

Capital Market Investment Policy and Guidelines

Edmonton Community Foundation

Reviewed and approved
by the Board of Directors.
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On behalf of the Board

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1. OVERVIEW

The Edmonton Community Foundation's (ECF) Consolidated Portfolio has two investment portfolios:

1. A portfolio constructed from traditional capital market investments ("Capital Market Investments");
2. A portfolio comprised of investments made under the ECF's commitment to make investments that are aligned with ECF's charitable mission ("Mission Related Investments"), with these investments not to exceed 10% of the value of the Consolidated Portfolio.

This Capital Market Investment Policy and Guidelines (the "Policy") only applies to Capital Market Investments (the "Fund"). The Policy does not apply to:

- Mission Related Investments; or
- Investments contributed to ECF by donors, or contributions by donors with specific investment instructions until those investments or contributions are allocated to an Investment Manager subject to this Policy.

The Policy contains investment objectives, investment guidelines, and monitoring procedures and is reviewed annually by the Investment Committee (IC).

The investments will be managed in accordance with all applicable legal requirements notwithstanding any indication to the contrary which might be construed from the Policy.

Definitions provided in the ECF Asset Management Plan (the companion document to this Policy) apply to the Policy.

2. INVESTMENT OBJECTIVES

ECF's goal is to provide for grant making in perpetuity.

To attain this goal, ECF must earn sufficient investment returns to:

- allow disbursements according to the spending policy;
- pay ECF administration expenses; and
- grow the asset base so as to maintain the purchasing power of the investment portfolio.

ECF's spending policy is currently 4.0% of the prior year's market value of all of the ECF's funds; however, from time to time, the Board may deviate from the spending policy. ECF's total operating costs including investment management expenses are expected, on an annual basis, to be in the range of 1% to 1.5% of the ECF's assets.

Investment returns are maximized given the level of risk deemed appropriate by the IC. At the same time, investment returns shall provide for income and/or capital gains that are reasonable and fairly predictable given ECF's spending policy and administrative funding needs.

3. INVESTMENT BELIEFS

The IC, with the approval of the Board, has established a long-term strategic asset allocation policy and a portfolio structure that reflects the following general investment beliefs:

- a. That the asset allocation decision will be the single most important factor determining long-term investment performance;
- b. That equity investments should provide greater long-term returns than fixed income investments, although with greater volatility;
- c. That it is prudent to diversify across major asset classes, including certain alternative asset classes;
- d. That a meaningful allocation to foreign equities versus domestic equities will increase portfolio diversification and thereby decrease portfolio risk;
- e. That an allocation to illiquid asset classes provides opportunities for return enhancement and diversification;
- f. That Environment, Social, and Governance (ESG) risk factors must be considered in investment decision-making;
- g. That management fees are an important component of investment performance and should form a substantial part of the evaluation of any manager;
- h. That, apart from prudently managing liquidity requirements, the Fund should be substantially fully invested because long-term cash holdings will reduce long-term rates of return;
- i. That active investment mandates are generally expected to add value through strategies such as security selection, and that investments should be allocated to such active mandates;
- j. That active management value-added is more likely to be obtained through the use of a number of specialty Investment Managers than through the use of a single Investment Manager that manages multiple asset classes; and
- k. That it may be appropriate to retain more than one Investment Manager to manage the assets within a particular asset class, provided that such managers offer asset class or style diversification.

4. ASSET ALLOCATION POLICY

Long Term Strategic Asset Allocation

To achieve ECF objectives, the IC, with the approval of the Board, has determined that the Capital Market Investments should be invested in equities, fixed income, and real assets in accordance with the following target weights (determined as a percentage of the market value of the endowment portfolios) and within the following permitted asset class ranges:

Asset class	Long term asset allocation	Permitted range
Fixed Income	15%	5- 25%
Public	5%	0- 10%
Private	10%	5- 15%
Equities	65%	55- 75%
Public - Canada	5%	0-10%
Public - Global	35%	30- 40%
Public - Global Low Volatility	10%	5- 15%
Private	15%	10- 20%
Real Assets	20%	10- 30%
Infrastructure	7.5%	5- 15%
Real Estate	12.5%	5- 15%
Total	100%	

The preceding asset allocation contains target percentages of the Fund, at market value, invested in various asset classes. The “long-term asset allocation” is only a target and the actual allocation will be dictated by current and future market conditions, the independent actions of the IC, Board and/or Investment Managers, and required cash flows to and from the endowment portfolios. The “permitted range” anticipates this fluctuation and provides flexibility for the endowment portfolios to vary around the target without the requirement for immediate rebalancing.

The Board recognizes that the risk/return characteristics of Real Estate and Infrastructure are shared with other asset classes that comprise the real asset space, including Agriculture and Timber. While the asset allocation does not contain a specific allocation to Agriculture or Timber, with the approval of the IC, a portion of the allocation to Real Estate and Infrastructure may be deployed to investments in Agriculture or Timber, on an opportunistic basis.

Certain asset classes (e.g., Private Equities, Agriculture/Timberlands, Infrastructure and Real Estate) can be illiquid and impractical to rebalance to specific targets or asset class range limits. Recognizing this, Global Public Equities has been determined to be a suitable asset class with which to act as a buffer with respect to any overweighting or underweighting of Private Equities and Infrastructure relative to its target allocation and mortgages has been determined to be a

suitable asset class with which to act as a buffer with respect to any overweighting or underweighting of Real Estate relative to its target allocation.

Primary Purposes of Various Asset Classes

The primary purposes for the broad asset categories represented in the long-term target asset allocation policy are as follows:

Asset category	Purpose
Public market equities	Provide current income, growth of income, and capital appreciation
Private equities	Provide capital appreciation
Public fixed income	Provide a predictable and dependable source of income, liquidity, and reduce portfolio volatility
Private fixed income	Provide current income
Real assets	Provide current income, capital appreciation, diversification to other assets, and total returns which are positively correlated to inflation

Rebalancing

Divergent market performance among different asset classes may, from time to time, cause the actual asset allocation to deviate from the target asset allocation. Periodically, ECF Management, as delegated by the IC, may consider and take appropriate action to address any movement of the allocation to an individual asset class off the long-term asset allocation, but within the permitted range. Examples of such actions include (but are not limited to) liquidation of securities, allocation of disbursements/contributions, and transfers from an over weighted asset class to an underweighted asset class, etc.

ECF Management will monitor the actual asset allocation at least as frequently as the end of each month. From time to time (e.g., as a result of major market fluctuations), the actual allocation to a particular asset class may move outside of its permitted range. If the asset allocation moves outside of the permitted range, ECF Management will be responsible for initiating action to rebalance the endowment portfolios back within the permitted ranges within 30 days following the date on which the breach is first identified, in a manner which controls transaction costs. ECF Management will report all rebalancing activity to the IC on a quarterly basis.

If it is not possible or not prudent to rebalance within 30 days, ECF Management shall promptly notify the IC and explain why rebalancing is not possible or prudent and seek further guidance.

From time to time due to market conditions or other external factors, upon recommendation from ECF Management, the IC may choose to implement an interim asset allocation that they believe to be consistent with the Policy.

Quarterly Reporting

Within each quarterly performance monitoring report, the actual allocation of the total endowment portfolios as of the end of the quarter shall be identified along with the permitted ranges currently in effect as of the end of the quarter.

Periodic Review

The IC shall review the Asset Allocation Policy on a periodic basis (at least every five years) and will ascertain that the endowment portfolios not only conform to the desired target and ranges, but also that the target and ranges remain suitable and represent the appropriate Asset Allocation Policy for the endowment portfolios going forward. At the discretion of the IC, such reviews may be conducted with the assistance of one or more Asset Management Consultants.

5. PERMITTED INVESTMENTS AND RISK CONSTRAINTS

Permitted Investments

ECF is authorized to invest any money in such investments as would be appropriate for a prudent investor. ECF may invest in the following asset categories:

- a. cash;
- b. demand or term deposits;
- c. short-term notes;
- d. treasury bills;
- e. bankers' acceptances;
- f. commercial paper;
- g. investment certificates issued by banks, insurance companies or trust companies;
- h. bonds and non-convertible debentures;
- i. mortgages and other asset-backed securities;
- j. convertible debentures;
- k. common and preferred stocks;
- l. real estate;
- m. infrastructure;
- n. agriculture and timberlands;
- o. pooled funds, closed-end investments and other structured vehicles invested in any or all of the above asset categories;
- p. hedge funds.

Derivatives

ECF's Investment Managers are permitted to use derivatives and synthetic securities for the purpose of managing risk, liquidity, and transaction costs in a manner consistent with the ECF's overall investment policies, risk tolerance, and applicable legislation.

Borrowing

Borrowing is only permitted as part of a well-established investment management mandate, where the IC understands that such borrowing or similar activity is commonly done in the normal course of business. Such borrowing must be in compliance with the restriction set forth in paragraph 149.1(3)(d) of the Income Tax Act which prohibits a public foundation from incurring debts other than debts for current operating expenses, debts incurred in connection with the purchase and sale of investments and debts incurred in the course of administering charitable

activities. Examples of areas where this may occur are in real estate and hedge funds. Also, unanticipated temporary overdrafts when cash is not sufficient to settle a purchase may occur.

Lending

An Investment Manager or the Custodian may not lend securities held by ECF except in accordance with a program of securities lending approved by the IC.

Investments Requiring Prior Board Approval

Each new investment in the following categories will require the approval of the Board:

- a. commitments to fund investments in private placement equities and infrastructure;
- b. investments in real assets through open or closed-end pooled funds;
- c. investments in units of investment trusts (e.g., REITS or resource trust units); and
- d. investments in hedge funds.

Diversification within Asset Classes

Diversification between asset classes is provided through the Asset Allocation Guidelines set forth in this Policy. Diversification is also achieved by limiting the amount allocated to investments that are expected to have highly correlated return characteristics. No more than 5% of the market value of the Capital Market Investments or 10% of the market value of the Investment Manager's holdings will be invested in the securities of a single issuer, excluding federal or provincial government issued bonds. No more than 10% of the market value of unrestricted assets in the Consolidated Portfolio will be invested in Mission Related Investments.

Liquidity Risk

Liquidity is achieved by limiting the amount invested in closed-ended funds.

Written permission from the IC is required in advance of the purchase of:

- a. private placements not expected to become publicly traded within six months of purchase;
or
- b. securities that do not trade on a recognized exchange.

Quality

Short-term investments will have a minimum credit rating of R-1 or its equivalent when purchased.

Fixed income portfolios are generally expected to have credit quality substantially like that of the index to which they are benchmarked. For example, any mandate that is benchmarked to the FTSE Canada Universe Overall Index is expected to be made up of investment grade securities in proportions roughly similar to that of the index. However, private credit strategies, including but not limited to mortgages, direct lending and infrastructure debt, are expected to invest in unrated, less liquid assets which may not be constituents of fixed income benchmarks.

The Investment Manager will be entirely responsible for establishing the creditworthiness of issuers. A cumulative level of defaults that is, in the judgement of the IC, excessive will result in a formal review of that manager that may lead to the manager's dismissal.

Currency Risk

Currency risk is controlled by limiting the investments in foreign assets as specified in the asset allocation guidelines set forth in the Policy.

The IC recognizes that the exposure to foreign currencies inherent in foreign asset holdings often mitigates overall portfolio risk. Consequently, foreign Asset Managers are not required to hedge their foreign currency exposure. However, the IC may employ currency hedges tactically to mitigate currency risk relative to benchmarks within asset classes.

6. PERFORMANCE STANDARDS

The investment performance of the endowment portfolios shall be measured, at both the total portfolio level and the asset class level, against suitable benchmarks. The primary period over which performance shall be assessed will be rolling 4-year periods.

Asset Class Performance Benchmarks

On an asset class or investment strategy level, investment performance will be compared against the following primary performance benchmarks:

Asset Class / Strategy	Primary Performance Benchmark
Fixed Income	
Public	FTSE Canada Overall Universe Bond Total Return Index
Private	FTSE Canada Overall Short Term Bond Total Return Index
Equities	
Public - Canadian	S&P/TSX Composite Index
Public - Global	MSCI ACWI (Net) Total Return in CAD
Public - Global Low Volatility	MSCI World Min. Volatility (Net) Total Return in CAD
Private	MSCI World (Net) Total Return in CAD
Real Assets	
Infrastructure	Canadian CPI + 4.5%
Real Estate	MSCI/REALPAC Canada Property Index

In addition to the benchmarks noted above, all index returns shall be total returns and all foreign index returns shall be Canadian dollar returns. For additional performance insight, the IC may

choose to use secondary benchmarks such as strategy-specific benchmarks or peer comparisons.

Total Portfolio Performance Benchmark

On a total portfolio level, investment performance will be compared against the performance of the Total Portfolio Benchmark. The purpose of the Total Portfolio Benchmark is to assess the effectiveness of the implementation of the Asset Allocation Policy focusing on the aspects of implementation within the control of the IC and Investment Managers.

The performance of the Total Portfolio Benchmark over any particular period will be calculated based on time-weighted Total Portfolio Benchmark sub-period returns. Sub-period returns of the Total Portfolio Benchmark will be based on the weighted average of the asset class benchmark returns.

If the asset allocation included no illiquid assets, and no assets in transition, then the asset class weights to be used in the calculation of the Total Portfolio Benchmark return would simply be equal to the target weights of the long-term asset allocation.

However, particularly with respect to illiquid asset classes (e.g., private equities, global infrastructure and real estate), it is recognized that the IC and/or Investment Managers cannot invest to immediately achieve a target weight, and once the target weight ultimately is achieved, they will likely have difficulty rebalancing back to the target weight if any drift occurs. Consequently, to achieve the objective of the Total Portfolio Benchmark, the asset class weights to be used in the calculation of the Total Portfolio Benchmark will be determined as follows:

Beginning January 1, 2025 , the asset class weights to be used in the calculation of the Total Portfolio Benchmark will be:

Asset Class / Strategy	Asset Class Weight in the Total Portfolio Benchmark
Fixed Income	15%
Public	5.0%
Privates	10.0%
Public Market Equities	65%
Canadian Equities	5%
Global Large Cap Equities	35%
Global Low Volatility Equities	10%
Private Equities	15%
Real Assets	20%
Global Infrastructure	7.5%
Canadian Real Estate	12.5%

The following process will be used to update the asset class weights to be used in the calculation of the Total Portfolio Benchmark:

1. The actual asset class weights will be monitored each quarter end by ECF Management. When the asset allocation in respect of an asset class in transition or in respect of an illiquid asset class (namely, private equities, global infrastructure, agriculture/timberland or real estate) deviates by 2.0% or more from the then current corresponding asset class weight used in the calculation of the Total Portfolio Benchmark, the asset class weights used in the calculation of the Total Portfolio Benchmark shall be revised. It is expected that a 2% trigger will allow for meaningful and less frequent benchmark changes.
2. When a revision to the asset class weights used in the calculation of the Total Portfolio Benchmark is triggered at the end of a quarter, the change to the Total Portfolio Benchmark will be made effective at the beginning of the quarter two quarters ahead. For example, if the revision was triggered at the end of the first calendar quarter (i.e. March 31), then the changes to the Total Portfolio Benchmark would be effective at the beginning of the third calendar quarter (i.e. July 1). This allows sufficient time to gather and evaluate all quarter-end valuations from Investment Managers and the Custodian and ensure a practical implementation of the changes.
3. ECF Management will apply reasonable discretion to adjust Total Portfolio Benchmark weights to actual weights provided that the change in the benchmark will provide a more accurate representation of the portfolio. All weights shall be rounded to the nearest 1.0% (or, if necessary, some weights may be rounded to the nearest 0.5% in order to make the total sum to 100.0%).

Reporting of the Total Fund Benchmark

Within each quarterly performance monitoring report, it shall be indicated if the Total Portfolio Benchmark is to be revised, the underlying reason for any revision (e.g., capital calls, distributions, market movements, etc.) and identification of the revised Total Portfolio Benchmark. ECF Management shall maintain a history of changes to the asset class weights used in the calculation of the Total Portfolio Benchmark, and this shall be made available to the IC as required.

7. MONITORING THE INVESTMENTS

IC Responsibilities

The IC monitors ECF investments and moneys. It is concerned with investment returns and investment-related expenses. Each quarter, each Investment Manager's rate of return earned on each asset class is compared to those of an index-based benchmark specified by the IC. Annually, the IC reviews a detailed investment-related expense report indicating amounts, recipients and services provided.

The IC, to fulfill its responsibility of monitoring and reviewing the Investment Managers, shall review the following on an ongoing basis:

- a. the Investment Manager's financial stability, staff turnover, consistency of style and record of service;
- b. the Investment Manager's current economic outlook and investment strategies;
- c. the Investment Manager's compliance with the Policy; and
- d. the investment performance of ECF assets in relation to the rate of return expectations outlined in the Policy.

Reporting by the Investment Managers

On a quarterly basis, each Investment Manager will provide a performance report to the IC and strategy review for the asset class or classes under his/her management. When the IC deems it necessary, an Investment Manager will be required to make a formal presentation to the IC providing an assessment of the rates of return obtained and respond to any concerns of the IC. Rates of return are broken down by Investment Manager and by asset class. They are compared to pertinent market indices and other agreed-upon benchmarks established by the IC.

Each Investment Manager is required to complete and sign a compliance report annually. The compliance report should indicate whether the manager's portfolio complied with their investment mandate during the reporting period. Copies of the compliance reports will be made available to the IC.

If an Investment Manager is not in compliance with their investment agreement, the Investment Manager is required to advise ECF Management immediately, detail the nature of the non-compliance and recommend an appropriate course of action to remedy the situation. ECF Management will inform the IC immediately once the non-compliance has been confirmed.

If an Investment Manager believes the asset allocation guidelines are inappropriate for anticipated economic conditions, the Investment Manager is responsible for advising ECF Management, who will advise the IC, that a change in guidelines is desirable and the reasons therefore.

Terminating an Investment Manager

Upon the recommendation of ECF Management and/or for other rationale considered appropriate by the IC, the services of an Investment Manager may be terminated in accordance with the terms of the engagement with such Investment Manager.

8. RELATED DOCUMENTS

- Asset Management Plan
- Mission Related Investment Fund Investment Policy