

POLICY STATEMENT CENTRAL OKANAGAN FOUNDATION

Subject: Investment Policy Statement

Table of Contents:

- Section 1 - Purpose..... 2**
 - 1.1 Mission and Investment Philosophy:..... 2
 - 1.2 Investment Goals..... 2
- Section 2 - Governance 2**
 - 2.1 Duties 2
 - 2.2 Reporting to the Board..... 3
 - 2.3 Scope of Investment Authority 3
 - 2.4 Policy Review 3
 - 2.5 Conflicts of Interest..... 3
- Section 3 – Investment Guidelines and Risk Management 4**
 - 3.1 Investment Objectives 4
 - 3.2 Investment Constraints 4
 - 3.3 Diversification 5
 - 3.4 Investment Components..... 5
 - 3.5 Permitted Categories 5
 - 3.6 Professionally Managed Portfolio 6
 - 3.7 Additional Investment Managers..... 6
 - 3.8 Asset Allocation 6
 - 3.9 General Investment Guidelines..... 7
 - 3.10 Other Investments and Cash on Deposit 8
 - 3.11 Compliance Reporting, Performance and Benchmark returns..... 8
- Section 4 - Schedules and Appendix..... 9**
 - 4.1 Schedule “A” 9
 - 4.2 IPS Revision and Approval dates 10

Section 1 - Purpose

1.1 Mission and Investment Philosophy:

The Central Okanagan Foundation (the COF) is a public foundation established to serve a broad range of charitable purposes primarily within the boundaries of the Central Okanagan Regional District. The COF is designed to operate in perpetuity; accordingly wise stewardship of the endowment funds entrusted to it is essential to the COF's mission. To ensure its accountability to donors, beneficiaries and the community, the Board of Directors of the COF (the Board) has adopted the following investment policy.

The purpose of this Investment Policy Statement (IPS) is to establish and maintain the governance, objectives and constraints of COF so an appropriate investment portfolio for the endowment can be constructed, effectively supervised and evaluated.

The primary objective of the portfolio is to maximize returns on investment consistent with prudent and professional portfolio management, providing adequate returns, net of management fees, to cover charitable distributions, operational support (administrative fees) and the reinvestment necessary to preserve the value of the capital over the long term. This investment objective will be achieved by investing in both fixed income and equity asset classes. Overall, this strategy is expected to grow capital moderately while managing the overall volatility.

1.2 Investment Goals

Measured over five-year, ten-year and since inception time periods, the goal is to achieve annual returns of 5.5-7.5% net of management fees to provide for:

- 1) Average annual allocations to grants of at least 3.5%.
- 2) Administrative fees to support COF activities of approximately 2%.
- 3) Capital appreciation of the portfolio of 2% to protect purchasing power.

Section 2 - Governance

2.1 Duties

To achieve these goals within the mission of the COF, the Investment Committee makes recommendations to the Board with regard to:

- 1) Investment objectives and guidelines.
- 2) Spending policy / annual allocation rate.
- 3) Selection of the Investment Advisory Manager and Marketing Program Investment Advisors (collectively, the Investment Advisors).

The Investment Committee's specific duties are set out in the Committee Terms of Reference which should be read in conjunction with this policy.

2.2 Reporting to the Board

The Investment Committee, through the Committee Chair or designate, shall report to the Board the following:

- 1) Quarterly – a report of portfolio performance versus established benchmarks and a summary of market returns and strategy.
- 2) Annually – a recommendation on changes to the investment policy, spending policy, and the investment manager selection policy.
- 3) Every 5 years a recommendation on Investment Advisory Manager selection.

2.3 Scope of Investment Authority

The COF's Investment Committee makes recommendations to the Board on all aspects of the investment management and policies of the COF. Members of the Investment Committee are chosen for their business and investment experience and expertise. A list of current members of the Investment Committee is available at all times to the general public.

The Investment Committee reviews the COF's assets and the status of its investments quarterly. The Investment Committee oversees the investment program within the policies and procedures approved by the Board. Specifically, the Investment Committee:

- 1) Recommends the selection of and fees for the Investment Advisory Manager.
- 2) Sets investment performance objectives and guidelines for the Investment Advisors.
- 3) Monitors investment performance against the objectives.
- 4) Meets at least on a semi-annual basis with the Investment Advisors to review investment performance, review quarterly reports prepared on a calendar basis, hear recommendations on asset allocation, review investment strategy recommendations.

2.4 Policy Review

This policy will be reviewed at least annually by the Investment Committee to ensure that it remains consistent with the overall objectives of the COF and prudent and conservative investment practices.

This policy may be reviewed and updated more frequently if necessary. The Investment Committee will present the investment policy statement to the Board annually for their approval.

2.5 Conflicts of Interest

The Investment Advisors will disclose all potential, actual or perceived conflicts of interest to the Investment Committee.

Section 3 – Investment Guidelines and Risk Management

3.1 Investment Objectives

The COF's overall investment objectives are to achieve a reasonable rate of return consistent with prudent investments in order to provide income for distribution and the preservation of capital.

- 1) One of the COF's investment goals is to provide for income distribution in perpetuity. In order to attain this goal, the COF requires sufficient income to allow disbursements in accordance with CRA's distribution quota. The income distribution goal of the COF is to provide for annual allocations of 3.5% on an average basis measured over a 5-year period.
- 2) As a long-term goal, the COF needs income to grow the asset base to maintain the purchasing power of the investment portfolio (that is, growth of the endowment after allocations to grantable funds and administration fees to offset inflation). This inflation objective will be revised by the Investment Committee when deemed appropriate. Currently the goal is 2%, to be reviewed annually with this policy.
- 3) The COF seeks to achieve long term returns measured over five-year, ten-year and since inception time periods of 5.5% to 7.5% annual returns net of any management fees.
- 4) Investment decisions will be made without distinction between principal and income; the decisions to realize investment gains or losses will be strictly based on the investment factors involved.

3.2 Investment Constraints

- 1) Risk Tolerance: Risk is a measure of the volatility of returns. Types of risk include, but are not limited to price risk, interest rate risk, inflation risk, political risk and currency risk. A proper diversified portfolio will manage and reduce these risks. Given the portfolio will hold both fixed income and equity securities, the portfolio will experience moderate volatility to achieve the above stated objective.
- 2) Time Horizon: The COF's investment time horizon is perpetuity. Therefore, the funds will be managed with a long-term objective.
- 3) Liquidity: The portfolio requires sufficient liquidity to support the COF annual disbursements requirements. The Investment Committee will communicate the disbursement requirements to the Investment Advisors and any other degree of liquidity required. The Investment Advisors will ensure that the securities held can provide the required level of liquidity.
- 4) Legal and Taxation Status: The COF is registered with the Canada Revenue Agency as a charitable organization. At a minimum the COF will comply with the disbursement quota guidelines as required under The Income Tax Act. The year end for the COF is August 31st.

3.3 Diversification

Investments will be spread across a broad range of securities so as to provide diversification and reduce risk. More specifically, diversification of the portfolio will reduce the COF's total return variability while enhancing the long-term risk adjusted return potential.

The broad range of securities include equities, fixed income and alternatives:

- 1) Equities generally reduce the long-term funding risk because of their higher expected return profile in the long run. In the short term, equities are subject to larger amounts of volatility.
- 2) Fixed Income increases the funding risk because of their lower expected return profile. However, they reduce the risk and volatility of the portfolio returns.
- 3) Alternatives may include infrastructure, real estate, hedge funds, commodities, foreign exchange or any other investments not included above. The primary objective of the alternative investment includes reducing the overall portfolio risk by investing in low or in some cases negative correlated assets. Prudent consideration and analysis will be given to both the return and risk objective. At minimum, any alternatives used must have at least a 10-year track record. Prior to any investment in alternative strategies approval from the Investment Committee is required.

3.4 Investment Components

The COF will have several components in the investment portfolio, including, but not limited to:

- 1) Professionally managed laddered bond portfolio.
- 2) Professionally managed equity portfolio.
- 3) Professionally managed balanced portfolios.
- 4) Other Investments - Short term near cash investments including but not limited to:
 - a. Guaranteed investment certificates offered by CDIC or Credit Union insured deposit institutions
 - b. Bankers Acceptances
 - c. Cash on deposit

3.5 Permitted Categories

Subject to other provisions of this IPS, and the Income Tax Act (Canada), the Investment portfolio funds may be invested in any or all of the following types of investments:

- 1) Listed common stocks, REITs, convertible debentures, warrants, installment receipts, special warrants or preferred securities; No more than 20% of this component shall be represented by small capitalization stocks defined as those having a market float of less than \$500 million.
- 2) Bonds, mortgage-backed securities, asset-backed securities, debentures, mortgages, notes or other debt instruments of governments, government agencies, or corporations.
- 3) Guaranteed investment certificates or equivalent of insurance companies, trust companies, banks or other eligible issuers, having a DBRS credit rating of BBB.
- 4) Bankers' acceptances, term deposits or similar instruments issued or unconditionally guaranteed by major trust companies, Government backed financial institutions, such as BC Credit Unions, or banks.

- 5) Cash, or money market securities issued by governments, government agencies or corporations.
- 6) Mutual, pooled or segregated funds, exchanged traded funds (ETF) and limited partnerships which may invest in any or all of the above instruments or assets.
- 7) Alternative investments for the purpose of COF's Investment Advisors will not include impact investing. Impact investing will be done at the Board level.

3.6 Professionally Managed Portfolio

- 1) The COF will hire at a minimum one Investment Advisory Manager, as indicated in Schedule A.
- 2) The Investment Advisory Manager(s) hired by the Board will provide active management and make recommendations on portfolio structure and asset allocation subject to the constraints of this IPS and of the manager's specific mandates.
- 3) The Investment Advisory Manager will recommend to the Investment Committee the selection of discretionary investment managers who shall have full discretion to buy, sell and trade in individual securities subject to this policy and under the management of the Investment Advisory Manager.

3.7 Additional Investment Managers

- 1) For assets less than \$3 million CAD, the COF may have additional investment managers pursuant to specific marketing programs in which the Foundation participates, the Marketing Program Investment Advisors.
- 2) These additional programs will be negotiated as required and those terms brought to the Board for their approval. Those programs are subject to the COF's investment policies, investment manager selection guidelines and related policies. If the market value of the portfolios managed within these specific marketing programs should exceed 15% of the COF's total assets, then the COF shall advise the Investment Advisory Manager of the value of these externally managed accounts so as to maintain the aggregate asset allocation guidelines of the COF.

3.8 Asset Allocation

The balance of fixed income and equity security weightings in the portfolio will be determined by the COF investment objectives and constraints. A greater fixed income weighting will result in a lower long-term expected return and lower volatility.

The asset allocation of the managed portfolio will be maintained in the following percentages expressed as a percentage of the total aggregate portfolio.

The Investment Advisors and Investment Committee shall review the asset allocation at least on a quarterly basis to ensure compliance with these limits.

	Target	Investment Range
Cash & Fixed Income	40%	35 – 60%
Canadian	40%	35 – 60%
US and or International	0%	0 – 25%
Equities	60%	40 – 65%
Canadian	30%	10 – 35%
U.S.	15%	7.5 – 20%
Other International	15%	7.5 – 20%
Alternatives	0%	0 – 5%
Alternatives	0%	0 – 5%

In conjunction with a professionally managed fixed income portfolio, the Investment Advisory Manager shall manage the COF's laddered bond portfolio, structured as follows:

- 1) A 7-year laddered bond portfolio comprised of bonds with a minimum Dominion Bond Rating Service (DBRS) rating of BBB. For further clarification, fixed income's lowest investment grade rating is BBB-.
- 2) The laddered bond portfolio will consist of a minimum 40% of Government of Canada, Provincial Government, or bonds guaranteed by either federal or provincial governments.
- 3) Should a currently held bond's rating drop below BBB the situation will be evaluated on a case-by-case basis.
- 4) These bonds will be held to maturity.
- 5) At maturity new bond(s) shall be purchased to maintain an equal weighting of maturities. The Investment Advisory Manager will advise the COF in writing of the recommended bond(s) and purchase said bond(s) to maintain the investment laddered strategy.

3.9 General Investment Guidelines

- 1) No single holding shall exceed 10% of the portfolio (other than a mutual fund or pooled trust) unless it is guaranteed either directly or indirectly by the Government of Canada, the Government of the United States, the Government of the UK, a Canadian province or specifically agreed to by the COF.
- 2) No private placements, either equity or fixed income, will be purchased without the specific authorization of the Board. 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.
- 3) The use of leverage is expressly prohibited unless specifically approved by the Investment Committee.
- 4) No investments will be made in letter stock – where the escrow period exceeds 12 months.
- 5) The portfolio will not be invested directly in commodities without the specific authorization of the Board.

- 6) The lending of cash or securities will be undertaken only upon the specific direction of the Board and will be carried out by the authorized agent of COF (normally the custodian), who is unrelated to the Investment Advisors.
- 7) The Investment Advisor Manager and discretionary manager will not execute transactions with a related party unless authorized by the COF's Investment Committee.
- 8) The Investment Advisors 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 COF.
- 9) The Investment Advisors will not knowingly value any security at a value that exceeds the market value.

3.10 Other Investments and Cash on Deposit

- 1) The Investment Committee will monitor the levels of cash and near cash instruments (GIC's, Bankers Acceptances) to ensure that they are of an acceptable risk to the COF and appropriate for market conditions. (see item 3.4.4).
- 2) From time to time the COF may undertake specialized fundraising or endowment projects. In which case the funds raised for these specific projects may be segregated from the normal investment funds of the COF.

3.11 Compliance Reporting, Performance and Benchmark returns

On a quarterly basis, the Investment Advisors will review all IPS sections including governance, investment guidelines and risk management as outlined above, assess the portfolio holdings and report any breaches to the Investment Committee including a recommendation of action (or no action) along with the timelines to implement.

The Investment Committee shall select benchmarks of performance for the COF's investment portfolio and the Investment Advisors shall report actual performance (net of fees) against those benchmarks.

The benchmarks are set out in appendix "A", attached.

Section 4 - Schedules and Appendix

4.1 Schedule “A”

Central Okanagan Foundation Benchmark Performance Targets

1. Discretionary managers currently selected under item 3.5

Manager	Strategy	Benchmark
Bisset Large Cap	GARP	S&P/TSX Total Return Index
Bisset Canadian Dividend Income	Cdn Dividend Income	S&P/TSX Total Return
Foyston, Gordon & Payne	Cdn Large Cap	S&P/TSX Total Return
Federated Investment	US Equity	S&P 500 Total Return
Guardian Canadian Income	Cdn Diversified Inc.	S&P/TSX Total Return
Walter Scott	Global	MSCI World
Walter Scott	International	MSCI EAFE
Mackenzie Global Dividend	Global	MSCI World

2. Investment Advisory Manager as selected under item 3.5

CIBC Wood Gundy, a division of CIBC World Markets, Inc.,
Lee Appleton – Investment Advisor, Portfolio Manager

3. Marketing Program Investment Advisors as selected under item 3.7

National Bank Financial
Ben Smit – Portfolio Manager

4. Composite Benchmark under item 3.9

S&P/TSX Capped Composite Index	30%
MSCI All Country World ex Canada Index	30%
FTSE Canada Short Term Overall Bond Index	40%
Total	100%

4.2 IPS Revision and Approval dates

Approved October 2, 2002
Amended February 20, 2003
Revised March 21, 2005
Revised September 11, 2006
Revised March 31, 2008
Approved September 22, 2008
Revised August 12, 2009
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