ANGLICAN DIOCESE of OTTAWA

# Consolidated Trust Fund Investment Policy Statement

## Part One - Governance

### 1.1 Purpose of the Consolidated Trust Fund

The Consolidated Trust Fund (CTF) of the Anglican Diocese of Ottawa was established in 1970 to bring together the trust funds held by the Diocese and its parishes for the purpose of providing cost-effective professional investment management for the combined funds.

### 1.2 Administration

The Investment Subcommittee (Committee) reports to the Property and Finance Committee (PFC) of the Diocese. The Committee oversees the management of the CTF's investments on behalf of PFC, provides policy advice where appropriate, and ensure that the CTF in managed consistent with the policies set out in this Statement and with all applicable legal requirements, including the Income Tax Act (Canada) and the Ontario Trustee Act.

### 1.3 Investment Committee

The Committee seal have six voting members appointed by PFC plus three non-voting members appointed by virtue of their office, being:

- The Bishop or the Bishop's designate;
- The Director of Financial Ministry; and
- One full-time priest appointed by the Bishop.

The remaining members need not be office holders of the Diocese of Ottawa.

The Chair of the Committee is appointed by PFC. Voting members shall be appointed for a three-year term, and may be reappointed for a further three years, with further extensions (which should be exceptional) at the discretion of PFC.

Meetings will generally be held quarterly, with a quorum of at least four voting members.

The Committee Shall:

- Recommend for PFC approval an Investment Manager and, where required, a Custodian;
- Monitor the investment performances of CTF assets, and provide quarterly/annual reports thereon to PFC;
- Recommend to PFC an annual distribution to be paid to CTF unit holders;
- Keep itself informed regarding the legal and regulatory requirements and constraints set out in this Statement and in applicable trust, securities, and other legislation;
- Provide the Investment Manager with adequate advanced notice of any significant non-routine deposits or withdrawals; and

- Review Parts One and Two of this Statement at least once every three years and recommend changes, if any, to PFC.

## 1.4 Distribution to Unit Holders

In the fourth quarter of each year, the Committee will recommend to PFC a distribution payout for the following year to be paid to CTF unit holders in equal quarterly instalments. The recommendation will be derived from the policy set out in Part Three of this Statement, which is designed to accommodate the needs of unit holders for an adequate and reasonably stable payout that is sustainable over time and protects the capital of the CTF after taking inflation into account.

## 1.5 Investment Manager

The PFC, on the advice of the Committee, shall appoint in Investment Manager.

The Investment Manager is responsible for:

- Ensuring that the CTF is managed in accordance with the requirements of this Statement and with all applicable legal and regulatory requirements and constraints;
- Advising the Committee of any elements of this Statement that could prevent attainment of the CTF's objectives;
- Explaining that risks, potential rewards, and other characteristics of any proposed new class of investments, and how it may assist in achieving the CTF's objectives; and
- Reporting to and meeting with the Committee as set out in Section 2.5 of this Statement.

The Investment Manager's role is to manage the assets of the CTF, directly and/or through the use of portfolio sub-mangers with expertise in specific asset classes (eg. global equities) appointed by the Manager, to achieve the CTF's investment objectives. Notwithstanding any discretionary powers that the Manager may have, he/she may choose to consult with and make recommendations to the Committee before exercising such powers.

Sub-managers have authority to manage the portfolios assigned to them in accordance with the mandates given them bu the Manager.

## 1.6 Custodian

The Custodian is appointed by the Investment Manager and is responsible for:

- Holding the assists of the CTF in accordance with applicable legislation; and
- Providing monthly-consolidated reports of the assets of the CTF to the Diocese's Director of Financial Ministries.

## 1.7 Conflict of Interest

Committee members, as fiduciaries of the CTF, must disclose any actual or perceived conflict of interest to the Chair of PFC. A conflict of interest is deemed to exist when a fiduciary of the CTF has an interest of sufficient substance and proximity to his/her duties and powers with respect to the CTF to impair or potentially impair his/her ability to render unbiased advice or to make unbiased decisions affected the CTF.

The Manager shall fully disclose to the Committee information on any actually or potential conflicts of interest.

## 1.8 Exercising Voting Rights

Sub-managers are responsible for exercising the voting rights for the shares in their respective portfolios, but will be encouraged to take opportunities where available to use our voting proxies to promote good ESG practices consisted with protecting the long-term interests of the CTF.

## 1.9 Securities Lending

Securities lending is permitted as long as normal industry standards of prudence are followed.

# Part Two - Investment Objectives

## 2.1 Fund Objectives

2.1.1 Investment Objectives

The Fund will be invested in a mix of publicly traded fixed income and equity securities with the objective or preserving capital by benefiting form the superior long-term returns expected of prudently managed equity investments, while also enjoying the income generation and relative price stability of high quality fixed income investments.

2.1.2 Corporate Social Responsibility

The Fund shall avoid investment in companies that could pose a significant ethical concern to the Diocese, and limit investment in companies that have measurable environmental, social or governance (ESG) concerns, including those that:

- Engage in abusive labour practices[1]; and/or
- Engage in the production or sale of controversial weapons (anti-personnel mines, biological and chemical weapons, cluster weapons, depleted uranium, nuclear weapons and/or their delivery systems, and white phosphorus); and/or
- Derive more than 5% of their revenues from sales of tobacco, adult entertainment (pornography) and gambling;
- Have more than four Category 3 controversies, or at least one Category 4 or one Category 5 controversy, as measured by Sustainalytics
- Have an overall ESG ranking in the lowest 10%, as measured by Sustainalytics.

Consistent with the October 2015 Synod motion, the CTF shall divest its shareholdings in all companies included in the Carbon Underground 200 list of fossil fuel producers by not later than June 30, 2018. The CTF shall also, where practical, promote good ESG practices through proxy voting and other means as may be available. The policy shall be applied as reliable and pertinent data[2] becomes available to the Committee and is practical to implement.

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[1] As defined by Sustainalytics Category 4 (several controversies with major impact on stakeholders) and Category 5 (complicit violations of human rights, most serious forms or corruption or fraud, most serious environmental crimes)

[2] As prepared by Systainalytics

## 2.2 Performance Objectives

The Investment Manager is expected to add value to the CTF by achieving investment performance on a rolling five-year period and net of investments management fees that meets or exceeds the relevant indexes indicated in the table below.

| Asset Classes | Benchmark Allocations | Min-Max Range | Benchmarks (5-year returns) |
|---|---|---|---|
| | Percentage of total assets | | |
| Fixed income (incl. cash) | 40 | 35-45 | *DEX Universe Bond Index* |
| Canadian equities | 30 | 25-35 | *TSX Composite Index (capped)* |
| Foreign equities | 30 | 25-35 | *MSCI World Index ($C)* |

## 2.3 Asset Mix, Ranges, and Benchmark Indices

Cash (including T-bills and other cash equivalents) may account for up to 10% of the total portfolio. The Investment Manager will monitor asset mix on a monthly basis and take appropriate rebalancing action as required.

## 2.4 Risk Management

Derivatives securities may be used for hedging purposes, including protecting against fluctuations on the value of foreign currencies and losses from changes in interest rate and market indices, should this be desired, and for non-hedging purposes as a substitute for direct investment. Without the specific authorization of the Committee, derivatives securities may not be used for speculative purposes or to add leverage to the portfolio. As well, without the specific authorization of the Committee, no investments in hedge funds may be made.

### 2.4.1 Fixed Income

At least 60% of fixed income investments shall be invested in “core” fixed income, defined as government and investment grade corporate bonds (BBB or above). These securities may be denominated in Canadian or foreign currency.

In addition, investments may be made in “speciality” fixed income such as high yield bonds, Emerging Markets bonds and convertible bonds. These securities may be denominated in Canadian or foreign currency. At least 80% of the overall fixed investments shall be in Canadian dollars or hedged into Canadian dollars.

Exposure to any single issuer shall not exceed 10% of the asset class.

### 2.4.2 Canadian Equites

Canadian equities investments shall adhere to the following guidelines:

- Investments shall be well diversified across industry sectors and capitalization ranges;
- No one equity holding shall represent more than 10% of the value if the asset class;

- No more than 15% of the asset class shall be invested in companies with a market capitalization of less than $250 million at time of purchase;
- The weight of any equity industry group in the portfolio will be limited to the greater of 15% of the equities portfolio or 150% of the industry group's wighting in the appropriate ate index (TSX Capped Composite Index , in the case of Canadian equities);
- No single holding will represent more than 10% of the outstanding shares of any class of shares of a single corporation (including its consolidated subsidiaries);
- No short sales, private placements or transactions on margin will be executed in the portfolio. Warrants and/or instalment receipts, however, may be purchased.

2.4.3 Foreign Equities

Foreign equity investments are subject to the same guidelines as Canadian equity funds. In addition:

- Emerging markets shall not account for more than 15% of the foreign equities asset class; and
- There will be no overall hedging of foreign currency exposures again the Canadian dollar although individuals sub-managers may do currency hedging as part of their investment strategy.

## 2.5 Reporting and Monitoring

2.5.1 Reporting

Not more than 30 business days from the last day of the quarter, the Investment Manager will provide a report with the following information:

- Fund holdings at the end of the quarter by industry sector, and transactions during the quarter;
- Rates of return for the CTF and for the funds managed by each sub-manager, with comparisons against agreed benchmarks;
- A compliance report stating that the assets of the CTF are invested in compliance with this Statement.

2.5.2 Monitoring

At least semi-annually, and more frequently if requested, the Investment Manager will meet with the Committee to review the most recent quarterly report, addressing in particular:

- The absolute and relative performance of the CTF and of its sub-managers;
- The investment outlook, investment strategies and risks and rewards inherent therein; and
- Relevant compliance matters.

The review will also include an update on developments since the date of the last report.

2.5.3 Parish Communication

The Committee, working with the PFC, will keep parishes in the Diocese aware of the CTF and its performance. The Diocesan website and annual Diocesan Synod will be important in this regard. Reporting should include, but not be limited to, nominal and real (after-inflation) returns, distributions, and the payout ratio (distributions divided by portfolio investment gains net of all fees and administrative expenses) over one-year and five-year periods (ending June 30), as well as the distribution for the following year, after it is established.

2.5.4 Standard of Care

The Investment Manager will comply, at all times and in all respects, with the Code of Ethics and Standards of Professional Conduct promulgated by the CFA Institute, and will take reasonable steps to ensure that the sub-mangers adhere to the same or equivalent standards.

## Part Three - Annual Distribution Policy

### 3.1 Normal Distribution Calculation

The recommended distribution payout will normally be 3.4% of the average unit market value over the past five years, rounded to the nearest cent. This average will be calculated as the average of the 20 quarter-end unit market values ending with the most recent third quarter of the year.

### 3.2 Caps on Distributions

Notwithstanding the above, except in extenuating circumstances the distribution should not be above the following caps:

- 4.5% of the average unit market value over the four quarters ending with the most recent third quarter of the year (a cap that would bind only if there had been a huge decline in market values in the last year or so), rounded to the nearest cent.
- 4.5% of the average unit market value over the twenty quarters (five years) ending at the end of the first quarter of the year two and a half years earlier (a cap that would only bind if there had been a huge increase in market values in the last several years), rounded to the nearest cent.

### 3.3 Extenuating Circumstances

In extenuating circumstances, the Committee may recommend a higher or lower distribution.

### 3.4 Review of Distribution Policy

A fundamental review of this policy should take place no later than 2019, and at least every five years thereafter.