

## COMMUNITY FOUNDATION OF OTTAWA

### POLICY

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#### **POLICY: INVESTMENT**

The Community Foundation of Ottawa (CFO) is a public foundation established to serve a broad range of charitable purposes primarily within the Ottawa region. Because the Foundation is designed to operate in perpetuity, wise stewardship of the funds entrusted to it is essential to the Foundation's mission. 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, CFO's Board of Governors 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 CFO's mission is to nurture philanthropy and work with partners to have an enduring impact on communities. 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, we believe 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 that they affect risk and return.

In this context, CFO 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 Principles within the investment industry.
5. Work together to enhance our effectiveness in implementing the Principles.
6. Report on our activities and progress towards implementing the Principles.

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

To achieve these goals within the mission of the Foundation, the Investment Committee makes recommendations to the Board of Governors with regard to the investment objectives and guidelines, and the professional investment counsel.

### **Description of Funds Subject to Long Term Investment**

CFO 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 available to all funds, regardless of size, the advantages of participation in a diversified investment portfolio.

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**

CFO's Investment 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 Investment 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 the selection of and fees for investment counsel;
- sets investment performance objectives and guidelines for investment counsel;
- monitors investment performance against the objectives;
- meets periodically with investment counsel.

### **Selection of Investment Counsel**

It is the policy of the Foundation to seek out the best investment management available compatible with the objectives of the investment program. The Investment 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 Investment Committee. In recommending the hiring, firing or retention of any investment counsel, 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;
- staff support, capability and commitment to the Foundation.

### Investment Objective

The Foundation's investment objective is an average nominal rate of return over the long term (10 years) of 7.15%, net of investment fees. This investment objective of 7.15% includes 0.85% for active management, as outlined below.

The Foundation has an annual average return objective for active management, after fees, to exceed the return of the investment benchmark for each asset class over a moving 4-year period by the following:

|                                    |            |
|------------------------------------|------------|
| Canadian Bonds (SM Universe):      | +0.1%      |
| Canadian Equities (S&P/TSX):       | +1.5%      |
| U.S. Equities (S&P 500):           | +1.0%      |
| International Equities (MSCI EAFE) | +1.5%      |
| <br>Total Portfolio:               | <br>+0.85% |

### Investment Guidelines

1. The capital fund investment portfolio includes an equity component. Except by approval in advance by CFO, investment counsel may not deviate from the following asset mix:

|              | <b>Benchmark</b><br>(% of total assets) | <b>Investment Range</b> |
|--------------|---|-------------------------|
| Cash         | 0                                       | 0 - 10                  |
| Fixed Income | 40                                      | 35 - 45                 |
| Equities     | 60                                      | 55 - 65                 |

The equities component above is restricted to the following geographical distribution:

|                              |    |         |
|------------------------------|----|---------|
| Canadian Equities            | 24 | 19 - 29 |
| U.S. Equities                | 18 | 13 - 23 |
| Other International Equities | 18 | 13 - 23 |

The objective is to allocate 60% of equities outside the Canadian market, split equally between U.S. and International equities.

With respect to U.S. equities, the currency shall be 50% hedged back to Canadian dollars through the use of currency forward agreements. The investment manager of the U.S. equities shall implement these hedges (equivalent to 50% of the market value of the U.S. equities) on a quarterly basis, or more frequently at his discretion.

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

This will be done in two stages based on the most recent month end market values :

- 1) in the first quarter thereafter, rebalancing will be to the mid-point of the nearest outer limit of the range and the benchmark
- 2) in the second quarter, thereafter, it will be right to benchmark ,

The Investment Committee may, in cases of extreme market volatility or when there is serious concern about the performance of a particular investment manager, delay rebalancing until the Committee is satisfied that it is prudent to proceed.

On an annual basis, the Committee will review actual asset allocations and rebalance all asset classes to benchmark as appropriate. On an ongoing basis, additions to the capital will be invested to align the allocations to benchmark.

2. 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.
3. The Community Foundation will determine the degree of liquidity required and investment counsel will ensure that the securities held can provide the required level of liquidity.
4. No single holding will exceed 10% of the portfolio market value of each asset class unless it is guaranteed either directly or indirectly by the Government of Canada, the Government of the United States, the Government of the U.K., a Canadian province or specifically agreed to by the Community Foundation.
5. No single holding in the portfolio will represent more than 10% of the outstanding shares of any corporation without express approval of the Community Foundation.
6. Up to 15% of the international equity portfolio may be invested in emerging markets equity.

7. No private placements, either equity or fixed income, will be purchased without the specific authorization of the Community Foundation. The purchase of direct real estate or resource property requires specific authorization and will be subject to guidelines as identified in the amendments to the Pension Benefits Standards Regulations.
8. No bond investments (excluding convertible debentures) will be purchased that are not rated A- or better by the Canadian Bond Rating Service (CBRS). Bonds held where the rating has dropped below A-, i.e. BBB or less, will be evaluated on an individual basis.
9. No investments will be made in companies whose market capitalization is less than \$350 million at the date of purchase.
10. No investments will be made in letter stock - where the escrow period exceeds 12 months.
11. No options or futures will be purchased or held in the portfolio.
12. The portfolio will not be invested directly in commodities without the specific authorization of the Community Foundation.
13. No short sales or transactions on margin will be executed in the portfolio. Warrants and/or installment receipts however, may be purchased and retained.
14. The lending of cash or securities will be undertaken only upon the specific direction of the Community Foundation and will be carried out by the authorized agent of CFO (normally the custodian), who is unrelated to investment counsel.
15. Investment Counsel will not execute transactions with a related party unless specifically authorized and directed by CFO.
16. Investment Counsel will direct the custodian to vote all proxies in favour of management, except in those circumstances where, in their opinion, a vote against management is in the best interests of the Community Foundation.
17. Investment Counsel will not knowingly value any security at a value that exceeds the market value.

**ORIGINAL EFFECTIVE DATE:**

October 1, 1998

**LAST REVISED OR REVIEWED:**

April 20, 2010

**SUBJECT TO REVIEW:**

On or before January 2013