



# AQUEDUCT

FOUNDATION

**2012 Report**



## Aqueduct Foundation: A Bridge to Charities

Aqueduct is a registered public foundation with donor advised funds. As its name implies, Aqueduct Foundation is inspired by the longevity, innovation and practicality of ancient Roman water-carrying bridges. We serve as your philanthropic planning bridge to other registered Canadian charities and other qualified donees.

We're a neutral charitable intermediary that helps affluent individuals make significant gifts to charity. Aqueduct is operated by Scotia Private Client Group.

From inception in 2006, Aqueduct Foundation has focused on providing philanthropic individuals with a way to support their favorite causes. Our focus is to use donor advised funds to facilitate personally significant gifts that are well integrated into donors' financial and estate plans.

## Our Philosophy

An annual report is an opportunity to review the previous year's activities. While this publication reports on key indicators and activities to ensure Aqueduct Foundation is accountable to its donors and the public, by design it lacks certain information. Specifically, it does not reveal information about either our donors or feature the charities they support.

The absence of this information is unusual for a public granting foundation. In the past we have received comments about how Aqueduct Foundation does not act like a "normal" granting foundation. Should we not describe the causes supported and good works being done? Should we not list our donors and their funds? Our silence stems from the philosophy of Aqueduct Foundation, which guides our operations.



## Our DNA

Aqueduct Foundation has a number of unusual attributes that set us apart from other Canadian granting foundations.

1. We are a granting foundation that is “cause neutral”. We may support any Canadian registered charity or qualified donee, but do so upon the recommendation of our donors. We do not run a public granting program that enables charities to apply for grants. Neutrality also means we do not publicize one charitable beneficiary over another.
2. We are dedicated to personal philanthropy aided by careful planning that is integrated into the donor’s financial and estate plans. Since Aqueduct does not fundraise in a traditional sense, it also does not publish the names of donors or donor advised funds. We believe that our donors act for personal reasons and value privacy when implementing their philanthropy.

3. We are dedicated to flexibility in philanthropy. Donors are not restricted in the charities they can support, how much they can give, and when the gifts are made. This quest for philanthropic flexibility has led us to pioneer the use of unique structures in Canada.

By making grants to qualified donees, Aqueduct Foundation helps facilitate donor philanthropic wishes. Below are three examples of structures Aqueduct recently featured in the Foundation’s monthly blog: spend-down funds, combination gifts, and better solutions for gifts of life insurance.

## Spend-down Funds

*“I want my charities to be able to swallow my bequest, not choke on it,”* said our wise 82-year-old donor to Aqueduct Foundation. She had three charities she had supported for years and wished to include in her will. One was her 100-year-old parish church, one was an arts organization, and one was a local social services agency.

When planning her estate, we had discussed outright gifts to the charities and the idea of creating an endowment, but she chose the option of a “spend-down” legacy fund. A spend-down fund functions like an annuity. It distributes all capital and income over a set term – for example, five or ten years – and then ceases to exist. The structure provides the charities with significant, steady support for a defined period with the goal of starting something new, addressing a capital need, or just to operate well.

Spend-down funds also provide checks and balances. Our donor had witnessed a protracted debate within the parish – “at times it was a bare-knuckle fight,” she remembered – over the use of a bequest. Rather than restrict the use of her gift, our donor wanted her church and the other two charities to determine their greatest needs on an annual basis. She stipulated that each charity make a short annual proposal to make everyone take the process seriously and to ensure the funds are well used. The funds would be held in her fund at Aqueduct Foundation and granted in her name each year.

Spend-down funds are mid-term charitable structures – sitting between direct outright gifts and long-term endowments.


## Combination Gift Plans

A donor advised fund is a planning structure that can be used to coordinate personal philanthropy at death and during life. At Aqueduct Foundation, when donors make multiple gifts to achieve their ultimate philanthropic goal we call it a “combination gift plan”.

Donors often start by articulating their philanthropic goals when they are revising their will and establishing a legacy fund. A legacy fund requires no current donations -- only a clause in the will to ensure it receives future funding. The legacy fund may lie dormant for years, but it can be activated at any time with lifetime gifts as the donor’s circumstances and philanthropic goals change. The estate planning process provides donors with the clarity they require to start making gifts to “their foundation” during life.

There are a few reasons for “combination gift plans”:

1. **Tax timing:** Individuals who are donating the majority of their estate to charity may not have enough income in the final two lifetime returns to claim a gift by will, which results in lost tax benefits. After a careful review of the donor’s financial situation, it may be possible to start making gifts during life to “salvage” the lost tax credits. A gift of appreciated public securities, for example, will also eliminate the capital gains tax. The lifetime gifts are a pre-payment against the ultimate gift plan and significantly reduce lifetime taxation.
2. **Privacy & Flexibility:** For many donors, the thought of significant gifts during life prompts concerns about loss of privacy and control.



However, making a gift to one's fund at Aqueduct can be done in confidence. The donor recommends the charities to be supported, how much they will receive, and when the gifts will be made.

3. Philanthropy: Starting strategic giving during life is a goal of many donors. The donor advised fund provides a safe, flexible structure to get started. Aqueduct can help with mission development and charity research. Grants made during life may also help clarify the donor's legacy and wishes.

Combination gift plans provide a practical way to plan personally significant philanthropy.

### Better Life Insurance Gifts

Over the past 33 years, gifts of life insurance in Canada have promised more than they've delivered. Thousands of policies have been donated since 1979 when the rules changed to allow premiums to be receipted. Unfortunately, a high percentage of donated policies lapse before the donors die.

Aqueduct Foundation has a better way to help make these gifts successful.

First, let us outline a few practical reasons for the lapse rates.

1. Charitable life insurance policies are sold in the moment, but are paid for over time – often a lifetime. People's priorities change; policies lapse.
2. Charities often struggle to administer the policies they own. To keep policies "in force" requires good systems, staff continuity, knowledge, and active donor stewardship.

3. Once a charity is named owner and beneficiary the donor cannot change his/her mind about the recipient(s). As any estate lawyer knows, charitable interests change over time. Letting a policy lapse is often the only logical response for a donor stuck with an irrevocable charity designation.

A better way to structure gifts of life insurance is to separate the owner/beneficiary role from the "ultimate beneficiary" role. Aqueduct Foundation serves as owner and beneficiary of life insurance policies, but, through the mechanism of the donor advised fund, permits donors to select the ultimate charitable beneficiaries. This selection can occur after the policy is donated, which is particularly helpful for multi-charity plans. The death benefit can be paid out to the chosen charities or a donor advised fund can continue within Aqueduct. The ability to change the ultimate beneficiaries makes gifts of life insurance as flexible as gifts by Will.

Aqueduct Foundation provides four additional benefits: simplicity in set up and receipting that comes from dealing with a single charity; consistent administration; ability to pay premiums with tax-effective gifts of public securities; and privacy for the donor.

We believe addressing the planning limitations related to gifts of life insurance will help produce greater benefits for charities and happier donors.



## 2011 Results

Aqueduct Foundation has completed its fifth year of operation. Throughout 2011 Aqueduct Foundation received \$40,056,462 in donations of cash, mutual funds, marketable securities and preferred shares. Since its inception in 2006 Aqueduct Foundation has received donations of \$264,169,445.

These numbers are a result of Aqueduct's new and existing donors. In 2011 Aqueduct Foundation welcomed 26 new donors who established active donor advised funds and worked with 81 new donors on estate plans with bequests to Aqueduct Foundation totaling \$85,533,646.

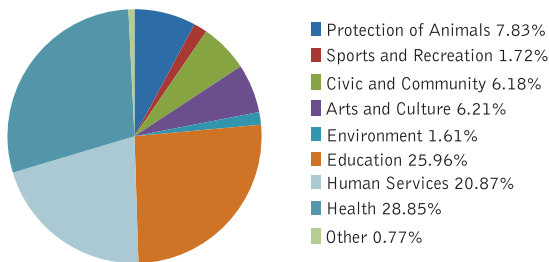
## Grants

In 2011 the Foundation made grants of \$29,590,738 to Canadian registered charities including private and public foundations. Since its inception Aqueduct Foundation has granted \$197,690,100 to Canadian charities. The following chart summarizes grants made from Aqueduct Foundation since inception.

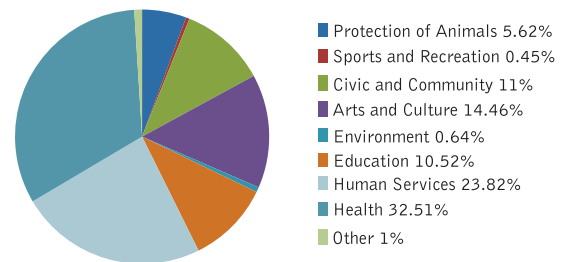
Grant beneficiaries represented causes such as arts and culture, religion, civic and community, health, education, sports and recreation, protection of animals, environment, human services and other charitable trusts.

	Grants
2006	\$2,291,936
2007	\$91,507,818
2008	\$18,388,882
2009	\$15,585,701
2010	\$40,325,025
2011	\$29,590,738
<b>Total</b>	<b>\$197,690,100</b>

Grants by Program Area 2011



Grants by Program Area 2010



## Investments

The Foundation invests its funds in two streams: short-term funds are invested in conservative fixed income instruments, while advised funds are invested in a balanced portfolio managed by Scotia Asset Management. Assets under administration at the end of December 2011 were \$67,875,927.

Aqueduct Foundation's advised funds investment portfolio performance for the year ending

December 31st, 2011 was 0.40% against a benchmark of 1.44%. The five year compound returns were 2.92% against the benchmark of 2.04%. While markets struggle to recover, Scotia Asset Management continues to stick with its balanced approach that has been successful in meeting the benchmark several years in the past. ■

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# Smart, Flexible Philanthropy

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Aqueduct Foundation is a registered public foundation,  
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