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## RESPONSIBLE INVESTMENT POLICY

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## I. INTRODUCTION

The Waterloo Region Community Foundation (“WRCF”) was established in 2022 following the unification of the Cambridge & North Dumfries Community Foundation (1998) and the Kitchener Waterloo Community Foundation (1984). WRCF collaborates with partners to create sustainable, equitable, and thriving communities. As a leading community-building organization, we connect regionally and locally, working with three cities and four townships – to include the people and places across our region, using a trust-based philanthropic approach. Together, we develop forward-thinking innovative solutions and seize opportunities to meet the current and future needs of our community.

**Vision:** Sustainable, Equitable, Thriving Communities

**Mission:** Bringing communities together to solve the issues of today and tomorrow by amplifying voices, maximizing resources, and co-creating solutions

**Values:** Equity, Catalysts, Collaboration, Approachability, Accountability, Impact

To accomplish our vision and mission, we take a long-term view by building assets and being effective stewards of these assets to ensure grants are always available to support the community. We believe that these assets are a vehicle to support and amplify our impact. Therefore, we believe that incorporating an analysis of financial and non-financial factors, including Environmental, Social, and Governance (ESG) considerations into our investments and active ownership activities including impact investing, is fundamental to the Foundation’s role as a responsible investor.

## II. SCOPE

WRCF’s Investment Policy Statement (the “Policy”) covers all of WRCF’s investment activities and applies to assets held in the WRCF investment portfolio (the “Fund”) managed by the Investment Committee (the “IC”). The purpose of the Policy is to formulate the investment principles and guidelines, which are appropriate to the needs and objectives of the Fund, and to define the investment management structure and monitoring procedures adopted for the ongoing operation of the Fund. All of WRCF’s investment decisions across all asset classes are aligned with WRCF’s mission and impact objectives and thus, we manage our assets with a 100% mission-aligned strategy. This mission-aligned approach can include a variety of responsible investing (RI) strategies, including ESG integration, active ownership, thematic investing, and impact investing. WRCF may choose to invest in sustainability outcomes-focused funds that have social and/or environmental alignment that provide comparable financial fund objectives to traditional investments included in the portfolio (please refer to section V.). These investments are covered by this Policy. For illustrative purposes of how these various strategies can be implemented, please refer to Appendix A.

WRCF has also committed to investing a minimum of 10% of our overall assets in impact investments. Impact investments include investments through external managed funds and investments directly made to Social Purpose Organizations (SPO). The Board of Directors (the “Board”) may adopt guidelines outlining the approval process for impact investments (management, IC, Board) using financial thresholds.

### **III. ROLES AND RESPONSIBILITIES**

The following are the roles and responsibilities of the various related parties:

- WRCF's Board is responsible for the oversight and approval of all investment-related decisions. The Board provides strategic leadership and RI guidelines and is responsible for approving all RI-related decisions.
- The IC is a committee of the Board (may be comprised of Board and non-Board members) and is charged with overseeing the Fund's overall investment activities and making investment-related recommendations to the Board, as appropriate. The IC takes RI elements into consideration and incorporates them in the evaluation of risks and opportunities of each investment. It ensures that Investment Managers align with WRCF's Policy and reviews their RI practices and provides recommendations, as needed.
- The President and CEO of WRCF is responsible for the implementation of RI practices and providing support in the implementation of WRCF's RI initiatives.
- Investment managers are responsible for the implementation of WRCF's Policy guidelines in making investment decisions for the Fund.
- Investment Consultants are responsible for aligning with WRCF's Policy guidelines when making recommendations to WRCF.

### **IV. RESPONSIBLE INVESTING APPROACH**

WRCF integrates RI considerations in all phases of its investment process. We expect Investment Managers to incorporate an assessment of material ESG topics, monitor ESG-related risks and opportunities, and ensure the alignment of their engagement and voting practices with the advancement of sustainability goals. We have identified the following key themes that will inform and guide our investment decisions: diversity, equity, and inclusion (DEI), social equity, affordable housing, and climate change. Given our multi-manager structure, we are committed to integrating RI practices in the selection, appointment, and monitoring of Investment Managers. The selection and appointment process of new managers includes an assessment of Investment Managers' RI process and practices, and their compliance with WRCF's RI policy. We also regularly monitor and track RI-related metrics and regularly assess the impact of our investments. This monitoring process informs the Foundation's risk management process, overseen by the IC.

Given our diverse influences on communities, we recognize that we have a role to play as stewards of capital. As part of our engagement strategy, we engage with Investment Managers on their RI practices and policies on a quarterly basis. We also require information on their engagement activities and outcomes, including their collaborative engagement, and proxy voting activities, on an annual basis.

### **V. FUND OBJECTIVES**

The investment objectives of the Fund are to:

- Support the mission and principles of WRCF;
- Manage the Fund to achieve a total rate of return over the longer term that allows the organization to cover grant obligations and operational expenses;

- Protect the purchasing power of the capital of the Fund in "real" terms (i.e. compensate for inflation).

## VI. INVESTMENT MANAGEMENT STRUCTURE

WRCF utilizes a multi-manager structure, which provides access to specific expertise for each asset class, with each manager having a clearly focused mandate. It also enables WRCF to maintain control over the asset mix of the Fund. When evaluating managers or considering adding a new investment manager, WRCF may engage the services of an Investment Consultant to assist in conducting the manager evaluation or search. We expect Investment Consultants to include an assessment of manager's RI practices, RI expertise, and the ESG performance/sustainability outcomes of their portfolios.

Where possible, pooled Funds are used for public market portfolios to simplify administration and reduce costs.

As outlined in Section IV, WRCF expects investment managers to take steps to ensure that non-financial factors, including ESG factors, are adequately addressed in the selection, retention, and realization of investments. Consideration of ESG factors is ultimately the responsibility of the investment manager and must be consistent with WRCF's guidelines outlined in this Policy.

## VII. ASSET MIX GUIDELINES

The IC controls allocations to each asset class. The intention is to manage the asset mix around the Policy targets described below, and within the indicated Minimum/Maximum ranges. These targets are considered to be consistent with WRCF's current risk profile, but they may be changed as future needs and conditions evolve.

	Minimum %	Benchmark %	Maximum %
Fixed income, cash & short-term	30	36	50
Total equities	50	54	70
Alternative Investments <sup>1,2</sup>	5	10	20

<sup>1</sup> In this context Alternative Investments primarily refer to impact investments made by the Fund that are illiquid in nature

<sup>2</sup> In the event significant Alternative Investment holdings mature or are repaid concurrently, the IC may approve a temporary waiver to the minimum threshold to allow for the appropriate sourcing and diligence on new opportunities

Operating guidelines have been established as follows:

- Cash & short-terms will be used to manage intra-month inflows and outflows.
- Cash & short-terms may be held in excess of this (but will not normally exceed 20% of the total portfolio) for any of the following reasons:
  - i) to meet abnormal cash needs
  - ii) to accommodate seasonal fluctuations in donation revenues
  - iii) by decision of the IC as a means of reducing the effective duration of fixed-income assets by holding additional short-terms in lieu of bonds.

Rebalancing: The proportion (at market values) invested in each asset class will be monitored monthly, and the IC will take any actions it deems appropriate to rebalance the asset mix within the Minimum/Maximum ranges. In the event that changes to the market value of the investments result in the Minimum/Maximum range limits being violated, management will automatically adjust the portfolio into compliance. Failing specific direction from the IC, the most recent tactical IC targets will be used to rebalance the portfolio.

Any reserve funds established by the Board or Funds for Distribution will be invested in short-term assets outside of the above targets, to minimize fluctuations in the market value of the reserve funds or Funds for Distribution and do not form part of the asset mix guidelines outlined in Section VII. These reserve funds currently include, but are not limited to:

- Endowed Grant Stabilization funds;
- Accumulated Operating Surplus;

## **VIII. TOTAL FUND AND MANAGER PERFORMANCE OBJECTIVES**

Normally the IC will engage an Investment Consultant who will monitor and assess manager and Fund performance regularly, including attribution analysis. Managers will be evaluated on returns net of expenses and will typically be benchmarked against the following indices as appropriate:

- MSCI ACWI ex US (NET DIV)
- RUSSELL 3000 (NET DIV)
- S&P/TSX COMPOSITE (NET DIV)
- Bloomberg Canadian Aggregate OR Bloomberg Global Aggregate (CAD)

Given WRCF's long-term approach to its investment objectives and its desire for a RI approach to investing, it is acknowledged that short-term returns against the indices are not the only factor to be considered when evaluating managers.

## **IX. DISMISSAL OF A FUND MANAGER**

The IC may terminate the services of a Fund manager(s) at any time at its sole discretion. Certain actions may cause the IC to review the ongoing engagement of managers individually or collectively. These reasons include, but are not limited to:

- Performance results which are below the benchmarks;
- Changes to the overall structure of the WRCF's investment assets such that the Fund Managers' services are no longer required;
- Misalignment with WRCF's RI guidelines, including not considering material ESG factors in the investment process and investment decisions, not actively engaging with portfolio holdings, not reporting on RI-related topics and active ownership activities - including proxy voting practices;
- Changes in a manager's personnel, firm structure, ownership, or investment philosophy;
- Failure to adhere to this Policy.

## **X. PERMISSIBLE INVESTMENTS**

Permissible investments include:

**Equities:** Common shares, Income Trust units, securities convertible into common shares, rights and warrants, and Exchange Traded Funds (ETFs)

**Fixed Income Securities:** Bonds, debentures, term deposits, guaranteed investment certificates, preferred shares, and Exchange Traded Funds (ETFs)

**Alternative Investments:** Impact investments approved in accordance with the operating policies of WRCF

The Fund may hold units in pooled funds that are governed by their own investment policies. Therefore, WRCF does not have direct control over the individual investments held in these pooled funds. Where WRCF is invested in a pooled fund and such fund makes an investment that is in conflict with this policy, the pooled fund manager is expected to inform the IC of any such conflict.

## **XI. QUALITY AND QUANTITY GUIDELINES**

Investments shall be in accordance with the following Quality and Quantity Guidelines:

### **Equities:**

- Common shares listed on a recognised stock exchange of companies based in countries included in the MSCI ACWI
- Bonds, debentures, or preferred shares convertible into eligible common shares and rated BBB/P3 or higher
- The market value of any one Canadian equity investment shall not exceed 10% of any Canadian equity pooled fund, and the market value of any non-Canadian equity investment shall not exceed 5% of any International or Global equity pooled fund

### **Fixed Income Securities:**

- The minimum quality standard for bonds and debentures in the Fund will be a BBB Rating as determined by the most conservative rating assigned by a recognised Canadian rating agency
- If a government's or a corporation's securities are down-graded below the minimum rating necessary to qualify for inclusion in the Fund, no new investments may be made, but existing investments may be retained and disposition of such investments will be at the discretion of the investment manager
- The market value of any one issuer of fixed income securities (other than the Government of Canada) shall not exceed 10% of the total fixed income investments
- The market value of any one fixed income security (other than from the Government of Canada) shall not exceed 5% of the total fixed income investments.

### **Exceptions:**

- When applying the quality and quantity guidelines, it is recognised that there may be occasions when certain guidelines may not be met temporarily for valid investment

reasons. Investment managers are responsible for reporting any violations immediately to the IC and to recommend appropriate remedies.

## **XII. PROHIBITED INVESTMENTS**

Excluding Alternative Investments, investments in the following are prohibited:

- directly in real estate
- non-marketable securities, other than Guaranteed Investment Certificates or similar instruments
- a non-arm's-length transaction with any person who is a member, employee or consultant of or to WRCF, its Board or committees.
- any investment that uses leverage.

Consistent with RI best practices, the Board or IC may maintain a list of Excluded Areas. Any investment in firms that are associated with Excluded Areas shall be prohibited.

## **XIII. CONFLICT OF INTEREST**

A conflict of interest is defined as any event in which any member of the IC or the Board, or any employee of or consultant to the IC or the Board, may gain any financial or other advantages from the knowledge of, or participation in, an investment decision of the fund, or any circumstance that could reasonably be interpreted as impairing the individual's ability to render unbiased and objective advice or to fulfil the individual's fiduciary responsibilities to act in the best interest of WRCF.

All individuals involved with the investments of WRCF must be aware of the possibility that conflicts, or perceived conflicts, may arise and must make timely and full disclosure in accordance with generally accepted concepts of fiduciary responsibilities.

The individual declaring a conflict of interest shall not participate in the discussion and vote regarding the issue causing the conflict, and at the request of any member of the IC or the Board the individual shall withdraw from the meeting during the discussion and vote.

## **XIV. VOTING RIGHTS**

The Board has delegated voting rights acquired through the Fund's investments to the Investment Manager to be exercised in accordance with the Investment Manager's policies and with WRCF's Investment Policy Statement. WRCF requires Investment Managers to disclose their proxy voting policies and the Foundation will regularly review Investment Manager's proxy voting reports, including the consideration of ESG factors in proxy voting decisions. Investment Managers are expected to advise the IC when the Manager has chosen to vote against management or on any unusual items.

## **XV. SPECIAL PROVISION WITH RESPECT TO GIFTS-IN-KIND**

The IC shall have the right to retain any securities, real estate, or other investments given "in kind" to WRCF for such period of time as the IC shall determine, even though such investments do not qualify under the terms of this policy or are prohibited investments under Section VIII. Retention of such securities is subject to Board approval.

## **XVI. REPORTING**

The Foundation reports to stakeholders on investment activities and performance, including RI activities, on an annual basis. WRCF expects Investment Managers to report to them on a quarterly basis on the financial and ESG performance of their portfolio.

## **XVII. AMENDMENTS OF THIS POLICY**

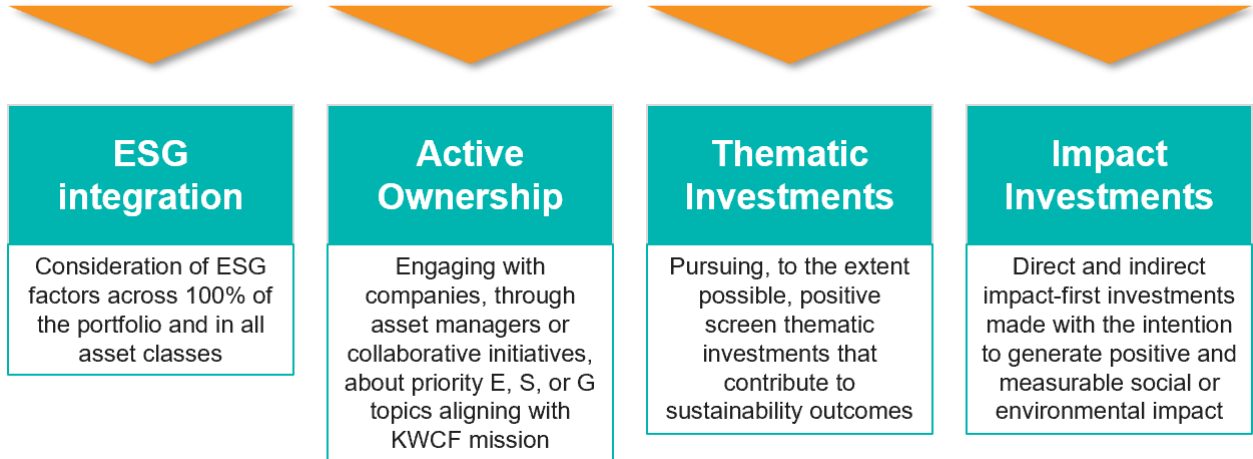
This Policy reflects WRCF's investment process as of July 2022 and can be amended at any time but must be formally reviewed at minimum once a year by the IC. Any changes shall not be effective until they have been presented to, and approved by, the Board of WRCF.



## APPENDIX A

# 100% Mission-aligned portfolio

Investment decisions across asset classes are aligned with KWCF's mission and impact objectives



Date of Approval/Review	Approved By	Brief Description of Changes
December 14, 2022	WRCF Board of Directors	Updated Policy