OTTAWA COMMUNITY FOUNDATION
invested for good

FONDATION COMMUNAUTAIRE D'OTTAWA
investir pour le bien

Investment Policy

ORIGINAL EFFECTIVE DATE: October 1998
LAST REVIEWED: October 2023
SUBJECT TO REVIEW: October 2024

POLICY: INVESTMENT

The Ottawa Community Foundation ("OCF" or the "Foundation") is a public foundation established to serve a broad range of charitable purposes primarily within the Ottawa region. To ensure its accountability to donors, beneficiaries and the community, as well as to provide guidelines for the prudent and effective management of the fund (the "Fund"), OCF's Board of Directors has adopted the following investment policy.

Mission and Investment Philosophy

The long term goal of the investment policy is to generate sufficient returns, consistent with prudent and professional portfolio management, to allow steady and reliable granting, cover the costs of the Foundation's operations, and to preserve the endowed capital.

At the same time, the OCF's mission is to fulfill impact philanthropy and bring about positive, systemic and sustainable change in our city and beyond. It values accountability, transparency, fairness and integrity in all of its activities. To that end, it intends to invest its assets responsibly in a way that is consistent with its mission.

As long-term investors, the OCF believes that responsible corporate behaviour with respect to environmental, social and governance (ESG) factors can generally have a positive influence on long term financial performance, and that investment analysis should incorporate ESG factors, to the extent possible, in the analysis of risk and return.

In this context, OCF aspires to integrate ESG factors into investment management processes across the portfolio and as such endorses the United Nations Principles for Responsible Investing (UNPRI) which are as follows:

1. Incorporate ESG issues into investment analysis and decision-making processes.
2. Be active owners and incorporate ESG issues into our ownership policies and practices.
3. Seek appropriate disclosure on ESG issues by the entities in which we invest.
4. Promote acceptance and implementation of the UNPRI within the investment industry.
5. Work together to enhance our effectiveness in implementing the UNPRI.
6. Report on our activities and progress towards implementing the UNPRI.

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The Foundation will pursue these principles in a graduated and practical way as both the size of assets under management and the resources allow.

Role of the Investment Committee

To contribute to achieving the mission of the Foundation, the investment committee (the "Committee") makes recommendations to the Board of Governors with regard to the investment objectives and guidelines, and the use of professional Investment Managers and Advisors.

Management of Donors' Funds

OCF has adopted a policy of investing endowed and similar funds over which it has full investment discretion, in a pooled or commingled portfolio, combining funds received from all donors. The returns of these commingled accounts are averaged for purposes of allocations to the individual funds. This pooling allows for closer supervision of the portfolio and makes the advantages of participation in a diversified investment portfolio available to all donors' funds regardless of size.

There may be situations where donor restrictions, income requirements, a short investment time horizon or other considerations make certain funds inappropriate for commingling with endowed assets. In such cases, the Foundation administers the investment of those assets in accordance with the constraints imposed.

Investment Authority

The Committee makes recommendations to the Board on all aspects of the investment management and investment policies of the Foundation. Members of the Committee are chosen for their business and financial management experience and expertise. A list of current members of the Committee is available at all times to the general public.

The Committee reviews the Foundation's assets and the status of its investments quarterly. The Committee oversees the investment program within the policies and procedures approved by the Board. Specifically, the Investment Committee:

- recommends to the Board the selection of, and fees for, Investment Managers and an Investment Advisor;
- recommends to the Board investment performance objectives and guidelines for Investment Managers;
- monitors investment performance against the objectives;
- meets periodically with Investment Managers.

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Selection of Investment Advisor

It is the policy of the Foundation to seek out the best investment management available compatible with the objectives of the investment program. The Committee, working with an Investment Advisor, monitors the quarterly performance of all Investment Managers to ensure they are meeting the investment objectives of the Foundation. The Investment Advisor and each Investment Manager may be replaced by the Board on the advice of the Committee. In recommending the hiring, firing or retention of any Investment Advisor or Manager, the Committee will consider, among other pertinent factors:

- record and performance in managing funds;
- quality of reporting, research (including ESG analysis) and investment advice;
- fees charged;
- capability of Investment Managers' staff and their support of, and commitment to, the Foundation.

Investment Objectives and Targets

The Foundation's investment objective is an average nominal rate of return over the long term (10 years) of 6.5%, net of investment fees. It is expected to provide for annual distributions, operating expenses, and preservation of purchasing power, over the long term.

Effective August 31, 2023, the target investment policy 10-year expected return, net of investment fees, has been calculated to be 7.0% by the Investment Advisor, based on revised assumptions reflecting the current environment and using the midpoint of the two value-added targets outlined below (see Appendix).

The Foundation has established both expected and minimum acceptable value-added targets, after fees, to help evaluate performance of each Investment Manager relative to the return of their benchmark over a moving 4-year period.

Each Investment Manager should aim to outperform their expected target. When the expected target is not met, the Committee will evaluate each Investment Manager relative to their minimum acceptable target. Failure to meet this lower threshold will necessitate a thorough due diligence review of the mandate.

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Asset Class (Benchmark)	Manager	Expected Target	Minimum Acceptable Target
Core Plus Bonds (FTSE Canada Universe)	PH&N	+0.70%	+0.33%
Canadian Equity (S&P/TSX)	Doherty & Associates	+0.85%	+0.60%
Global Equity (MSCI World)	CIBC	+1.37%	+0.62%
	Schroders	+0.75%	+0.25%
Global Small Cap Equity (MSCI World Small Cap)	Wellington	+1.75%	+0.90%
Real Estate (CPI + 4%)	Bentall Kennedy	+0.0%	
Infrastructure (CPI + 4%)	IFM		
Real Estate Debt (CPI+6%)	Brookfield		
Alternatives & Impact Investments (CPI + 5%)	New Market Fund Mercer		
Total		+0.68%	+0.33%

The following asset mix target and ranges have been established for the portfolio:

Asset Class	Minimum Weight	Target Weight	Maximum Weight
Core Plus Bonds	16.5%	20.5%	24.5%
Total Fixed Income		**20.5%**	
Canadian Equity	8.0%	12.0%	16.0%
Global Equity	25.0%	30.0%	35.0%
Global Small Cap Equity	6.5%	9.5%	12.5%
Total Equity		**51.5%**	
Canadian Real Estate	8.0%	13.0%	18.0%
Infrastructure	2.5%	7.5%	12.5%
Mezzanine Debt	2.5%	7.5%	12.5%
Total Alternatives		**28.0%**	

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Currency Hedging Policy

Part of the investment philosophy of OCF is to take advantage of the opportunities provided by investing outside of Canada. Foreign or global investments are made in currencies other than the Canadian dollar, with the net result that currency movements do affect returns. Historically, some currency exposure has been beneficial as it provides diversification evidenced through a reduction in total portfolio volatility of returns versus a portfolio solely denominated in Canadian dollars. Furthermore, there have been observed benefits, over the past decade, in being invested in key reserve currencies, particularly the U.S. dollar (USD) which has shown negative correlation to equity markets in times of severe market declines.

OCF has adopted the following strategy to hedge the Canadian dollar exposure relative to the US dollar.

1. **Exchange Rate Data:** The Investment Advisor will provide the WM Refinitiv London 4PM Spot Rate for the purpose of determining the hedge ratio, as needed.

2. **Band:** The hedge ratios are determined based on the exchange rate as a percentage of the purchasing power parity (PPP) as defined below:

Band	Exchange Rate (USD vs CAD) as a % of PPP	Hedge Ratio
1	<91%	100%
2	≥ 91%	0%

3. **Exchange rate as a % of PPP (the "EPPP"):** This is calculated as the ratio of the spot exchange rate as of the last Business Day of the period over the latest available PPP exchange rate as provided by the OECD.

Implementation of the dynamic currency hedging strategy. OCF will review at least annually, with the help of the Investment Advisor, the Hedge Ratio as of the last Business Day of the period and the EPPP. If at any review the EPPP is deemed to be within a higher or lower Band than the current one, OCF will initiate action to adjust the Hedge Ratio corresponding to the new Band within one month after the exchange rate review.

ThCommittee reserves the right to change its currency hedging philosophy and approach in light of evolving market conditions, such as when the spot rate deviates by more than 10% from the PPP or an historical average, which will be reviewed semi-annually.

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Rebalancing Policy

When managing inflows and outflows, asset class weightings shall be taken into consideration. Inflows shall go to the liquid asset classes which are the most underweighted and outflows shall come out of liquid asset classes that are the most overweighted compared to the target asset mix.

At the end of any a quarter, if an asset class has an allocation outside its permitted range, it shall be rebalanced halfway to its benchmark target, by adding or deducting assets from the asset classes which, in succession, deviate most from their respective targets.

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

In times of significant market volatility, the Investment Advisor is expected to reach out to the Foundation and the chair of the Committee to determine whether any rebalancing transactions should be considered sooner than month-end.

If rebalancing is required because of extreme market movements (+/- 10% for any asset class) over the quarter, rebalancing transactions will need to be approved by the Investment Committee.

Investment Guidelines

1. Investments will be spread across a broad range of securities so as to provide diversification and reduce risk. This will apply to both equity and fixed income portfolios.

2. The Foundation will determine the degree of liquidity required and Investment Advisor will ensure that the securities held can provide the required level of liquidity.

3. No single holding will exceed 10% of the portfolio market value of each asset class, except for securities issued or guaranteed directly or indirectly by the Government of Canada.

4. No single holding in the portfolio will represent more than 10% of the outstanding shares of any corporation without express approval of the Foundation.

5. Up to 15% of the global equity portfolio may be invested in emerging markets equities.

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6. No private placements, either equity or fixed income, will be purchased without the specific authorization of the Foundation, with the exception of

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those acquired by the alternative Investment Managers. For greater clarity, alternative mandates may include private equity, real estate, private debt and infrastructure.

7. The Fixed Income portfolio may include:
    a. Fixed income securities issued or guaranteed by the federal government, provinces or municipalities of Canada including their agencies and crown corporations;
    b. Fixed income securities issued or guaranteed by foreign governments, foreign government agencies and multinational organizations;
    c. Investment grade and below investment grade (i.e. high yield) bonds issued by Canadian and foreign corporations;
    d. Preferred shares listed on an internationally recognized stock exchange;
    e. Debt securities issued by financial institutions that can be converted into equity as determined by the regulator (Non-Viability Contingent Capital and/or Bail in senior debt). If the debt is converted, a best efforts basis will be used to liquidate the equity securities.
    f. Mortgage and other asset backed securities

    The fixed income portfolio should be predominantly denominated in Canadian dollars or hedged back to Canadian dollars.

8. No derivative instruments will be purchased or held in the portfolio, except to hedge currency exposure, or to allow Investment Managers to gain market exposure on an unlevered basis. Derivatives may not be used for speculative purposes and purchasing securities or market indices on margin or with leverage is not permitted.

9. The portfolio will not be invested directly in commodities without the specific authorization of the OCF.

10. No short sales or transactions on margin will be executed in the portfolio. Warrants and/or installment receipts however, may be purchased and retained.

11. The lending of cash or securities will be permitted, when conducted with appropriate collateral and administered by a custodian, who is independent of and unrelated to the Investment Manager whose holdings are being lent.

12. Investment Managers will not execute transactions with a related party unless specifically authorized and directed by the OCF.

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13. Investment Managers will direct the custodian to vote all proxies in the best interests of the Foundation, as a signatory of the UNPRI.

14. Investment Managers will not knowingly value any security at a value that exceeds the market value.

15. Real estate and infrastructure direct property investments shall be in open-end funds following a core investment strategy of investing in high quality income producing assets.

16. Real estate debt may include mortgages, senior loans, mezzanine debt and other securities with the overall objective of using a mezzanine debt investment approach, in either open-end or closed-end funds.

17. When pooled funds are used, the investment will be subject to the investment policies of the pooled funds.

18. The Foundation has a separate policy on impact investing, which is the active investment of capital in assets and organizations to generate positive social or environmental impacts, as well as a financial return.

    Impact investing objectives are to be reached holistically, by taking into account impact investing considerations when selecting Investment Managers/products/investment strategies. In fulfilling those objectives, the Committee may waive some of the above guidelines in the interests of selecting suitable impact investments, subject to Board approval.

    Market Investments are those that are readily available in public financial markets, open to large numbers of investors. Market Investments are made at market rates of return, but also have a desirable social or environmental impact on a global scale (not just Ottawa) that is aligned with the OCF's overall mission.

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APPENDIX

The following tables prepared by Mercer as Investment Advisor, present the current mid-point between the expected and minimum acceptable value-added targets and expected return and volatility of the revised investment policy as of August 31, 2023, as well as the assumptions upon which these are based.

Asset Class	Current
PH&N – Core Plus Bonds	**0.52%**
Doherty & Associates – Canadian Equity	**0.73%**
CIBC – Global Equity Growth	1.00%
Schroders – Global Equity Core	0.50%
Total – Global Equity	**0.75%**
Global Small Cap Equity	1.33%
Total – OCF	**0.51%**
10-Year Expected Return	7.0%
Standard Deviation	10.6%
Return/Risk	66.0%
75th Percentile Return	4.8%
90th Percentile Return	2.8%
95th Percentile Return	1.7%

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	Asset Class	Median 10 year return	Standard deviation	Correlations 1	2	3	4	5	6	7	8	9
1	Treasury Bills	2.6%	1.5%	1.00	0.09	(0.24)	0.01	(0.08)	(0.26)	(0.30)	0.07	0.31
2	Overall Universe	4.2%	5.4%	0.09	1.00	(0.09)	0.95	(0.15)	(0.07)	(0.11)	0.22	(0.10)
3	Mezzanine debt	7.0%	19.0%	(0.24)	(0.09)	1.00	0.03	0.62	0.73	0.75	0.15	0.15
4	Core plus	5.1%	5.2%	0.01	0.95	0.03	1.00	(0.09)	0.09	0.05	0.32	(0.10)
5	Canadian equity (large cap.)	6.5%	19.5%	(0.08)	(0.15)	0.62	(0.09)	1.00	0.68	0.73	0.21	0.16
6	Global equity (large cap.)	6.5%	16.1%	(0.26)	(0.07)	0.73	0.09	0.68	1.00	0.95	0.29	0.23
7	Global equity (small cap.)	7.5%	17.6%	(0.30)	(0.11)	0.75	0.05	0.73	0.95	1.00	0.25	0.19
8	Infrastructure	7.1%	16.1%	0.07	0.22	0.15	0.32	0.21	0.29	0.25	1.00	0.20
9	Core real estate	6.7%	16.1%	0.31	(0.10)	0.15	(0.10)	0.16	0.23	0.19	0.20	1.00

Source: Mercer's Canadian long-term capital market assumptions (August 31, 2023).
Expected return represents expected return over the next 10 years.

-1.0 to -0.1   -0.1 to 0.3   0.3 to 0.7

Note: Long-term expected annual returns include value-added targets and are net of fees.

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