OTTAWA
COMMUNITY
FOUNDATION

invested for good

Investment Policy

ORIGINAL EFFECTIVE DATE: October 1998
LAST REVIEWED: June 2017
SUBJECT TO REVIEW: June 2022

75 Albert Street, Suite 301, Ottawa, ON K1P 5E7 • tel: 613-236-1616 • fax: 613-236-1621 • info@ocf-fco.ca • www.ocf-fco.ca

POLICY: INVESTMENT

The Ottawa Community Foundation (OCF) 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, 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 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.

Role of the Investment Committee

To contribute to achieving 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 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

OCF'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 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.

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 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 Objective and Policy Expected Return

The Foundation's investment objective is an average nominal rate of return over the long term (10 years) of 6.50%, net of investment fees. The investment objective of 6.50% includes 0.82% for active management, as outlined below, and was determined as of December 2015 by the Investment Advisor. It is expected to provide for annual distributions, preservation of purchasing power and reasonable operating expenses, over the long term.

The revised investment policy, summarized below, was determined to have an expected return of 6.95%, including 0.81% for active management, as determined by the Investment Advisor using assumptions at December 2016.

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 (FTSE TMX Universe):	+0.1%
Canadian Equities (S&P/TSX):	+1.5%
Global Equities (MSCI World)	+1.5%
Real Estate (CPI + 4%)	+0.0%
Infrastructure (CPI + 4%)	+0.0%
Real Estate Debt (CPI+6%)	+0.0%
Alternative & Impact Investments (CPI + 5%)	+0.0%
Total Portfolio:	**+0.81%**

Investment Guidelines

1. The following asset mix targets and ranges have been established for the portfolio, effective September 1, 2017 (or as soon thereafter as the transition has been completed):

	Target (% of total assets)	**Investment Range**
Cash	0	0 - 5
Fixed Income	22.5	18 - 45
Equities	52.5	40 - 65
Real Estate	10.0	5 – 15
Infrastructure	5.0	0 - 10
Real Estate Debt	5.0	0 - 10
Alternative & Impact Investments	5.0	0 - 10

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

Canadian Equities	21.0	15 – 27
Global Equities	31.5	25 – 38

With respect to Global equities, the U.S. dollar currency exposure shall be 50% hedged back to Canadian dollars through the use of currency forward agreements. The investment manager of the Canadian equities shall implement these hedges (roughly equivalent to 50% of the market value of the U.S. portion of the Global 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 Ottawa 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, except for securities issued or guaranteed directly or indirectly by the Government of Canada.

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

6. Up to 15% of the global 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 Ottawa Community Foundation, with the exception of those acquired by the alternative and impact investment managers, as well as real estate debt and infrastructure managers.

8. No public bond investments (excluding convertible debentures) for the fixed income portfolio will be purchased that are not rated BBB- or better by the Canadian Bond Rating Service (CBRS). Bonds rated below A- and including convertible bonds and preferred shares shall not exceed 8% of the fixed income portfolio.

9. No investments will be made in companies whose market capitalization is less than $350 million at the date of purchase.

10. No derivative instruments will be purchased or held in the portfolio, except to hedge currency exposure.

11. The portfolio will not be invested directly in commodities without the specific authorization of the CFO.

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

13. 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 managers.

14. Investment managers will not execute transactions with a related party unless specifically authorized and directed by CFO.

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

16. Investment managers will not knowingly value any security at a value that exceeds the market value.

17. 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.

18. 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.

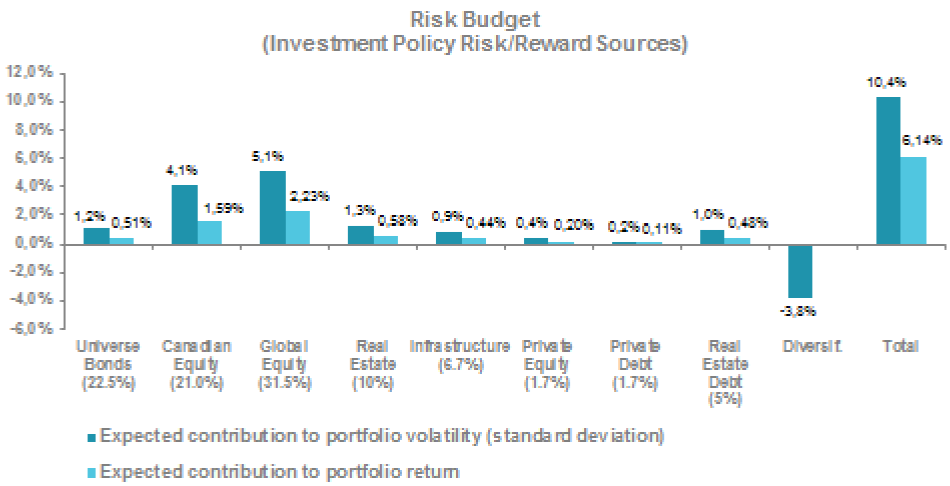
19. Alternative and impact investments include investments in private equity and private debt and infrastructure with a sustainability objective.

20. The Ottawa Community 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. The policy sets a target of 5% of the endowment to be allocated to market-rate impact investments. In fulfilling that target, the Committee may waive some of the above guidelines in the interests of selecting suitable impact investments, subject to Board approval.

APPENDIX

The following tables, prepared by Mercer as Investment Advisor, present the expected return and volatility of the revised investment policy, as well as the assumptions upon which these are based.

OPTION 1
REDUCE BONDS 10%
ADD INFRASTRUCTURE 5% AND REAL ESTATE DEBT 5%



Assumptions as at December 31, 2016.

 6

MERCER CAPITAL MARKET ASSUMPTIONS AT DECEMBER 31, 2016

- Median 'expected' annualized return and standard deviation by asset class:

Asset Class	Long-term Expected Annual Return	Long-term Expected Annual Standard Deviation
Cash	1.5%	1.5%
Senior Loans	3.2%	9.0%
Canadian Universe Bonds	2.2%	5.4%
Canadian Equities	6.6%	19.5%
Global Equities	6.6%	16.1%
Canadian Real Estate	5.4%	13.0%
Global Infrastructure	6.2%	13.0%
Real Estate Mezzanine Debt	8.3%	20.0%
Private Equity	9.8%	25.0%

 1

MERCER CAPITAL MARKET ASSUMPTIONS AT DECEMBER 31, 2016
CORRELATIONS AS AT DECEMBER 31, 2016

Correlation Matrix	Cdn Bonds	Sen Loans	Cdn Eq	Glb Eq	Real Estate	Infra	Private Equity	Mezz Debt
Canadian Universe Bonds	1.0							
Senior Loans	0.0	1.0						
Canadian Equities	-0.3	0.4	1.0					
Global Equities	-0.2	0.4	0.7	1.0				
Canadian Real Estate	-0.2	0.0	0.2	0.2	1.0			
Infrastructure	0.0	0.3	0.6	0.6	0.3	1.0		
Private Equity	0.0	0.4	0.2	0.5	0.5	0.5	1.0	
Mezzanine Debt	-0.2	0.4	0.7	0.7	0.2	0.4	0.2	1.0

20

The following summary table lists assumptions used by Mercer to develop the fund's expected return as of December 2015. The assumptions used reflect the views of Mercer's strategic research group, that updates these periodically.

		30/06/2014		31/12/2015	
Asset Classes	Weight	Return	Stdev	Return	Stdev
Bond universe	32.5%	2.72%	5.35%	1.98%	5.40%
Canadian equity	21.0%	7.50%	19.50%	6.80%	19.50%
Global equity	31.5%	7.50%	16.28%	6.80%	16.11%
Private Debt	1.7%	3.03%	9.50%	5.95%	9.50%
Private equity	1.7%	10.99%	25.00%	10.18%	25.00%
Infrastructure	1.7%	6.90%	13.00%	6.26%	13.00%
Canadian real estate	10.0%	6.08%	13.00%	5.46%	13.00%
Expected Return (before active mgmt.)		6.31%		5.67%	
Active mgmt. impact, after fees		0.82%		0.82%	
Expected return (with active mgmt., after fees)		7.13%		6.49%	
Volatility		9.22%		9.04%	
Reward to risk ratio		77.3%		71.8%	