

2013 Report

AQUEDUCT
FOUNDATION



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 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 nor 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, or when the gifts are made. This quest for philanthropic flexibility has made us a pioneer in Canada.

By making grants to qualified donees, Aqueduct Foundation helps facilitate donor philanthropic wishes.

Expanded Donor Services

In 2012, Aqueduct undertook a number of initiatives to improve the service and information it provides to donors to assist them in their philanthropy. This is part of an ongoing process to make the granting process simpler and more informed. Some of the new and improved granting services include:

1. **Anytime granting.** Donors can now make grant recommendations at any time of the year and the selected charity will receive the funds in two weeks. Anytime granting applies to the annual 3.5% Minimum Annual Distribution amount.
2. **Granting of any amount to any qualified donee.** Unlike other public foundations with donor advised funds, Aqueduct does not cap annual granting from its funds based on a formula.
3. **Tailored assistance to donors in developing the mission of their personal foundations.**
4. **Access to financial reports.** Donors have access to financial reports on any registered charity that contain comparative data and five years of financial information.
5. **Personalization options.** The option of creating a personal biography and vision statement to guide future granting. This personal statement is included in the fund deed and is an important element of a donor's legacy.

Warren Buffett and Charitable Spend-down Funds

Celebrating his 82nd birthday on August 30, Warren Buffett made gifts of \$1.8 billion to his three kids' foundations. At death, the wealth that he hasn't donated during life will go to the Susan Thompson Buffett Foundation (named after his late wife) with the requirement that it all be used for the foundation's charitable purposes over a period of 10 years.

Ever the business iconoclast, Buffett has been specific that his charitable donations – the lion's share are going to the Bill and Melinda Gates Foundation – be spent within a specific time period rather than endowed long-term. In other words, he is creating spend-down funds. Spend-down funds are a middle ground between gifts for immediate use and perpetual endowments. As we are finding through Aqueduct Foundation, the structure is increasingly relevant to donors who are leaving large percentages of their estate to charity.

Spend-down funds are a balancing act between the immediate needs of charities and the needs of "future" beneficiaries. Rather than the calm even-handedness of the endowment trustee, Buffett injects urgency into his philanthropy. He wants to fund effective projects on a large scale within a reasonable period of time. He aims to use capital efficiently.

His urgency is grounded in pragmatism. He knows that large sums of money are difficult to spend effectively all at once. That is why he has set a 10-year time period and used foundations to provide discretion and checks-and-balances in the prudent distribution of funds.

Through his actions Buffett is also, subtly, an iconoclast about the concept of charitable legacy. He is the billionaire without a foundation in his own name who eschews the concept of perpetuity in favour of good work over a reasonable, defined period of time. It's a legacy that focuses on public benefit.

Managing your Philanthropic Footprint: Privacy and Recognition

There is a popular belief that a philanthropist is someone who loves public recognition, but in reality most donors are modest about their giving and value privacy. Aqueduct Foundation works closely with its donors to manage their public profile and donations.

At one end of the spectrum, we have donors who wish to be completely anonymous in their giving. They want to give privately, have no internet footprint, no pressure from fundraisers, and no donor recognition.

For example, a newly retired couple set up a “personal foundation” with Aqueduct after they sold their business. The donors wanted to continue volunteering in their community and support the charities they volunteered at. “We wanted to keep feeding the kittens at the local Humane Society and shaking hands at church on Sunday without anyone knowing we had just made the largest donation either charity had ever seen,” they said. Aqueduct gave them peace of mind that they would be totally anonymous, even from the staff and board who they all knew.

In the middle of the recognition spectrum are memorial funds. Memorializing a loved one is a strong motivator for many donors. Some give what they consider to be ‘family funds’ inherited from parents or siblings. These donors often want to make grants in the name of their loved one, but keep a low profile. They want to stay off mailing and telephone lists of charities. Aqueduct provides a safe, supported place to create a memorial and to give without disclosing the name of the donor.

At the other end of the recognition spectrums are philanthropists who wish to give publicly to inspire others and demonstrate leadership for charities they care about. Some of our donors have created a brand to reflect the mission and vision of their foundation, even creating logos and business cards. They are leaders in their communities, but within Aqueduct their information is private. Unlike private foundations that are registered separately with Canadian Revenue Agency, the value and granting activity of their foundation is confidential.

Why \$250,000?

The minimum lifetime contribution to an Aqueduct Foundation donor advised fund is \$250,000. The figure is unquestionably attention getting. How can a charity have a minimum donation amount and such a significant one at that? To answer these questions it's helpful to understand Aqueduct's philosophy and how it differs from other charities.

Aqueduct exists to help individual donors to plan significant gifts of assets. Aqueduct has expertise in planning gifts, managing them, and granting to other charities. Adopting a high minimum is a way to signal that Aqueduct serves a special type of donor and has different focus than other charities.

Imagine that you have two pockets to donate from: the 'income' pocket and the 'asset' pocket. The donations that most people make, most of the time, are from the income pocket. Whether these gift are \$25 or \$10,000, they are made – often quite spontaneously – in response to our involvements, need in the community and solicitations. The vast majority of charities receives and uses these donations for operating purposes. These ordinary, everyday gifts shape our thinking about charity.

The asset pocket, which contains our life savings, is rarely used for giving. Assets are what we live in and live on. When giving assets you require confidence that you have enough, and that confidence comes from careful financial and/or estate planning. The donor needs to take into consideration their own and their family needs tax considerations and their philanthropic goals. Gifts from the asset pocket are often made in the future, by Will or life insurance, or even registered savings plan.

A personal foundation in Aqueduct may start with an initial donation of as little as \$25,000, but only if the donor has a plan to donate more than \$250,000. Larger amounts justify the creation of long-term funds such as endowments or spend-down funds. At that level Aqueduct provides real value. For smaller amounts it makes sense to give directly to the charity. Planning and managing these gifts of more than \$250,000 requires special expertise. It's what Aqueduct Foundation does best.

2012 Results

Aqueduct Foundation has completed its sixth year of operation. In 2012, Aqueduct Foundation received donations of \$14,133,674. In addition, Aqueduct received its first government grant in the amount of \$654,860, as part of the Heritage Canada endowment incentives program for arts organizations.

In addition, Aqueduct worked with 86 new donors on estate plans totaling \$183,373,386. This is the sixth year in a row that Aqueduct has seen healthy growth in the number of legacy fund donors.

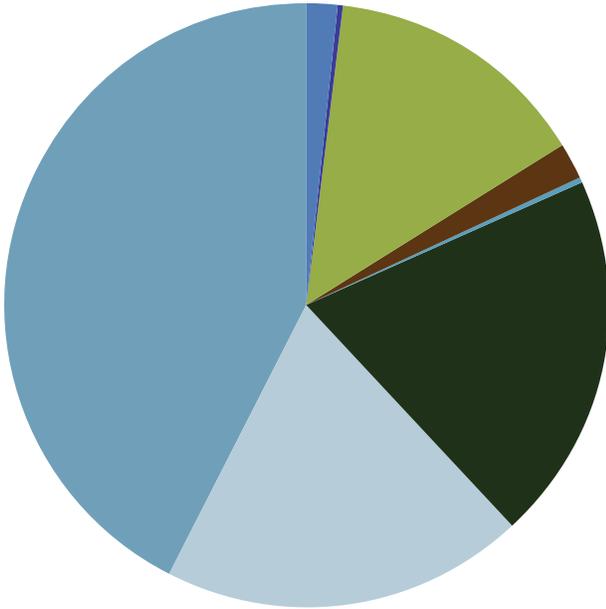
Grants

In 2012 the Foundation made grants of \$8,849,267 to Canadian registered charities and qualified donees, including private and public foundations.

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 private foundations.

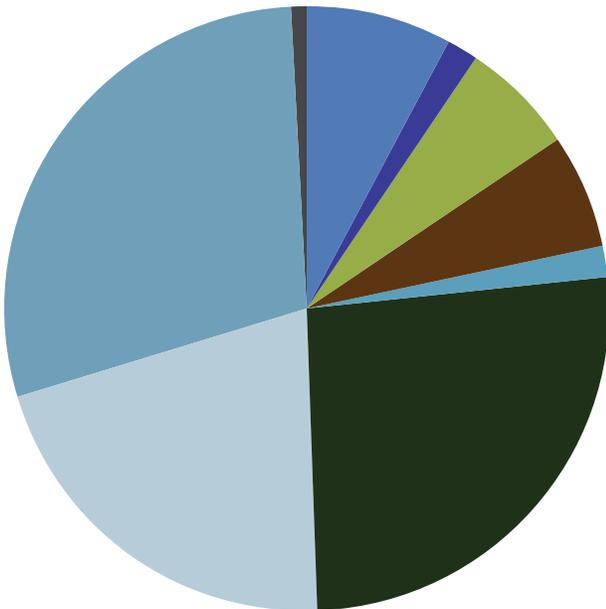
Grants	
2006	\$2,291,936
2007	\$91,507,818
2008	\$18,388,882
2009	\$15,585,701
2010	\$40,325,025
2011	\$29,590,738
2012	\$8,849,267
Total	\$206,539,367

Grants by Program Area



2012

- Protection of Animals: 1.94%
- Sports and Recreation: 0.22%
- Civic and Community: 14.17%
- Arts and Culture: 1.77%
- Environment: 0.36%
- Education: 19.79%
- Human Services: 19.29%
- Health: 42.46%
- Other: 0%



2011

- Protection of Animals: 7.83%
- Sports and Recreation: 1.72%
- Civic and Community: 6.18%
- Arts and Culture: 6.21%
- Environment: 1.61%
- Education: 25.96%
- Human Services: 20.87%
- Health: 28.85%
- Other: 0.77%

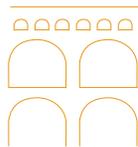
Investments

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 1832 Asset Management L.P. Assets under administration at the end of December 2012 were \$75,355,854.

Aqueduct Foundation's long-term portfolio managed by 1832 Asset Management L.P. enjoyed strong investment performance for 2012, both on an absolute basis and relative to the stated benchmark. The portfolio returned 7.22% for the year, outperforming the benchmark by 16bps.

Investment performance for the year was driven by strong results in both fixed income and equity markets. Despite a turbulent ride, markets actually advanced quite nicely through the end of the year. During the year, improving economic data, modest earnings growth, and a perceived removal of systemic risk in Europe guided markets upwards. As the year progressed, the asset mix and security selection shifted to a more defensive position in response to the growing uncertainty surrounding the U.S debt ceiling, the (ongoing) European debt crisis, and the resulting economic slowdown. The portfolio ended the year with an overweight position in both cash and fixed income sectors. The portfolio continues to be managed prudently and within the framework of its stated objectives and policies.

Aqueduct expanded its list of approved investment managers in 2012 to include Nexus Investments of Toronto and ScotiaMcLeod® Investment Management. Both firms market Aqueduct to their clients.



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