

October 2023

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 (Fund) 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 Sub-committee (Committee) reports to the Property & Finance Committee (PFC) of the Diocese. The Committee oversees the management of the Fund's investments on behalf of PFC, provides policy advice where appropriate and ensures that the Fund is managed in accordance with the policies set out in this Statement as well as with all applicable legal requirements, including the Income Tax Act (Canada) and the Ontario Trustee Act.

1.3 Investment Committee

The Committee shall 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 Ottawa Diocese.

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, as required, a Custodian;
- Monitor the investment performance of Fund assets, and provide quarterly/annual reports thereon to PFC;
- Recommend to PFC an annual distribution to be paid to Fund 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 advance notice of any significant nonroutine deposits or withdrawals; and
- Review Parts 1 and 2 of this Statement at least once every three years and recommend changes, if any, to PFC.

1.4 Distributions 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 Fund unit holders in equal quarterly installments. 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 Fund after taking inflation into account.

1.5 Investment Manager

In addition to the quarterly and annual reports to the PFC on the performance of the Fund, the Committee will continuously assess the performance of the Investment Manager on a quarterly and annual basis, providing a written Annual Review and a more Comprehensive Review at least once every five years (or sooner, if necessary), in order to advise the PFC on the appointment, or re-appointment, of a new, or existing Investment Manager (*see process Addendum attached*).

The Investment Manager is responsible for:

- Ensuring that the Fund 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 Fund's objectives;
- Explaining the risks, potential rewards and other characteristics of any proposed new class of investments, and how it may assist in achieving the Fund'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 Fund, directly and/or through the use of portfolio sub-managers with expertise in specific asset classes (e.g. global equities) appointed by the Manager, to achieve the Fund'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 by the Manager.

1.6 Custodian

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

- Holding the assets of the Fund in accordance with applicable legislation; and

- Providing monthly-consolidated reports of the assets of the Fund to the Diocese's Manager of Financial Ministries.

1.7 Conflict of Interest

Committee members, as fiduciaries of the Fund, 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 Fund has an interest of sufficient substance and proximity to his/her duties and powers with respect to the Fund to impair or potentially impair his/her ability to render unbiased advice or to make unbiased decisions affecting the Fund.

The Manager shall fully disclose to the Committee information on any actual 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 consistent with protecting the long-term interests of the Fund.

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 Objective

The Fund will be invested primarily in a mix of publicly traded fixed income and equity securities with the objective of preserving capital by benefiting from 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 **A small proportion of the Fund may be invested in alternative investments to provide diversification, income and preservation of capital.**

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 concerns, including those that:

- Engage in abusive labour practices¹; 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 five per cent of their revenues from sales of adult entertainment (pornography), gambling, or tobacco products;
- Have an ESG Risk Rating of Severe, as measured by Sustainalytics;
- Have an ESG Risk Rating in the lowest 20% of the Global Universe or their Industry Group, as measured by Sustainalytics;
- If a company has an ESG Risk Rating in the lowest 20% of their Sub-Industry, as measured by Sustainalytics, the company **may** be added to the account, but will be discussed at the next scheduled Investment Sub-committee meeting.

The Fund shall also, where practical, promote good environmental, social and governance practices through proxy voting and other means, as may be available. This policy shall be applied as reliable and pertinent data² becomes available to the Committee and is practical to implement. Consistent with the October 2015 Synod motion, the CTF divested all its direct shareholdings in any companies included in the Carbon Underground 200 list of fossil fuel producers. This was accomplished by June 30, 2018.

2.2 Performance Objectives

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

2.3 Asset Mix, Ranges and Benchmark Indices

Asset Classes	Benchmark Allocations	Min-Max Range	Benchmarks (5-year returns)
	Percentage of total assets		
Fixed income (Incl. cash)	35	30 – 40	FTSE TMX Canada Universe Bond Index
Canadian equities	20	15 – 25	TSX Composite Index (capped)
Foreign equities	40	35 – 45	MSCI World Index (\$C)

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 of corruption or fraud, most serious environmental crimes)

² As prepared by Sustainalytics

Real Estate	5	0-10	<i>Canadian CPI (non s.a.) one month lag +400bp</i>
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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 in 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 derivative 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 "specialty" 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 Equities

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 of 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 weighting in the appropriate 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 installment 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 against the Canadian dollar, although individual sub-managers may do currency hedging as part of their investment strategy.

2.4.4 Real Estate

- A benchmark allocation in the RBC Canadian Real Estate Fund, an open-ended investment trust that makes direct private equity investments in commercial real estate in Canada.

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 Fund and for the funds managed by each sub-manager, with comparisons against agreed benchmarks;
- A compliance report stating that the assets of the Fund are invested in compliance with this Statement.

2.5.2 Monitoring

At least quarterly, 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 Fund 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-managers adhere to the same or equivalent standards.

Part Three – Annual Distribution Policy

3.1 Normal Distribution Calculation

The recommended distribution payout will normally be 4.0 per cent 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 twenty 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 per cent 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 per cent 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 at least every 5 years, now established as the end/start and middle of each decade (i.e. next by 2025).

Appendix 1

ESG Screening

Environmental Social and Governance (ESG) screening is now a required expectation of any investment manager's responsibilities. The investment manager, and designated investment subsidiaries, will operate with investment principles that reflect a best in class methodology. ESG and responsible investing considerations will be primary in the investment manager's financial transactions.

The ESG screening criteria will have an *exclusionary* and *qualitative* review process. The exclusionary screening component will be based on those categories listed in the Diocesan Investment Policy Statement, for example, alcohol, tobacco, weapons etc.

A qualitative screening component will comprise investments that impact on:

- Community
- Corporate Governance
- Employee relations
- Environment
- Human Rights, and
- Product and Business Practices.

The qualitative screening process will assess the positive and negative aspects of a company's overall performance, including that of its subsidiaries and/or supply chains. This may involve balancing strengths and shortfalls across issue areas and a comparison to industry standards.

The investment manager will take a proactive approach in the procuring and the oversight of potential and on-going investments. This entails engaging with prospective companies and industries re ESG criteria and ensuring proxy voting takes place that reflects responsible investing concerns.

The investment manager will custom tailor the investment selections and purchases to the specific requirements of the Sub-Committee's financial objectives.

Appendix 2

Investment Manager Assessment Guidelines

Context

The Investment Sub-Committee (Committee) of the Property and Finance Committee (PFC) of the incorporated Anglican Diocese of Ottawa is responsible for the oversight of the professional management of the Anglican Diocese of Ottawa Consolidated Trust Fund.

The Sub-Committee operates within the framework of the Investment Policy Statement (IPS), approved by the PFC, and advises the PFC on the appointment of an Investment Manager (Manager) who is responsible for:

- *“ensuring that the Fund is managed in accordance with the requirements of [the] Statement and with all applicable legal and regulatory requirements and constraints;*
- *advising the Committee of any elements of the IPS that could prevent the attainment of the Fund’s objectives;*
- *explaining the risks, potential rewards and other characteristics of any proposed new class of investments, and how it may assist in achieving the Fund’s objectives; and,*
- *reporting to and meeting with the Committee as set out in Section 2.5 of the IPS.*

The Investment Manager’s role is to manage the assets of the Fund, directly and/or through the use of portfolio sub-managers with expertise in specific asset classes (e.g., global equities) appointed by the Manager to achieve the Fund’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 portfolios assigned to them in accordance with the mandates given to them by the Manager.”

These Guidelines provide a framework to assess the investment manager’s ability to meet its objectives and responsibilities through both qualitative and quantitative performance measures. There are two distinct aspects of this assessment: the ongoing monitoring of the investment manager relative to the expectations outlined in the IPS (Part Two), and a more comprehensive review every 5 years (or sooner as required) which could potentially trigger a recommendation to enter into a formal search process for a new investment manager.

I. Quarterly Review

Context

The Investment Manager provides regular quarterly quantitative reporting of the Diocese’s financial portfolio including:

- an itemization of all categories of financial holdings; and,
- financial performance of the above, against pre-determined benchmarks, including a total breakdown of fees.

The Manager's written report provides the current and historic performance of the portfolio along with estimated financial projections. The accompanying narrative explains the numerical and tabular information and important changes in monetary and/or fiscal outlook, and ESG modeling. At each quarterly meeting, the Manager runs through the report with verbal commentary and responds to questions from the Committee.

Action

Include in the Investment Sub-Committee's agenda 10-15 minutes to survey members about the Manager's performance, including, but not limited to:

- 1. Is the Manager responsive to questions, and do they provide satisfactory answers?*
- 2. Are there any concerns?*
- 3. Are there areas of improvement?*
- 4. Are ESG considerations fully implemented?*
- 5. Has the Manager suggested new approaches?*

II. Annual Review

On an annual basis, a member of the Committee will produce a summary document of the previous quarterly reports (extracted from the minutes). This summary document will form the basis of a discussion at the next Committee meeting. Each committee member will participate in an overall assessment of the Manager's performance and the degree of satisfaction with the Manager's ESG screening processes. The final summary document will incorporate the record of this discussion.

III. Comprehensive Review Every 5 Years (or sooner if there are glaring issues with the Manager's performance)

Every 5 years, the Committee will conduct a comprehensive review in order to determine whether the Sub-Committee recommends to the PFC a competitive search for a new investment manager, or retention of the existing investment manager.

This comprehensive 5-year review would take into account:

1. an overall summary of the on-going annual reviews;
2. an assessment of the Manager's working relationships with the Investment SubCommittee;
3. a self-evaluation by the Manager against the criteria to be measured (extracted from the Diocesan IPS (Part Two – Investment Objectives) and against the ESG criteria listed in this Appendix 1); and,
4. consideration of the Manager's cultural, philosophical and service provisions to ensure they align with the Committee's mandate and the Diocese of Ottawa's fiduciary and ethical expectations.