. You must be prepared for your reputation to be linked to the product and service. You must also be sure your Board has fully worked through the impact of a direct solicitation of your members and supporters for a commercial enterprise.

The next section of this template deals more fully with the steps your organization should undertake to ensure a successful partnership with a mutual fund company in Canada.

### III. WHAT TO DO BEFORE APPROACHING A MUTUAL FUND COMPANY

Cause-related marketing allows your organization to partner with a commercial enterprise in order to generate increased revenue and gain greater exposure and awareness of your cause. But a good campaign must be carefully thought through. You will want to engage any company you approach in a values and mission dialogue that includes the role of corporate social responsibility: You should see the engagement as an opportunity to increase awareness of corporate social responsibility within your mutual fund partner. Finding the right company for a solid ethical fit and defining the right strategy will be critical to a successful cause-related marketing campaign.

You will need to perform all the necessary due diligence before you even approach a mutual fund company. You will also need to establish the terms under which you will engage with the company including setting limits on the relationship and developing a clear exit strategy if required.

Noted cause-related marketing expert Sue Adkins suggests six further elements you should keep in mind when creating a successful cause-related marketing campaign:

**Table 5: Sue Adkins' Steps to a Successful Cause-Related Marketing Campaign**

- |  |
|--|
| <ol style="list-style-type: none"><li>1. <i>Planning and preparation</i>: this covers the process of finding a partner, defining the scope of the partnership and gaining commitment</li><li>2. <i>Negotiating the partnership</i>: this includes aligning objectives, auditing assets, defining the nature of the activity, valuing the opportunity and assessing the risks</li><li>3. <i>The formal agreement</i>: this covers some of the legal requirements and codes and the responsibilities and liabilities</li><li>4. <i>Managing the program</i>: this highlights the project management aspects</li><li>5. <i>Communicating the program</i>: this covers the delicate balance that is required</li><li>6. <i>Monitoring, measuring and evaluating the program</i>: Appendix 4 suggests ways in which this can be addressed</li></ol> |
|--|

source: Sue Adkins, *Business in the Community UK*.

As with all successful partnerships, you must be prepared to give as well as get. Your integrity is what is of value in your partnership with business. Because you are offering your reputation, your community good will, your mission, and in some cases your membership and donor lists you will want to carefully think through your policies for corporate partnerships.

The Canadian Council for International Co-operation offers tools for deliberation on private sector engagements (PSE) and a framework for undertaking due diligence.<sup>1</sup> In

<sup>1</sup> The deliberation guide, “Bridges or Walls? Making our Choices on Private Sector Engagement”, and a due diligence framework entitled “Asking the C.Y.A\* Questions: Maintaining Integrity in our Encounters with the Private Sector” are available free from CCIC. For information, contact: [abuchan@ccic.ca](mailto:abuchan@ccic.ca) or [moneill@ccic.ca](mailto:moneill@ccic.ca).

addition you may want to integrate Sue Adkins' list above into a comprehensive board-level policy to ensure a successful cause-related marketing campaign. As one example, CCIC's corporate partnership and sponsorship policy is included in Appendix 3.

Just as with the CRM success stories there are some cautionary tales of CRM failures. In one such example, a U.S. national child-welfare foundation partnered with a women's clothing manufacturer on a child abuse campaign. Six weeks into the campaign a human rights organization held a press conference in Asia charging the clothing manufacturer with use of sweat shops and child labour. The news conference was concluded by holding up the child abuse campaign poster and blasting both the non-profit and the company for their hypocrisy. This story highlights the need to ensure the right ethical fit between your organization and the company you partner with.

### ***FINDING THE RIGHT PARTNER***

Once you have determined that your organization is comfortable with a CRM approach, you will want to ensure that there is a good fit between you and any company you may approach. Again, the CCIC tools for deliberation and due diligence mentioned above may be of use in the examination of potential partners.

Research is the key to finding the right partner. Start with a few simple questions. First know the company's values and ethics. Consider whether you want to partner with a mutual fund company that actively screens their investment portfolio. The Social Investment Organization (SIO) provides quarterly listings of socially responsible investment companies in Canada. For an up-to-date listing that includes Internet links to many of these companies, check SIO's web site at <http://www.socialinvestment.ca>.

Research any potential partner's history to ensure their accountability. You can use the mutual fund company's annual reports, its annual prospectus, available marketing material, balance sheets, and studies. Do a comprehensive media search and check out references. Much of this type of research can now be done using the Internet. You will find industry trade associations are listed at the back of this template.

There are several firms analyzing, assessing and profiling the social and environmental performance of Canadian companies. These firms include Ethics Scan and Michael Jantzi and Associates Research. Jantzi Research applies a set of over 100 social and environmental rating criteria. To help you in your research we have included their rating-criteria in Appendix 2.

Once you have selected an appropriate partner, you will want to carefully define the relationship in order to protect your integrity. You will want to define the exclusivity of the relationship and develop criteria for endorsements, soliciting and the sharing of membership and donor lists before, rather than after you approach a mutual fund company. There are fee-based brokers available to assist you in your research and CRM policy development. These include Eric Young Enterprises and Manifest

Communications, both located in Toronto. Well-known CRM expert Richard Steckel also offers this type of service.

Mutual fund companies are just as interested in the reputation of charitable organizations when considering a potential partnership. Even a hint of scandal or inefficient use of resources will turn a corporation away from partnering with a charitable organization. The corporation also wants to know the charity well: This will likely include your mission, who supports it, its results and how donations will be used. Companies will be interested in the strength and commitment of your board and the degree of public recognition for your cause and your organization.

### ***KNOW WHAT THE OPPORTUNITIES ARE TO ENSURE MUTUAL BENEFIT***

It is important to remember you are approaching the mutual fund company with a marketing opportunity. You will need to differentiate this from the company's charitable giving or sponsorship activities. You must present a business case that clearly demonstrates the advantages for the mutual fund company in terms of new sales, enhanced image, client retention, and employee morale. Many companies use strategic philanthropy making sure their corporate giving and marketing efforts reinforce each other.

Research the corporate giving policies of the mutual fund company you are targeting. Look for ways that their existing policies will be reinforced by your CRM partnership. Use the information you gathered on the company's history and any available company business plans in your proposal. Though you will be approaching the marketing department you will want to involve the corporate affairs department in your presentation. Companies will want to know how the campaign engages front line staff, and works within the existing supply chain.

Of particular interest to the mutual fund company will be the demographic profile of your supporters. The Canadian Centre for Philanthropy finds that 80% of Canadians make charitable contributions, but 20% of Canadians provide 80% of the total dollar value of those contributions. This 20% are generally older, well educated and employed. 77% of high net worth clients are over the age of fifty. There is a strong overlap between the type of wealth management clients mutual funds are looking for and philanthropic supporters and donors.

Once you and your board determine which of the five options or combination of options is most suited to your organization look for the following features:

- Easy fit with the already existing systems of the mutual fund company.
- Involvement of front-line staff and sales reps.
- A campaign that engages the customer.

Research shows that these features can determine the success of a cause-related marketing campaign. Now you are ready to develop your business plan for presentation.

**Table 6: NGO Changes Required for Successful Cause Related Marketing**

<p><b>What changes do NGO's need to make to their operations to take on this kind of work?</b></p> <ul style="list-style-type: none"><li>• Consider allocating a lot more resources to this area of work. This must include recognition of the enormous time cost of building strong partnerships.</li><li>• Measure the result of partnerships with the private sector in ways other than just 'how much money did we get out of them?'</li><li>• Work transparently, and in partnership with other NGOs.</li><li>• Recruit more staff with direct experience of and understanding of business issues.</li><li>• Mainstream this work within the organisation to prevent tensions within the NGO, which will result in low morale and probably, mixed messages going out to the partner.</li><li>• NGOs will be held to account by supporters, government and private sector. We must be able to match the standards of best-practice that we demand of companies.</li><li>• NGOs need to define clearly to businesses why they need NGOs, and to make clear our Unique Selling Point as against other kinds of partners they might be thinking about. Understand corporate people and their language.</li></ul>
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Source: Bond Guidance Notes 02: *"Partnerships with the Private Sector"*

Remember, developing a cause-related marketing campaign is not just the responsibility of the fundraising department. To be successful you will need to integrate the campaign throughout the organization.

## IV. APPROACHING A MUTUAL FUND COMPANY

Now that you have done your research to ensure an appropriate match between the organization's mission and goals and that of the potential partner, you are ready to approach one of the fund companies or financial service providers with your cause-related marketing proposal.

You will want to create a written business case for your partnership. Remember your proposal is a persuasion tool. Here are the basic ingredients you will want to cover in your marketing proposal. Each item will be explained in more detail in the steps that follow. Use the information you complete with each step as the basis of your marketing proposal or business case.

- Introduce your organization to your partner. Showcase your strengths.
- Introduce the concept of cause-related marketing. Do not assume the company is knowledgeable on this topic. Use examples of success.
- Present the CRM option or combination of options that you want to explore with the company from the five offered in this template. Make it clear and simple. Remember this is not an appeal to charity but an exploration of a business partnership.
- Use the mutual fund company business plan and mission statement (often found on their web site or in their annual reports) to demonstrate what they can expect from a good cause-related marketing campaign. Highlight the fact that this proposal engages both company employees and customers in a cause-related marketing campaign, and the benefits associated with the halo effect of associating with your cause.
- Show how this marketing plan will reinforce the corporate giving and sponsorship programs already in place with the company.
- Use the profiling data you have on your donors and supporters, plus the broader data we include from recent polling material. In Canada, philanthropic donors usually match the high-income individuals these firms seek out as wealth management clients.
- Detail what your organization expects each party to bring to the relationship. For the company, this might include: possible product development, a percentage of fees, back office support, schedule for financial pay outs or disbursement of mutual fund units, marketing materials. For the non-profit, this may mean use of the organization's name and brand, editorial sign-off and use of the non-profit's membership and donor list.

## ***BUILDING A SUCCESSFUL BUSINESS CASE***

The following steps will take you through the development of a business case to present to the mutual fund company that best fits with your organization's mission and goals.

**This template, supporting appendices, and the research report *An Exploration of Mutual Fund-Related Sharing Options* are available in the Voluntary Sector folder of CCIC's Web-site (<http://www.ccic.ca/>) to permit you to use the data and language provided as building blocks for your own customized business case. You may freely integrate materials presented here.** Be sure to cite sources when using the factual evidence given in support of cause-related marketing. These citations will not only give credit where it is due, but will add credibility to your case.

**1. Executive Summary:** Though this item will appear first in your Table of Contents, it is actually the last step in putting together your business case when approaching a mutual fund company. Work through the remaining steps and return to the Executive Summary. Write a single page that summarizes all the major points in the your business case.

**2. Introduction:** Introduce your organization to the mutual fund company you have targeted. Your organization has a lot of potential benefits to offer a corporate partner. Many companies think of non-profits and charities in relation to their corporate giving. You will need to clearly articulate the mutual opportunities a cause-related marketing campaign offers. Remember this business case will be presented to the marketing department of the mutual fund company, not its corporate giving group.

Fill in the following details to help the company get to know you and your organization:

- a) Describe your mission in one or two sentences.
- b) Describe your base in the community.
- c) Outline your reputation, geographic reach (particularly if it is national) and your community of supporters.

**3. What is Cause-Related Marketing:** Review this template and write two paragraphs that you feel best describe the concept of cause-related marketing, or use the two paragraphs found below. Start with a simple definition and remember, when approaching a business, it is important to stress the mutual benefit of the relationship. Company reputations are enhanced by acts of corporate social responsibility and association with a worthy cause.

or:

*“Cause-related marketing is one of the fastest growing business marketing strategies in North America. Increasingly in this era of global competition, companies must fight for consumer recognition and loyalty. Simply offering a quality product or service does not guarantee success in the twenty-first century.”*

*Companies must look for innovative ways to distinguish themselves in the market. One successful strategy is cause-related marketing (CRM). Sue Adkins, a leading expert in cause-related marketing defines CRM as “a commercial activity by which a business with a product, service or image to market builds a relationship with a cause or a number of causes for mutual benefit.” Partnership with a worthwhile cause attracts consumers, who when faced with roughly equal products or services, choose one that has an impact on an issue they care about. You need only think of The Body Shop or Ben and Jerry’s Ice Cream to see how successful cause-related marketing can be for a company in a crowded marketplace. We would like to offer you the opportunity to build a successful cause-related marketing plan with us.”*

**4. Shared Fund Option Overview:** Clearly present the CRM option or combination of options you want to explore with the company. Use information from the feasibility study undertaken by Moser in *An Exploration of Mutual Fund-Related Sharing Options* to support the CRM option or combination of options you wish to present to the mutual fund company.

Each option has a detailed description including what both the company and the non-profit or charity will require to build a successful campaign. Demonstrate the simplicity of the option proposed to the mutual fund company and how it would work within the company’s already existing systems. Moser’s *An Exploration of Mutual Fund-Related Sharing Options* gives detailed information on how to overcome the technical, regulatory and marketing obstacles associated with each of the five options.

Toward the end of the attached feasibility study you will find shorter, thumbnail descriptions of each of the five options. You may want to include these brief outlines in your proposal. For simplicity and clarity you should only include the option or options you want to promote with the mutual fund company.

The PricewaterhouseCoopers Tax Issues Report in Appendix 1 gives you access to expert opinion on the tax implications of the five options, including the shared return fund, return sharing, and fee sharing proposals. You will want to present portions of this data relevant to your preferred option within your proposal. Not only will it provide answers to several of the questions company executives may raise, it will also demonstrate that you have done your homework in preparing your business case for this campaign. Be sure to cite PricewaterhouseCoopers.

Using material from this template and Appendices 1 and 2, describe the cause-related marketing option you wish to pursue with the mutual fund company.

**5. Benefits of Cause-Related Marketing:** List the benefits for the company that you see in the CRM option you propose. Use the business plan of the company you have targeted. Demonstrate how they would benefit from a good cause-related marketing campaign. Use the research you conducted in the preliminary stages of the campaign to tailor your CRM proposal to the company. You will find information on the firm’s mission and business plan in their annual reports and on their web site. Our research shows firms are more receptive to a marketing strategy that works within their already existing systems.

Show how the particular campaign you propose improves the perception of the firm or product, increases sales, helps the firm stand out in a crowded marketplace, and builds a company that employees are proud to work for. Use the statistics below and examples in the template document that show the positive impact cause-related marketing campaigns have on employees and customers.

*Environics' Millennium Poll shows the impact of cause-related marketing campaigns and corporate social responsibility on customers, consumer choice and loyalty. CRM is a proven way to differentiate the mutual fund company in the market place. The Environics' Millennium Poll on Social Responsibility found that:*

- *In twenty countries around the world, the majority of individuals think companies should go beyond the minimum definition of their role in society.*
- *Canadian expectations on this question are the second highest in the world.*

*Another detailed study by the Conference Board of Canada found that:*

- *72% of Canadians are more likely to buy goods and services from a company that commits resources to social and community concerns*
- *79% are more likely to want to work for that company.*

If you need more information on these studies they can be found on the respective organizations' Web sites listed in the bibliography.

**6. Benefits of Strategic Philanthropy:** Cause-related marketing can reinforce the corporate giving and sponsorships policies of the company. Use the research you have already done on the firm's values and ethics to tailor the marketing strategy so that it enhances the corporate giving and sponsorship policies of the company. Use the profiling data you have on your donors and supporters, plus the broader social trend data from recent polling material included in the template.

In Canada, philanthropic donors usually match the high-income individuals these firms seek out as wealth management clients. Build the business case for the relationship with the company. In January of 2001 the polling firm Environics undertook specific polling for CCIC on questions of charitable giving. They found that:

- eight in ten Canadians had made a charitable contribution in the past two years, and
  - the likelihood of charitable giving increases with age, level of income, and education.
- These are the same individuals mutual fund companies wish to attract to their product. Include the profiles of your donors and members and match those against the target audience for new mutual fund sales.

On the specific question of charitable giving through mutual fund donations, Environics found that younger people (age 18 – 34) are most likely to respond positively to this approach, with 56% of this age group indicating support for the contribution of mutual fund earnings to charities. This level of support indicates that a cause-related marketing campaign can attract new investors to the mutual fund company and new donors to the NGO or charity.

Your business case should also cite the results of surveys that indicate how individuals think positively about companies that act with corporate social responsibility.

Enviro-nics produces an annual social values survey tracking changes in Canadian values. It finds that high-income older Canadians are directly affected by a corporation's social responsibility, and make consumer choices on that basis.

**7. Building a Strong Partnership for the Future:** Detail what your organization proposes the company would bring to the relationship, and what you in turn would bring. Items to be considered include: possible product development, the suggested percentage of fees your organization would expect, any back office support needed or offered, a schedule for financial pay outs or disbursement of mutual fund units, joint development of marketing materials, mutual use of your organizations' names and brands, issue-based awareness training for company employees, editorial sign-off and use of the your membership and donor list.

You are now ready to return to your Executive Summary. Once completed, you are ready to integrate the different parts of your cause-related marketing plan or business case for presentation to the marketing department of the mutual fund company you are approaching.

**It is important to remember that cause-related marketing may not be appropriate for every organization. Some non-profits reject cause-related marketing. They feel it diminishes the voice of organizations that speak for the powerless in our society. This perspective raises important discussions for all non-profits and charities considering cause-related marketing.**

## V. BUILDING A SUCCESSFUL CAUSE-RELATED MARKETING STRATEGY FOR BOTH PARTNERS

Once you have an agreement in principle with a mutual fund company you will be ready to define your partnership in a detailed written contract. To avoid misunderstandings, know (and spell out) who is responsible for what. Working through the parameters of the cause-related marketing campaign is not just the responsibility of the fundraising department. The whole organization will need to be involved.

Manifest Communications Inc., a company with expertise in social marketing in Canada, identifies four activities involved in establishing partnership:

### Activities Involved in Establishing a Partnership

- Establish guidelines (policies and procedures).
- Consult with partner to jointly determine program and relationship parameters (needs, styles, expectations, what each is willing to give).
- Contract. Define the partnership agreement in writing (program, roles, responsibilities, timelines, money, rights and obligations, expectations, options for renewal).
- Manage the relationship through collaboration (define how partners will work together through development, implementation and evaluation of the program).

Source: Manifest Communications Inc., *Social Marketing for Business: What to Know. What to Do*

An important consideration for both parties in the agreement is to define the donation allocation framework as well as a time frame specified for the partnership and options for renewal of the partnership. You will also want to be clear as to the exclusivity of the partnership during this period.

Diligence in partner selection, structuring and managing the relationship will help reduce the potential risks of partnering with a corporation. Potential risks include:

- Wasting resources: A failed venture is a waste of time and effort.
- Reduced donations: You may risk “cannibalising” other revenue-generating programs or losing donor support due to for-profit association.
- Loss of organizational flexibility should your corporate partner impose restrictions on you.
- Tainted partners: Even though a corporation has a clean slate, it’s impossible to foresee the future.
- Antithetical marketing: The corporation’s marketing tactics may conflict with your image and strategy.
- Alienation of your members and supporters if they do not support the association with the corporate partner.
- Too much success: You may generate more funds you can handle (Ed. note: Let’s wish!)

- Structural atrophy: You will need to keep your marketing skills in shape by continuing to explore other potential programs and increasing traditional donations to ensure multiple, ongoing sources of revenues.<sup>2</sup>

Being realistic about what benefits the partnership can provide is equally important.

- Be realistic about the human and financial resources that will be necessary to invest in making the partnership work.
- Don't overestimate the benefits of the partnership. Keep expectations realistic.
- View the partnership as one additional income-generating program among many ongoing programs. Continue advocacy and education activities to generate increased public understanding and support of non-traditional income-generating programs.<sup>3</sup>

It is equally important to think about what your corporate partner is going to expect from the relationship. Manifest Communications Inc.'s experts propose the following checklist for corporations when establishing guidelines for working with government or a non-profit organization:

#### **Checklist for Corporations for Establishing Non-Profit Partnerships**

<p><b>Editorial control:</b> input vs. final approval – who and when; mechanism for resolving disputes  <b>Corporate/Brand identification:</b> program authorship; program identity; use of corporate messages; use of charitable partner's message on corporation's materials  <b>Partner identification:</b> where and how charitable partner will be identified with the corporation  <b>Corporate/Brand endorsement:</b> opportunities for charitable partner to endorse corporation's products and parameters – time, money, approvals, etc.  <b>Ownership:</b> program copyright; materials; production or collateral use rights  <b>Distribution:</b> responsibility; costs; timelines  <b>Promotion:</b> activities, roles and responsibilities; opportunities for spin-offs  <b>Money:</b> how costs and revenues are divided  <b>Term:</b> length of partnership agreement; options for renewal; timeline for program planning</p>
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Source: Manifest Communications Inc., *Social Marketing For Business: What to Know, What to Do*.

Using these checklists and guidelines to work through your partnership should give you the basis for a successful cause-related marketing campaign. Ongoing monitoring and engagement will also be essential for this strategy to work and pay off for both partners. Sue Adkins in her recent book *Cause Related Marketing: Who Cares Wins* provides organizations with a thorough checklist for each stage of the cause-related marketing campaign. You will find this checklist in Appendix 4.

<sup>2</sup> Andraesen, Alan R. "Profits for Non-Profits: Find a Corporate Partner", Harvard Business Review, November December 1996.

<sup>3</sup> Davis, Lee. *The NGO-Business Hybrid: Is the Private Sector the Answer?*, The Paul H. Nitze School of Advanced International Studies Program on Social Change and Development, Johns Hopkins University, 1997.

## **VI. CONCLUSION**

Cause-related marketing can offer a vehicle of mutual benefit for both the non-profit sector and the business sector. For some non-profits and charities, it provides a needed source of revenue, a way to raise the profile of their cause, and an opportunity to build a relationship with a company that will potentially strengthen corporate social responsibility. For companies, it offers a way to evolve from simple cheque-book philanthropy to corporate citizenship. It establishes the link between economic success and social well being.

It is our hope that non-profits and charities will use this template to explore the possibilities that a successful cause-related marketing strategy can bring.

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## **APPENDICES**

### **Appendix 1:**

PricewaterhouseCoopers: Mutual Funds and Charitable Giving -- Income Tax Issues

### **Appendix 2:**

Michael Jantzi Research Associates rating criteria

### **Appendix 3:**

Canadian Council for International Co-operation Partnership and Sponsorship Policy

### **Appendix 4:**

Sue Adkins' Measurement and Evaluation Checklist

### **Appendix 5:**

Sources of information on mutual fund companies

***APPENDIX 1: PRICEWATERHOUSECOOPERS: MUTUAL FUNDS AND CHARITABLE GIVING – INCOME TAX ISSUES***

This summary of the tax implications of the options outlined for mutual fund sharing with charitable organizations was prepared for the Canadian Council for International Co-operation in March 2002.

This appendix provides a summary of the Canadian income tax treatment of a charitable gift made by an individual, trust and a corporation. It briefly describes how a mutual fund trust is taxed.<sup>4</sup> Finally, it comments on the application of these rules to various charitable giving options. This analysis is intended to assist you in assessing the tax benefits associated with the various options for charitable contributions and also to assist you in assessing the most viable structure in the Canadian marketplace.

For additional information please contact:

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Laura White at [laura.white@ca.pwcglobal.com](mailto:laura.white@ca.pwcglobal.com); (416) 947-8903.

**Charitable Giving – Some Basic Rules**

*Gift – Defined*

Charities can issue donation receipts only in respect of contributions that qualify as gifts for income tax purposes. A gift is made when property owned by a donor is transferred voluntarily by the donor to the charity for its own use and the donor does not receive any consideration in return.

Certain types of contributions made by businesses do not qualify as gifts (for example, contributions for which the business expects to receive a material benefit), and therefore a donation tax receipt cannot be issued. In such cases, the business may be able to claim the contribution as a business expense, subject to the usual rules for claiming such expenses. A discussion of the nature and tax treatment of such expenses is beyond the scope of this letter.

*A Charitable Gift from an Individual*

An individual is permitted to claim a tax credit for charitable gifts made during the year. The calculation of the amount of the credit is essentially the same as the calculation of personal tax credits, with one exception. The first \$200 of donations claimed in a year is eligible for a credit based on the lowest tax bracket and donations in excess of \$200 are eligible for a credit based on the highest tax bracket. The rates will vary at different

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<sup>4</sup> This letter focuses on the taxation of mutual fund trusts (rather than mutual fund corporations) because most mutual funds in Canada are structured as trusts. The taxation of a mutual fund corporation is somewhat different than the taxation of a mutual fund trust. Nevertheless, the sharing options outlined in this letter could be applied to a mutual fund corporation.

income levels due to the effect of surtaxes. The value of the charitable tax credit<sup>5</sup> in 2002 to an Ontario resident individual is set out below.

Taxable Income	Donation Tax Credit Rate (Combined 2002 Federal & Ontario Rates)	
	\$0 - \$200	\$201 and over
\$25,000	22.05%	40.16%
\$50,000	22.05%	40.16%
\$75,000	25.44%	46.41%
\$105,000	25.44%	46.41%

The amount of charitable donations that may be claimed in a year is subject to certain limits. An individual may claim charitable donations of up to 75% of the individual's net income for the year plus 25% of the taxable capital gain<sup>6</sup> arising from a charitable gift of capital property (provided the gain was not exempt by virtue of the lifetime capital gain exemption) and 25% of the recapture realized on a gift of depreciable property. Unused charitable donations may be carried forward for up to 5 years. (The donation claim limit is increased to 100% in the year of death and the preceding year, and excess donations in the year of death may be carried back one year.) Donations are not transferable except to a spouse. The tax credits for charitable donations may only be used to reduce tax that is otherwise payable. They do not give rise to a refund. Therefore, the value of unused credits will be lost after the carry over period.

If an individual makes a charitable gift in the form of capital property, the individual will be considered to have disposed of the property for proceeds equal to its fair market value (unless another amount is elected<sup>7</sup>). Assuming an election is not made, the individual will realize any capital gain that has accrued on the property. The accrued capital gain is the difference between the fair market value and the adjusted cost base of the property. The amount of the charitable donation is the fair market value of the property.

<sup>5</sup> The tax credit and tax rates used throughout this letter reflect information available at the time of writing. "Tax Facts and Figures" a booklet published by PricewaterhouseCoopers LLP provides a summary of the rates applicable in each of the provinces and territories. The print version of this publication is updated annually. The web version, which can be accessed at <http://www.ca.taxnews.com/>, is updated more frequently. The date to which the information has been updated is indicated in the front of the publication and on the website. We recommend that you check with a tax professional to ensure that the rates you are using are current.

<sup>6</sup> "Taxable capital gain" generally refers to 50% of a capital gain. This amount is reduced to 25% for certain gifts of qualifying securities.

<sup>7</sup> An individual is permitted to elect an amount between the adjusted cost base and fair market value of the gifted capital property. This elected amount becomes the individual's proceeds of disposition for the purposes of calculating his capital gain from the disposition. It also becomes the amount of his charitable gift for purposes of his donation claim. Over the past several years, the amount of charitable donations that may be claimed in a year was dramatically increased. As a consequence, this election has limited application.

Normally, 50% of a capital gain is included in an individual's income and subject to tax at the individual's marginal tax rate. However, where certain qualifying securities, including a security of a mutual fund<sup>8</sup>, are gifted to a registered charity (other than a private foundation) or another qualified donee, only 25% of any capital gain is included in income. Because of this special rule, the tax on the gain is 1/2 the amount that it would otherwise have been. Accordingly, where the securities have an accrued capital gain, there is a clear benefit to making qualifying gifts of securities as opposed to liquidating the securities and gifting cash.

### *A Gift from a Trust*

A trust may claim a tax credit for its charitable donations in the same manner as an individual. If the trust does not or cannot use the tax credit, its value will be lost, since the trust cannot transfer the tax credit to its beneficiaries.

### *A Gift from a Corporation*

A corporation is entitled to a deduction from income for its charitable gifts. The donation claim limits and the treatment of qualifying gifts of appreciated securities are the same for corporations as for individuals. The amount of the charitable donations that may be deducted in a year is 75% of the corporation's net income for the year plus 25% of taxable capital gains and 25% of the recapture arising from a charitable gift of capital property. Unused donations may be carried forward 5 years. If a corporation makes a qualifying gift of certain appreciated securities, such as securities of a mutual fund<sup>9</sup>, the inclusion rate on the resulting capital gain will be 25%, rather than 50%.

## **The Taxation of a Mutual Fund Trust**

An *inter vivos* trust, including a mutual fund trust, is a taxpayer and is subject to tax on its taxable income at the highest marginal tax rate applicable to individuals. A trust calculates its taxable income in the normal manner, except that a trust is entitled to a deduction for income that is paid or becomes payable to beneficiaries.<sup>10</sup> In the context of a mutual fund, these payments are commonly referred to as "distributions". The beneficiaries (i.e., investors) are taxed on income distributed from the mutual fund. If the mutual fund makes the necessary designations in its tax return, its income will retain its character as foreign source income, Canadian dividends, capital gains or other income in

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<sup>8</sup> Technically, the security must be a unit of a "mutual fund trust" or a share of a "mutual fund corporation" as defined by the *Income Tax Act* (Canada). Generally this refers to publicly offered mutual funds that have at least 150 investors. We presume that any shared return or return sharing fund would satisfy the conditions necessary to be a mutual fund trust or a mutual fund corporation under the *Income Tax Act* (Canada).

<sup>9</sup> Please see footnote 8.

<sup>10</sup> In addition to the deduction for income that is paid to unitholders (i.e., beneficiaries), mutual fund trusts are entitled to a tax credit for tax payable by the mutual fund on a certain amount of capital gains, determined by formula. This so-called "capital gains refund mechanism" is an important part of ensuring that the unitholders of a mutual fund are taxed fairly. We have not explained this mechanism in detail since it is a normal part of the operation of a mutual fund and does not impact on the basic issues relevant to the charitable giving options.

the beneficiaries' hands. It is important that these types of income retain their character when distributed to beneficiaries because Canadian dividends and capital gains are subject to lower effective tax rates than other sources of income.<sup>11</sup>

The investors of a mutual fund may be taxed at lower tax rates than the mutual fund because individuals get the benefit of lower marginal rates on the first approximately \$103,000 of income, whereas all income of the mutual fund trust is taxed at the top marginal rate. Therefore, a mutual fund distributes a sufficient amount of its net income (including capital gains) each year to reduce its Canadian income tax liability to nil. In this way, investors pay tax on their share of the fund's income at their marginal tax rates. In other words, they are not overtaxed.

It is important to understand that distributions from a mutual fund trust do not typically represent the distribution of profits or economic value.<sup>12</sup> Rather, distributions are simply a means of allocating the tax liability on the mutual fund's taxable income. The following is a simplified explanation. Typically, a distribution equal to a mutual fund's income is paid to all investors who are unitholders on the distribution date. The distribution reduces the net asset value ("NAV") of the mutual fund and thus reduces the NAV per unit of the fund. Where the distribution is reinvested in additional units (which is typical), the overall value of a unitholder's investment is the same both before and after the distribution. However, the unitholder will have more units, each with a lower NAV per unit. The unitholder's tax position will be different. Firstly, the unitholder will be taxed on the distribution to the extent it represents income (including taxable capital gains) of the fund. Secondly, if the distribution was reinvested in additional units, the adjusted cost base of his or her units will be increased by the reinvested amount. As a result, the capital gain that will be realized when the unitholder ultimately redeems units will be less than it would have been before the distribution. The situation is basically the same if the distribution is received in cash. The overall value of the unitholder's investment will be reduced by the amount of the cash distribution. The unitholder will be taxed on the distribution. The capital gain realized by the unitholder on redemption will be less in this case because the unitholder's NAV is lower and his or her adjusted cost base remains the same.

Distributions received by a beneficiary that are in excess of the beneficiary's share of the mutual fund's income (including taxable capital gains) and the non-taxable portion of capital gains are not taxable in the beneficiary's hands, rather they reduce the adjusted cost base of the beneficiary's units of the mutual fund. Generally, these distributions represent a "return of capital". However, if the adjusted cost base of the beneficiary's

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<sup>11</sup> In the case of Canadian dividends, the lower tax rate is achieved by grossing up the dividend to 125% of the actual dividend, taxing the grossed-up dividend at the taxpayer's marginal tax rate and then claiming a credit against federal tax equal to 13.33% of the grossed-up dividend. As for capital gains, only 50% of a capital gain is included in income and taxed at the taxpayer's marginal tax rate. The remaining 50% of the capital gain may be received by beneficiaries tax-free and does not reduce the adjusted cost base of the beneficiary's interest in the mutual fund.

<sup>12</sup> So-called "management fee distributions" are designed to distribute economic value, but these are not the normal distributions paid to unitholders at year-end. Rather, they are used as a mechanism to reduce the management fee paid by selected unitholders of a mutual fund.

units is reduced to less than zero, the beneficiary will be deemed to realize a capital gain equal to the negative amount. The capital gain will be taxed in the normal manner.

### **Charitable Giving Options -- Some Comments**

The following is a general summary of the federal income tax rules applicable to five proposed models for a charitable fund as outlined in the Feasibility Study.

We have assumed that the mutual fund is a trust and that the investor does not hold units of the fund in a registered retirement savings plan or a registered retirement income fund.

#### ***Shared Return Fund and Return Sharing Option***

##### *(i) The Concept*

For income tax purposes, there is no difference between the shared return fund and the return sharing option. In both cases, the investor is entitled to receive a distribution from a mutual fund and instructs the mutual fund to donate all or a portion of that distribution to a Canadian registered charity. The letter of instruction from the investor would be incorporated into the overall operation of the mutual fund and must make it clear that the investor is the donor. Care would also be required to ensure that the charitable gift is made in the same calendar year that the distribution is received.

The distribution/gift approach allows different investors to donate different amounts. The mutual fund manager could play a vital role in determining the amount of distributions, administering the gift by arranging for the delivery of the charitable gift to the charity and arranging for the delivery of receipts to the investor.

The shared return fund or the return sharing fund could operate like a normal mutual fund and make distributions only to the extent necessary to eliminate tax at the fund level. However, it should be noted that many mutual funds, especially mutual funds that invest primarily in equity securities, do not realize (and thus do not distribute) significant income. Rather, a significant portion of the fund's appreciation in value could represent unrealized capital gains. In order to make a cash gift of all or a part of the "return" on a mutual fund, distributions would have to be greater than the mutual fund's taxable income. As previously discussed, a distribution from a mutual fund trust that is more than its taxable income generally represents a non-taxable return of capital.<sup>13</sup> Alternatively, a gift of units could be made. As discussed below, there are tax benefits associated with a gift of units. Further, the charity should not object to receiving mutual fund units since they can be easily liquidated.

##### *(ii) Taxation of a Cash Distribution and Charitable Gift*

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<sup>13</sup> While mutual fund corporations are not the focus of this letter, it is worth noting that it is not so clear whether a typical mutual fund corporation is capable of making "return of capital" distributions.

As discussed above, the investor is required to include in his or her income the portion of the distribution that represents income (including taxable capital gains) of the mutual fund. The portion of the distribution that does not represent income of the mutual fund is received by the investor tax-free. The effective tax rate on the distribution will depend on its character (i.e., Canadian dividends, capital gains, other income or return of capital), the investor's marginal tax rate, and the investor's province of residence. The following chart illustrates the effective tax rates at 5 different income levels on different types of income earned in 2002 by an individual resident in Ontario.<sup>14</sup>

Taxable Income	Combined Federal & Ontario Effective Tax Rates in 2002					
	Ordinary Income	Capital Gains	Cdn. Dividends	Return of Capital	Donation Tax Credit Rate	
					Donations of \$0 - \$200	Donations over \$200
\$5,000	0.00%	0.00%	0.00%	0.00%	22.05% <sup>15</sup>	40.16% <sup>16</sup>
\$25,000	22.05%	11.03%	4.48%	0.00%	22.05%	40.16%
\$50,000	31.15%	15.58%	15.86%	0.00%	22.05%	40.16%
\$75,000	43.41%	21.70%	27.59%	0.00%	25.44%	46.41%
\$105,000	46.41%	23.20%	31.34%	0.00%	25.44%	46.41%

### Examples

Using 2002 tax rates, the following charts show the tax payable by an Ontario resident individual on a \$200 and \$1,000 distribution from a mutual fund (depending on the character of the distribution) net of the donation tax credit in respect of a donation in an amount equal to the distribution.

### Assumptions and Comments

1. In examples 1 and 2, it is assumed that the donor made no other donations in the year and did not have any unclaimed donations carried forward from prior years. Therefore, the donation claim is subject to the low tax credit rate on the first \$200.
2. In examples 3 and 4, it is assumed that the donor made at least \$200 of other donations in the year or had at least \$200 of unclaimed donations carried forward from prior years. Therefore, in these examples, the full amount of the donation in respect of the

<sup>14</sup> The rates are based on information available as of March 1, 2002.

<sup>15</sup> As indicated previously, donation claims are subject to an annual limit based on the donor's net income and taxes payable before the donation tax credit. At the lower level of income, the donor would not be able to claim the donation tax credit because he or she would not have any taxes payable before claiming the credit. The donation could be used during the allowable carry over period provided the donor had sufficient income and taxes payable during that period.

<sup>16</sup> Please see note 15.

shared return fund (or return sharing option) is eligible for tax savings at the top marginal rate.

3. If the donation tax credit exceeds the taxes payable in respect of the distribution, the excess (i.e., the “net tax savings” shown in parenthesis in the charts) may be used to offset taxes on other income (subject to the donation claim limits previously discussed). The net tax savings are not refundable. If the donor does not have sufficient income and taxes payable to claim the full donation, the unclaimed portion may be carried forward up to five years (or back one year for donations made in the year of death). Any unused amounts expire after the carry over period.

In the examples shown, the donor with only \$5,000 of taxable income will not be able to claim the donations in the year made due to insufficient taxes payable. If the donor has sufficient income and taxes payable in the carry over period, the donation may then be claimed. The donors with taxable incomes of \$25,000, \$50,000, \$75,000 and \$105,000 will likely be able to claim their donations in the year made, to offset taxes on other sources of income.

4. In certain situations, the tax on the distribution will be more than the tax savings in respect of the donation. This will occur only in respect of the first \$200 of donations which are eligible for tax credit at the lowest marginal rates, and only where the donor’s marginal rate applicable to the distribution exceeds the lowest rate. Donations in excess of \$200 are eligible for tax credit at the highest marginal rate. Depending on the donor’s marginal rate and the source of income from which the distribution was made, the tax savings generated by donations in excess of \$200 will equal or exceed the tax on the distribution.

Examples 1 and 2 illustrate circumstances in which the tax payable on the distribution exceeds the tax savings on the donation (i.e., the “net tax cost”). As the amount of the donation increases above \$200, the situations in which there is a net tax cost are significantly reduced, to the point that at the \$1,000 donation level, only the donors with taxable incomes of \$75,000 and \$105,000 incur a net tax cost in respect of the donation, and only where the source of the donation (i.e., the character of the mutual fund distribution) is ordinary income.

Examples 3 and 4 illustrate that, where the donor has already made at least \$200 in donations, the donation tax credit will always be equal to or greater than the tax on the distribution.

*Example 1*

Taxable Income	Tax Credit on \$200 Donation	Net Tax Cost (Savings)			
		Tax on the distribution minus the donation tax credit			
		Combined 2002 Federal & Ontario Effective Tax Rates			
		<b>Distribution (sources as indicated) and Donation Each \$200</b>			
		Donor has no other donations available to claim			
		Ordinary Income	Capital Gains	Canadian Dividends	Return of Capital
\$	\$	\$	\$	\$	\$
5,000	44	(44)	(44)	(44)	(44)
25,000	44	0	(22)	(35)	(44)
50,000	44	18	(13)	(12)	(44)
75,000	51	36	(7)	4	(51)
105,000	51	42	(4)	12	(51)

*Example 2*

Taxable Income	Tax Credit on \$1,000 Donation	Net Tax Cost (Savings)			
		Tax on the distribution minus the donation tax credit			
		Combined 2002 Federal & Ontario Effective Tax Rates			
		<b>Distribution (sources as indicated) and Donation Each \$1000</b>			
		Donor has no other donations available to claim			
		Ordinary Income	Capital Gains	Canadian Dividends	Return of Capital
\$	\$	\$	\$	\$	\$
5,000	365	(365)	(365)	(365)	(365)
25,000	365	(145)	(255)	(321)	(365)
50,000	365	(54)	(210)	(207)	(365)
75,000	416	18	(199)	(140)	(416)
105,000	416	48	(184)	(103)	(416)

**Example 3**

Taxable Income	Tax Credit on \$200 Donation	Net Tax Cost (Savings)			
		Ordinary Income	Capital Gains	Canadian Dividends	Return of Capital
		Tax on the distribution minus the donation tax credit			
		Combined 2000 Federal & Ontario Effective Tax Rates			
		<b>Distribution (sources as indicated) and Donation Each \$200</b>			
		Donor has other donations of at least \$200			
\$	\$	\$	\$	\$	\$
5,000	80	(80)	(80)	(80)	(80)
25,000	80	(36)	(58)	(71)	(80)
50,000	80	(18)	(49)	(49)	(80)
75,000	93	(6)	(49)	(38)	(93)
105,000	93	0	(46)	(30)	(93)

**Example 4**

Taxable Income	Tax Credit on \$1,000 Donation	Net Tax Cost (Savings)			
		Ordinary Income	Capital Gains	Canadian Dividends	Return of Capital
		Tax on the distribution minus the donation tax credit			
		Combined 2000 Federal & Ontario Effective Tax Rates			
		<b>Distribution (sources as indicated) and Donation Each \$1000</b>			
		Donor has other donations of at least \$200			
\$	\$	\$	\$	\$	\$
5,000	402	(402)	(402)	(402)	(402)
25,000	402	(181)	(291)	(357)	(402)
50,000	402	(90)	(246)	(243)	(402)
75,000	464	(30)	(247)	(188)	(464)
105,000	464	0	(232)	(151)	(464)

If tax will be a marketing incentive for the shared return mutual fund or the return sharing fund, these examples demonstrate that the target audience will be those with sufficient income and taxes payable to fully claim their donations and whose total donations are in excess of \$200 per year. It may be worthwhile obtaining information from the Investment Funds Institute of Canada (“IFIC”), the FundLibrary or Star Data Systems

Inc. to establish the profile of the typical mutual fund investor and the size of the typical investment.

*(iii) Gift of Mutual Fund Units*

Distributions from a mutual fund can be made by way of cash or by issuing additional mutual fund units. In either case, investors are taxed on the taxable amount of any distribution.

As mentioned, it is typical for distributions to be automatically reinvested in additional units. The adjusted cost base of the investor's total holding of units is increased by the reinvested amount. The adjusted cost base for a unit is the average adjusted cost base for all units of the fund owned by the investor. Therefore, an investor may realize a gain or loss on the disposition of a newly acquired unit.

If units are gifted to a charity, the investor will realize any capital gain or loss from the disposition of his or her units. Any gain realized upon making a qualifying gift<sup>17</sup> of mutual fund units will be subject to tax at half the usual rate (i.e., 25% of the gain will be included in income rather than the usual 50%). Gifting units that have appreciated in value triggers tax (albeit at half the usual rate) that would not otherwise be payable until a later date when the investor would otherwise have disposed of the units. A portion of the donation tax credit will be used to offset this tax liability and there will be an excess credit available to offset the tax in respect of other income<sup>18</sup>.

*(iv) Return of Capital Distributions to Fund Charitable Gift*

As mentioned above, most mutual fund trusts distribute just enough income to reduce the mutual fund's taxable income to nil. This distribution may be less than the desired amount of the charitable gift.

If it was desirable for the charitable gifts to be made in cash, the shared return fund/return sharing fund could have a mandate to distribute an amount equal to its annual return. Alternatively a mutual fund trust could distribute a fixed amount, say, 10% of the NAV of the fund each year. Distributions could be made monthly, quarterly or annually, as you wish. If total distributions to a unitholder in the year were greater than the unitholder's share of the fund's income (including taxable capital gains) and the non-taxable portion of capital gains, the unitholder would be considered to have received a return of capital. Each investor could determine how much of the distribution would be received in cash and given to charity. The remainder would be reinvested in additional units of the fund. Assuming the distribution did not cause the adjusted cost base of the investor's units to become negative, this approach would have the effect of deferring the

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<sup>17</sup> Gifts of qualifying securities, including qualifying mutual funds (see footnote 8), made to a registered charity (other than a private foundation) or another qualified donee.

<sup>18</sup> Subject to the donor having sufficient income and taxes payable to claim the donation.

realization of capital gains until the units were redeemed or otherwise disposed of, and it would ensure that there is sufficient cash to make the desired charitable gift.

Comparing two gifts of equivalent amounts, one a gift funded by a return of capital distribution and the other a qualifying gift of appreciated units<sup>19</sup>, the following considerations should be borne in mind.

#### Donor

- Because they are of equivalent value, both gifts will generate the same donation tax credit.
- In the case of the gift of appreciated units, a portion of the donation tax credit will be used to offset the tax triggered by the gift (25% of the gain will be taxable) and the balance will be available to offset tax on other income.
- In the case of the gift funded by the return of capital, the full amount of the donation tax credit will be available to offset tax on other income.<sup>20</sup> The taxation of the gains on units will be deferred until a future disposition of those units, and unless the disposition is by way of a qualifying gift to a charity, 50% of the gain will, at that time, be subject to income tax.
- The financial difference in the two options is measured by comparing the net present value of the tax on the gain in the units under the two options. The factors to consider in this calculation are:
  - the taxable portion of the gain – 25% of the capital gain will be taxable if the units are gifted to charity and the requirements for the reduced income inclusion rate are met; 50% of the gain will be taxable on any other disposition of the units or where a return of capital distribution causes the adjusted cost base of an investor's units to become negative;
  - the timing of the disposition of the units which will trigger the tax;
  - the unitholder's tax rate at the time of the disposition; and
  - interest rates in the period between the date of the gift and the date at which the units would ultimately be disposed of.

In general, if the unitholder would otherwise hold the units for a period of many years, funding the gift with a return of capital distribution may be favoured. However, a gift of units may be more sustainable over the long run since eventually the repetitive return of capital distribution will trigger a capital gain.

#### Mutual Fund Manager

The manager of the mutual fund will likely be indifferent because the assets of the fund will be equally affected in either scenario.

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<sup>19</sup> Please see the discussion of the tax treatment of qualifying gifts of securities under the heading "Charitable Giving – Some Basic Rules".

<sup>20</sup> This assumes that the return of capital distribution is not greater than the adjusted cost base of the investor's units.

## Charity

As it is simpler to administer, the charity would likely favour the cash gift funded by the return of capital distribution. However, from a financial perspective, there will not be any difference as long as the charity can dispose of the units at no cost immediately upon receipt.

### *(v) Summary Comments Regarding Gifting by an Investor in a Shared Return Fund or a Return Sharing Fund*

In order to maximize the tax savings in respect of a gift, it may be preferable for an investor to make:

- a) Gifts in cash for amounts up to the amount of the taxable distribution received from the fund in the year (since gifting units would result in the taxation of the appreciation on the units as well as the taxable distribution);
- b) Additional gifts in cash through a distribution of a return of capital to the extent that the investor intends to retain her or his units for many years (in order to defer the tax on the appreciation until the investor wishes to dispose of the units); and
- c) Gifts in excess of these amounts in the form of units, in order to take advantage of the reduction in the taxable portion of the capital gain available in respect of qualifying gifts<sup>21</sup> of mutual fund units.

### *(vi) Taxation of a Gift by a Mutual Fund Trust*

The shared return or return sharing concept could be modified such that the fund rather than the investor would make the charitable contribution. The contribution would reduce the net asset value of the mutual fund, and therefore each investor would, in effect, fund his or her pro-rata share of the donation. This approach would remove the flexibility for investors to determine the amount of their donation.

From an income tax perspective in most cases, a charitable gift made directly by the mutual fund is less desirable than a gift of distributions made by the investors. This is explained and illustrated below. Furthermore, care would be required to ensure that a charitable contribution made by the fund qualifies as a gift and is not seen to have been made pursuant to a contractual obligation or for consideration, as the deductibility of the contribution in this case is unclear.

If a mutual fund trust made a charitable donation, it would be required to retain income at the mutual fund level (i.e., reduce distributions to investors) in order to use the tax credit. However, recall that an individual (including a trust) is eligible to claim charitable donations equal to only 75% of its income (plus an additional amount for gifts of capital property). Therefore, a mutual fund cannot use charitable donations alone to reduce its income to nil. The following illustrates.

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<sup>21</sup> Please see footnote 17.

*Example 1*

	\$
Charitable Gift	<u>75,000</u>
Interest	30,000
Taxable Capital Gains (50% of capital gain)	<u>100,000</u>
Total Income	130,000
Income Distributed to Investors	<u>(30,000)</u>
Net Income & Taxable Income of the Fund	<u>100,000</u>
Maximum Allowable Charitable Donation Claim (75% of Net Income)	<u>75,000</u>
Tax on Taxable Income (\$100,000 @ 46.41%)	46,410
Tax Credit for Charitable Gift (\$75,000 @ 46.41% <sup>22</sup> )	<u>(34,808)</u>
Tax Payable	<u>11,602</u>

*Example 2*

If the fund had sufficient dividend income to allow the donation to be fully claimed, a more favourable result might be achieved. In this example, the donation tax credit together with the dividend tax credit (the effect of the dividend tax credit is included in the tax rate applied to the dividend) fully shelter the dividend income from tax. It may not be practical or optimal, however, to structure the investment strategy of the fund to provide sufficient dividend income to achieve full sheltering of the income as in the illustration.

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<sup>22</sup> The lower tax credit rate applicable to the first \$200 claimed in a year has been ignored for the purposes of these examples.

	\$
Charitable Gift	<u>54,023</u>
Actual Amount of Canadian Dividend Income	<u>80,000</u>
Taxable Amount of Canadian Dividend Income	100,000
Interest Income	<u>30,000</u>
Total Income	130,000
Interest income distributed to Investors	<u>30,000</u>
Net Income & Taxable Income of the Fund	<u>100,000</u>
Maximum Allowable Charitable Donation Claim	<u>75,000</u>
Charitable gift required to reduce tax to zero	<u>54,023</u>
Tax @ 31.34% of Actual Amount of Canadian Dividend Income	25,072
Tax Credit for Charitable Gift (\$54,023 @ 46.41% <sup>23</sup> )	<u>25,072</u>
Tax Payable	<u>0</u>

Irrespective of the source of income and whether full tax sheltering can be achieved, whenever a mutual fund is subject to tax at the fund level, the tax efficiency of the investment in the mutual fund is compromised, since it is presumed that at least some of the investors will be taxed at less than the top marginal rates. Put another way, the income taxed at the fund level is subject to higher rates of tax than it would have been if distributed, and a larger donation is therefore required to shelter the income from tax.

A possible advantage of making the gift at the fund level is that the lower donation tax credit rate which applies to the first \$200 of gifts claimed in a year would apply only once rather than numerous times where the gifts are made by the investors. The potential tax savings may be difficult to quantify, since the amount will depend upon the number of investors who, but for their giving through the shared return fund (or the return sharing fund), would have made gifts of less than \$200 per year. Furthermore this tax saving must be weighed against the tax cost that results to the extent that the fund is subject to tax at a higher rate than investors.

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<sup>23</sup> Please see footnote 22.

## *Management Fee Sharing*

### *(i) The Concept*

The fund manager may fund a charitable contribution by giving a portion of its management fee to charity. Alternatively, the management fee paid by the mutual fund to the manager (generally a corporation) could be increased and the manager could gift the amount of the increase to charity. In the latter case, the investors would be making an indirect gift and presumably, the mutual fund would be marketed on the premise that the increased fee is being donated to charity.

### *(ii) Taxation*

#### *Mutual Fund and the Investors*

If the fee is not increased, the manager bears the cost of the contribution and the fund and the investors are not affected. If on the other hand, the management fee is increased, this reduces the taxable income of the mutual fund. In turn, this reduces the amount of income that is distributed to the investor and thus reduces the investor's tax liability. However, the investor would not be entitled to a tax credit for the gift.

If the management fee is increased in order to fund the manager's contribution, the mutual fund should be able to deduct the increased fee provided it had sufficient income on an annual basis. This is not always the case with funds that invest exclusively in equities. Furthermore, the deductibility of the increased management fee may be subject to challenge if the fee is not reasonable in relation to the services received. The marketing of the increase in the fee as a donation to charity may lead to questions regarding its deductibility.

Management fees are subject to GST. Therefore if the fee is increased, the additional GST will reduce the assets of the fund.

#### *Manager*

From the manager's perspective, any increase in the management fee would be income. The deductibility of the charitable contribution would depend on the nature of the payment. The terms of the arrangement between the manager and the charity will determine the nature of the payment. If the payment is made for the purpose of producing business income, it may be deductible as a business expense, subject to the usual rules for claiming such expenses. On the other hand, if the contribution qualifies as a gift, the amount would be claimed as a charitable donation and in this case the claim would be limited to 75% of the corporation's net income. In either case, the deduction would only benefit the manager if it would reduce the amount of taxes that would otherwise be payable. A mutual fund manager that operates at a loss for tax purposes may not be attracted to a structure that provides them with additional deductions.

## ***Trailer Fee Sharing***

### *(i) The Concept*

The charity enters into an arrangement whereby a broker/dealer or individual sales representative agrees to contribute all or a portion of the trailer commissions received from mutual funds.

In this scenario, the brokers/dealers or the individual sales representatives are the donors.

### *(ii) Taxation*

Trailer commissions represent business income to the recipient and are taxed at the recipient's tax rate. The tax treatment of the contribution depends on whether the payment is made to earn business income or as a gift to charity; and, if the contribution is a gift, whether the broker/dealer (corporation) or sales representative (individual) makes the gift.

As discussed above, if the contribution is made to earn business income, it may be deductible as a business expense, subject to the usual rules applicable to such expenses. If the contribution qualifies as a gift, the rules previously discussed for donation claims by corporations or individuals would apply according to the type of donor.

## ***Affinity Sales***

### *(i) The Concept*

This arrangement is similar to a trailer fee sharing arrangement. In this case however, the charity provides access to a mailing list and endorsement of the mutual fund product and the sales provider (i.e., the broker/dealer or the individual sales representative). The broker/dealer or the individual sales representative agrees to contribute all or a portion of the trailer commissions received from mutual fund sales or assets generated from mailing lists supplied by the charity.

In this scenario, the brokers/dealers or the individual sales representatives are the donors.

### *(ii) Taxation*

As noted above, trailer commissions represent business income to the recipient and are taxed at the recipient's tax rate. The description of this option suggests that the contribution to the charity is being made for a material advantage and if this were the case, it would not qualify as a gift. The broker/dealer or individual sales representative may be able to claim the payment as a business expense. A review of the arrangement would be required to determine the basis, amount and timing of any such claim.

## ***APPENDIX 2: MJRA SOCIAL AND ENVIRONMENTAL RATING CRITERIA***

The rating criteria below reflect the 2001 criteria applied by the Canadian social investment firm Michael Jantzi Research Associates in assessing the social and environmental performance of corporations. These criteria are reproduced with the kind permission of MJRA.

### ***Qualitative Screens***

#### ***COMMUNITY***

##### **A. Strength: Generous Giving**

The company has consistently donated one percent or more of pre-tax profits to charity.

##### **B. Strength: Innovative Giving**

The company donates substantial amounts to innovative programs and its donation policy demonstrates ongoing support or sponsorship, as opposed to one-time involvement.

##### **C. Strength: Community Consultation/Engagement**

In planning its business activities, the company has made outstanding efforts to consult/engage with local communities affected (or potentially affected) by its operations. Or, the company has significantly modified its operations or planned operations in accordance with the concerns and interests of such communities.

##### **D. Strength: Aboriginal Relationships**

The company has developed economic and community-based relationships with aboriginal communities in which the benefits of development are shared equitably. Or, the company has significantly modified its operations or planned operations in accordance with the concerns and interests of affected aboriginal communities.

##### **X. Strength: Other**

##### **A. Concern: Lack of Consultation/Engagement**

In the face of local opposition or concern about the impact of its operations, the company has not adequately consulted/engaged with affected communities, has failed to modify or plan its operations in accordance with the concerns and interests of such communities, or has otherwise shown disregard for the concerns and interests of such communities.

##### **B. Concern: Breach of Covenant**

The company has strained relations with a community in which it operates as a result of recent plant closings or a general breach of its agreements with the community.

##### **C. Concern: Aboriginal Relations**

The company has not adequately consulted/engaged with aboriginal communities affected by its operations, has failed to modify or plan its operations in accordance with

their concerns and interests, or has otherwise failed to take into account the needs, interests, and historic rights of affected aboriginal communities.

**X. Concern: Other**

*DIVERSITY*

**A. Strength: Strong Employment Equity Programs**

The company has exceptional programs to encourage the hiring and promotion of women, visible minorities, or other traditionally disadvantaged groups.

**B. Strength: Women on Board**

Women hold 15 percent or more of the seats on the company's board of directors.

**C. Strength: women in Senior Management**

Women account for 25 percent or more of the company's senior officers.

**D. Strength: Work/Family Benefits**

The company has outstanding benefit programs to help employees balance their work and family responsibilities.

**E: Strength: Minority/Women Contracting**

The company has demonstrated a commitment to purchasing or contracting with businesses owned by women, visible minorities, or other traditionally disadvantaged groups.

**X. Strength: Other**

**A. Concern: Lack of Employment Equity Initiatives**

The company does not have a written/formal employment equity policy or any programs to encourage the hiring and promotion of women, visible minorities, or other traditionally disadvantaged groups (applies to companies employing 200 or more workers).

**B. Concern: Employment Equity Controversies**

The company has contravened employment equity legislation. Or, it has been involved in a major controversy relating to its hiring, promotion, and dismissal record, or its failure to prevent discrimination or harassment in the workplace.

**X. Concern: Other**

*EMPLOYEE RELATIONS*

**A. Strength: Positive Union Relations**

The company has exceptionally positive relations with its unionized employees.

**B. Strength: Workforce Management Policies**

The company has maintained a consistent no layoff policy. Or, in the case of layoffs, all staff levels have been affected, and the company has taken extraordinary measures to aid the employees.

**C. Strength: Cash Profit Sharing**

The company has a cash profit sharing program through which it has consistently made distributions to employees at all levels of its workforce.

**D. Strength: Employee Ownership/Involvement**

The company encourages worker ownership and/or involvement through employee stock ownership (e.g. stock option or share purchase plans) or extensive participation in management decision-making.

**E. Strength: Exceptional Benefits**

The company provides exceptional benefits to its employees.

**X. Strength: Other**

**A. Concern: Poor Union Relations**

The company has poor relations with its unionized workers, as evidenced by a recent history of contracting out unionized jobs, arbitration hearings, strike activity, or unfair labour practices. Or, the company has engaged in anti-union activity in opposition to attempts on the part of some workers to become unionized.

**B. Concern: Safety Problems**

The company has a health and safety record that is poor relative to its industry counterparts.

**C. Concern: Workforce Reductions**

The company has significantly reduced the size of its workforce relative to its industry while remaining profitable. Or, the company has reduced the size of its Canadian workforce as a proportion of its total workforce by transferring operations to, or expanding operations in, other jurisdictions in order to take advantage of less stringent labour laws or lower labour costs in such jurisdictions.

**D. Concern: Inadequate Benefits**

The company offers its employees a significantly inadequate benefits package.

*ENVIRONMENT*

**A. Strength: Environmental Management Strength**

The company has outstanding environmental management and reporting systems.

**B. Strength: Exceptional Environmental Planning and Impact Assessment**

The company has engaged in exceptional environmental planning, including extensive impact assessment, the development of comprehensive management plans, and meaningful public consultation.

**C. Strength: Environmentally Sound Resource Use**

The company is a leader in its industry with respect to the efficient and environmentally sound use of natural resources through, for example, extensive use of recycled materials in its production processes and the use of alternative energy sources. Or, the company is a leader in the use of resource extraction methods that significantly reduce environmental impact.

**D. Strength: Environmental Impact Reduction**

The company has implemented measures or altered its production processes so as to reduce the environmental impact of its operations, resulting in major reductions in the use and/or release of toxins, hazardous substances, and other pollutants, and these initiatives make it a leader in its industry.

**E. Strength: Beneficial Products and Services**

The company derives a significant proportion of its revenues from the provision of remediation or other environmental services, or from the development and/or manufacture of products that significantly lessen the environmental impact of human activity.

**X. Strength: Other**

**A. Concern: Environmental Management Concern**

While the company's operations have a potentially adverse impact on the environment, it does not have adequate environment management or reporting systems. Or, the company is unwilling to co-operate with major government or industry initiatives to improve environmental management and reporting.

**B. Concern: Inadequate Environmental Planning or Impact Assessment**

The company's environmental planning processes have been inadequate with respect to impact assessment, the development of management plans, or public consultation.

**C. Concern: Unsound Resource Use**

The company lags behind its industry counterparts with respect to the efficient and environmentally sound use or extraction of natural resources.

**D. Concern: Poor Compliance Record**

The company has a poor record of compliance with applicable environmental laws, regulations, and operating permits, relative to its industry counterparts.

**E. Concern: Substantial Emissions/Discharges**

The company is a major emitter of hazardous or toxic substances. Or, its emissions substantially increase the threat of climate change or contribute significantly to ozone depletion or the formation of acid rain.

**F. Concern: Negative Impact of Operations**

The company lags behind its industry counterparts in implementing measures to prevent or reduce the negative environmental impact (or potential impact) of its operations. Or, the company is responsible for, but has not remedied, contamination or other environmental degradation at previously owned/operated sites.

**G. Concern: Negative Impact of Products**

The company derives a substantial proportion of its revenues from the development, manufacture or use of products that have a significant negative impact on the environment.

**X. Concern: Other**

*INTERNATIONAL*

**A. International Strength: Community Relations**

The company's operations outside of Canada and the United States are progressive with respect to their community relations and programs, including their relationships with indigenous peoples.

**B. International Strength: Employee Relations**

The company's employee relations and/or labour practices at its operations outside of Canada and the United States are exceptionally positive.

**C. International Strength: Environment**

The company's operations outside of Canada and the United States are progressive with respect to their environmental practices.

**D. International Strength: Sourcing Practices**

The company has implemented or participates in credible and independently monitored mechanisms to ensure that its suppliers and subcontractors are not contributing to the perpetuation of human rights abuses, unfair or abusive labour practices, or environmental degradation.

**X. International Strength: Other**

**A. International Concern: Poor Community Relations**

The company's operations outside of Canada and the United States have a poor community relations record or have had an adverse impact on local communities, including local indigenous peoples.

**B. International Concern: Poor Employee Relations**

The company has poor employee relations and/or labour practices at its operations outside of Canada and the United States.

**C. International Concern: Poor Environmental Management/Performance**

The company's operations outside of Canada and the United States have poor environmental practices or have had a significant adverse impact on the environment.

**D. International Concern: Human Rights**

The company, through its international operations, has been implicated in the violation of human rights.

**E. International Concern: Burma**

The company has operations in or a commercial relationship with Burma.

**F. International Concern: Sourcing Practices**

The company, through its commercial relationships with suppliers and subcontractors, is potentially implicated in the perpetuation of human rights abuses, unfair or abusive labour practices, or environmental degradation, yet it has taken no initiatives to minimize its contribution to such problems. Or, the company has failed to disclose information regarding its relationships with suppliers and subcontractors and any initiatives to address these issues.

**X. International Concern: Other**

*PRODUCT AND BUSINESS PRACTICES*

**A. Strength: Beneficial Products and Services**

The company derives a significant proportion of its revenues from the provision of socially beneficial products or services.

**B. Strength: Ethical Business Practices**

The company has taken significant initiatives to ensure ethical business practices throughout its operations. These initiatives include the creation of a code of business conduct as well as mechanisms to disseminate and enforce the code.

**X. Strength: Other**

**A. Major Concern: Product Safety**

The company is involved in the development and/or production of products that have caused (or have significant potential to cause) permanent impairment, life-threatening injury/ illness, or death.

**B. Concern: Product Safety**

The company is involved in the development and/or production of products that have caused (or have significant potential to cause) non-life-threatening injuries or illness.

**C. Concern: Pornography**

The company is involved in the production of pornography. Or, the company derives ten percent or more of its revenues from the provision of services related to pornography.

**D. Concern: Marketing Practices**

The company has been convicted or paid recent fines or civil penalties as a result of its advertising, marketing, or production practices. Or, these practices have led to a major public controversy.

**E. Concern: Illegal Business Practices**

The company has been convicted or paid recent fines or civil penalties relating to price fixing, antitrust violations, consumer frauds, or other illegal business activities.

**X. Concern: Other**

*OTHER*

**A. Strength: Limited Compensation**

The company has exceptional policies on limiting the compensation of board members or senior managers.

**B. Strength: Confidential Proxy Voting**

The company has adopted a confidential proxy voting procedure.

**C. Strength: Ownership**

The company owns more than 50 per cent of another company cited by MJRA as having one or more areas of social strength. Or, it is more than 50 per cent owned by such a firm.

**X. Strength: Other**

**A. Concern: Excessive Compensation**

The company has a record of paying excessive compensation to its senior executives.

**B. Concern: Dual-class Share Structure**

The company has outstanding non-voting or multiple-voting common shares.

**C. Concern: Ownership**

The company owns more than 50 percent of another company cited by MJRA as having one or more areas of social concern. Or, it is more than 50 percent owned by such a firm.

## **X. Concern: Other Concern**

### ***Exclusionary Screens***

#### *ALCOHOL*

##### **A. Major Concern: Substantial Involvement**

The company derives ten percent or greater of revenues from the production of alcoholic beverages.

##### **B. Concern: Minor Involvement**

The company derives less than ten percent of revenues from the production of alcoholic beverages. Or, the company derives ten percent or greater of revenues from activities related to the production of alcoholic beverages.

#### *GAMING*

##### **A. Major Concern: Substantial Involvement**

The company derives ten percent or greater of revenues through its direct involvement in the gaming or lottery industries.

##### **B. Concern: Minor Involvement**

The company derives less than ten percent of revenues through its direct involvement in the gaming or lottery industries. Or, the company derives ten percent or greater of revenues from activities closely associated with the gaming or lottery industries.

#### *TOBACCO*

##### **A. Major Concern: Substantial Involvement**

The company is involved in the production of tobacco. Or, the company derives ten percent or greater of revenues from activities related to the production of tobacco.

##### **B. Concern: Minor Involvement**

The company derives less than ten percent of revenues from activities closely associated with the production of tobacco.

#### *MILITARY*

##### **A. Major Concern: Substantial Involvement**

The company is involved in the design or manufacture of weapons or whole weapons delivery systems. Or, it generates ten percent or more of its revenues from the provision of specialized weapons-related products or services.

**B. Concern: Minor Involvement**

The company is involved in the provision of specialized weapons-related products or services (accounting for less than ten percent of revenues). Or, it generates ten percent or more of revenues from: a) the provision of generic (non-specialized) products used in the manufacture of weapons or weapons delivery systems; or b) the provision of generic services for weapons delivery systems or infrastructure.

*NUCLEAR POWER*

**A. Major Concern: Substantial Involvement**

The company has direct involvement in the nuclear power industry or derives ten percent or more of revenues from the provision of products and services related to nuclear power. Or, the company is a utility that resells electricity (more than ten percent of total delivered) generated by nuclear power.

**B. Concern: Minor Involvement**

The company derives revenues (less than ten percent) from the provision of products and services related to nuclear power. Or, the company is a utility that resells electricity (less than ten percent of total delivered) generated by nuclear power.

***APPENDIX 3: CANADIAN COUNCIL FOR INTERNATIONAL CO-OPERATION—CORPORATE PARTNERSHIP AND SPONSORSHIP POLICY***

The Canadian Council for International Co-operation (CCIC) is a coalition of Canadian organizations who work in Canada and overseas to ensure social and economic wellbeing and equality, environmental sustainability, democratic participation, and respect for human rights.

**General**

When appropriate, CCIC develops partnerships with corporations and other organizations such as government agencies, other NGOs, or labour unions. When looking at partnerships or sponsorships with corporations, CCIC seeks to:

- enhance the work of CCIC and its members
- secure alternative financial support for selected activities
- deliver value and benefit to both CCIC and partners or sponsors
- bring to the attention of private sector partners, CCIC's analysis of global issues and public policy priorities.

**Guidelines for partnership or sponsorship opportunities**

All partnership and sponsorship opportunities must be consistent with CCIC's:

- mission
- mandate
- Code of Ethics, and
- management plans.

Partnerships or sponsorships are expected to generate revenues and to be self-funding.

Partnership or sponsorship opportunities will be approved only if they are consistent with these principles and practices.

**Review**

Once partnership or sponsorship opportunities are approved, CCIC will seek potential partners or sponsors.

CCIC is committed to transparency and will review potential partners or sponsors to ensure that they meet CCIC's guidelines prior to entering into an agreement. CCIC is also prepared to be reviewed by potential partners and sponsors.

Review includes research of publicly available information including:

- annual reports
- financial statements
- product and service literature
- composition of the board of directors
- media coverage and third party research reports.

CCIC may also request information from individual organizations strictly for the purposes of the review. CCIC will use an appropriate level of confidentiality and would not share information provided, or the outcome of the review, with the public or the media.

### **Review Criteria, Screens and Restrictions**

Organizations not prepared to be reviewed or to provide information necessary to a review will not be considered for a partnership or sponsorship

CCIC will not develop partnership or sponsorship agreements with organizations whose products, operations or public image are not consistent with CCIC's guidelines noted above or the specific CCIC program or activity area being considered.

Although an organization's past will be considered as part of this review, its recent performance is most significant. Past performance could be mitigated by recent commitment to, and action on, positive change.

The determination of appropriate partners will be based on the application of both qualitative criteria and exclusionary screens. Criteria cover both strengths and concerns under the following headings: community, diversity, employee relations, environment, off-shore operations, and product. Exclusionary screen categories include alcohol/gambling/tobacco, military and nuclear.

Evaluation about potential partner organizations' fit with these guidelines and criteria will be made on a case-by-case basis using up-to-date frameworks developed by the socially responsible investing (SRI) community.<sup>24</sup>

Recommendations on potential partners to approach will be made by CCIC's management and decided upon by the CCIC Board Executive.

### **Agreements**

All *on-going* partnerships or sponsorships will be based on a written agreement between CCIC and the partner or sponsor. An agreement will be for a specified period of time, normally not greater than two years, with possible renewals depending on an evaluation of performance and results.

An agreement will specify the type and extent of support expected of the partner or sponsor and CCIC. It will also specify the benefits expected to be received by all parties and the requirements and obligations of the parties. The agreement will also address liability and insurance issues as appropriate.

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<sup>24</sup> For example, Michael Jantzi Research Associates Inc. (MJRA) and the Social Investment Organization (SIO). See, for example, Michael Jantzi Research Associates Inc., [Social and Environmental Rating Criteria for MJRA Company Profiles](#)

*Single activity* partnerships (e.g. sponsorship support for a one-time event) will operate with an exchange of letters.

#### **Partner or sponsor recognition and endorsement**

Partner or sponsor recognition will be commensurate with the value and scope of the partnership or sponsorship. This may include recognition of the partner or sponsor in specified pieces of literature, at events, or through media relations (done individually or jointly).

CCIC will not explicitly endorse any corporation or product.

#### **Editorial control and identification**

CCIC will have involvement in and approval of partnership or sponsorship programming including conceptual development, planning, implementation, and evaluation.

CCIC shall have editorial control over, and final approval of, all issue-related and educational material or portions of materials associated with the project produced by either CCIC or partners.

CCIC retains final approval on all uses of its name, trademarks, and logo applications.

Use of the CCIC name or materials will not be permitted by any person, corporation or organization without the express written consent of CCIC.

Size and place of CCIC and partner identification will be determined on an individual project basis.

No specific product, brand name or trademark identification, in either written, visual or audio format, shall be contained within the *editorial* content of printed or audio-visual material. Product brand name, trademark identification and other such corporate messages shall be in keeping with the sponsorship profile and position defined at the inception of the project and shall be approved by CCIC.

CCIC and its partners or sponsors will respond to requests for approvals for editorial and identification purposes on a timely basis.

#### **Exclusivity**

- Exclusivity will be determined on an individual basis, depending on program type and level of support of contribution.

#### **Confidentiality**

- All partners must agree to protect the security of all confidential CCIC-related information.
- CCIC will respect the confidential nature of information provided by its partners or sponsors.

**Income Ceiling**

- No CCIC program area funded will become more than 25% dependent on a single corporate sponsorship agreement.

**Reporting to Membership**

- CCIC's Annual Report will report on all corporate sponsorships of that year.

**Evaluation of Partnership Policy**

- This Corporate Partnership and Sponsorship Policy will be evaluated and reviewed two years after the first corporate sponsorship agreement comes into effect.

**APPENDIX 4: SUE ADKINS' MEASUREMENT AND EVALUATION CHECKLIST**

Sue Adkins, in her book *Cause Related Marketing: Who Cares Wins*, gives a thorough framework for monitoring and measuring the impact of a cause-related marketing program. While Adkins' framework is written from a company perspective, elements of its suggested approach are relevant to non-profits contemplating or engaged in a cause-related marketing (CRM) partnership. It is equally important in formulating a proposal to anticipate the kinds of assessment which companies will apply to any potential CRM partnership.

**Typical monitoring, measurement and evaluation techniques**

Stage	Purpose	Typical questions	Type of research
<b>Pre-program</b>	To verify the nature of the proposed relationship	<ul style="list-style-type: none"> <li>• What do particular stakeholder groups think of CRM overall?</li> <li>• What is the fit or affinity between the concept and the proposed partner?</li> <li>• How does the proposed program enhance/ detract from the corporate reputation, etc.?</li> <li>• What are the stakeholders' views of the proposed mechanic?</li> <li>• Any suggestions on the best way to implement the program?</li> <li>• What view do stakeholders have o the proposed advertising and communications of the program?</li> </ul>	Qualitative research (focus groups)
<b>During</b>	To monitor ongoing effectiveness of the program against objectives	<ul style="list-style-type: none"> <li>• Is it meeting the PR objectives? Eg. awareness/ damage limitation, communication of key messages</li> <li>• Is there awareness of the CRM program?</li> <li>• How much media coverage have we received as a result of our CRM program?</li> <li>• Has the coverage been mainly favorable or unfavorable?</li> <li>• Which new audiences have been reached?</li> <li>• Would this have been coverage our organization would not have had otherwise?</li> <li>• What messages about our company has it promulgated?</li> <li>• What are stakeholder attitudes in light of the coverage received?</li> <li>• What is the effectiveness when measured against sales/ volume?</li> <li>• Targets: Are redemption levels meeting, exceeding or failing to meet expectations?</li> </ul>	<ul style="list-style-type: none"> <li>• PR evaluations</li> <li>• Exit interviews</li> <li>• Service evaluation</li> <li>• Stakeholder surveys</li> <li>• Opinion polls</li> <li>• Sales volume data</li> </ul>

Stage	Purpose	Typical questions	Type of research
Longitudinal	To track the effects of a CRM program over time	<ul style="list-style-type: none"> <li>• How strong is my brand vis-à-vis competitors</li> <li>• What are the stakeholders' perceptions of the company?</li> <li>• What are the main image associations and are these good or bad?</li> <li>• How could my image be improved to improve the perceived rating of the company?</li> <li>• How have recent campaigns (CRM, promotions, advertising campaigns) positively or negatively affected our company image?</li> <li>• What has been the image shift since the last time tracking was conducted?</li> <li>• How have you been made aware of our company over the past few months?</li> <li>• What particular campaigns come to mind?</li> <li>• Have you heard/ seen anything of our recent CRM campaign?</li> <li>• What did you associate it with?</li> <li>• Has it affected your perception of the company favorably or unfavorably or not changed it?</li> <li>• If your perceptions have changed, how?</li> </ul> <p data-bbox="612 1129 1118 1188"><b>Stakeholder service/ loyalty measurement</b></p> <ul style="list-style-type: none"> <li>• Overall customer satisfaction</li> <li>• Overall customer loyalty</li> <li>• Reasons for satisfaction or dissatisfaction</li> <li>• The relative importance of different elements in contributing to a company's satisfaction score</li> <li>• Performance relative to competition</li> </ul> <p data-bbox="612 1444 1118 1474">Main opportunities for improvement</p>	Research survey

Stage	Purpose	Typical questions	Type of research
<b>Post-program</b>	Continued tracking of the effectiveness of the campaign	<ul style="list-style-type: none"> <li>• How conscious are our employees of our CRM initiatives?</li> <li>• How are the stakeholders' perceptions of or feelings toward the company affected?</li> <li>• How have stakeholders themselves participated?</li> <li>• What difference has this made?</li> <li>• How have stakeholders reacted to the initiative?</li> <li>• What ideas do stakeholders' (the staff) have for future CRM activities?</li> <li>• How would stakeholders like to see the initiative develop: --at a local or national level? --in relation to a particular charity area?</li> <li>• How could staff help or contribute more?</li> <li>• Level of familiarity with your company?</li> <li>• Level of favorability towards the company (pre and post CRM activity)?</li> <li>• Degree of awareness of the CRM initiative itself?</li> <li>• Where seen/ heard of (press, TV, in store, on pack, word of mouth, etc.)?</li> <li>• Participation in the activity (bought the product, sent off the coupon, etc.)?</li> <li>• More likely to buy product or service as a result of the CRM initiative?</li> <li>• Perceived success in the way the initiative was communicated?</li> <li>• Perceived success of the initiative?</li> <li>• Image associations of the company? (test pre and post to provide indication of image shift)</li> <li>• Overall perceptions of the company and feelings toward it?</li> </ul>	Specific CRM quantitative research

**Source:** Sue Adkins, *Cause Related Marketing: Who Cares Wins*, pp. 273-275

***APPENDIX 5: SOURCES OF INFORMATION ON MUTUAL FUND COMPANIES***

**INVESTMENT FUNDS INSTITUTE OF CANADA**

151 Yonge Street, 5th Floor  
Toronto Ontario  
M5C 2W7  
Telephone (416) 363 2158  
Fax (416) 861 9937  
<http://www.ific.ca/>

**MANIFEST COMMUNICATIONS INC.**

117 Peter Street, 3<sup>rd</sup> Floor  
Toronto, Ontario  
M5V 2G9  
Tel: (416) 593-7017  
FAX: (416) 593-7793

**MARKETING SOLUTIONS**

Marketing & Research Consulting  
145 King Street West, Suite 1015  
Toronto, Ontario M5H 3X6  
Tel: (416) 366-8763  
Fax: (416) 366-1947

**MICHAEL JANTZI RESEARCH ASSOCIATES INC.**

372 Bay Street, Suite 1906  
Toronto, Ontario  
M5H 2W9  
Tel: (416) 861-0403  
Fax: (416) 861-0183  
<http://www.mjra-jsi.com>

**ONTARIO SECURITIES COMMISSION**

18<sup>th</sup> Floor, 20 Queen Street West  
Toronto, Ontario M5H 3S8  
Tel: (416) 597-0681  
Fax: (416) 593-8241  
<http://www.osc.gov.on.ca>

**VINTAGE ADVISORS, INC.**

431 N. Pennsylvania Street  
Indianapolis, Indiana  
46204 USA  
Tel: 1-800-408-4682  
FAX: (317) 632-7805  
<http://www.vintagefunds.com>