The Equality Fund Initiative Investment Policy Statement for the Equality Fund Government Investment Pool

Effective October 01, 2024

(Approved by Toronto Foundation Board of Directors on September 26, 2024)

Contents

1. PURPOSE OF POLICY STATEMENT

The Equality Fund Initiative Government-funded Investment Pool ("EFGP") Investment Policy Statement ("Policy") establishes the policies for the oversight of the management and investment of the investment pool ("Portfolio"). These guidelines define the investment policies for the management and oversight of the Portfolio created from a contribution to the Equality Fund Initiative ("Initiative") by the Government of Canada as per the Contribution Agreement which took effect on August 29, 2019.

Portfolio assets flow to and are held by the designated Initiative member, the Toronto Foundation ("TF"), with accountability and oversight resting with TF's senior management, TF's Investment Committee ("TF IC"), the Equality Fund Investment Sub-Committee ("EFISC"), and TF's Board of Directors ("TF Board").

EFGP uses an Outsourced Chief Investment Officer (OCIO) model; that is to say, the TF Board, TF IC, and EFISC are responsible for the investment strategy and oversight of asset management, delegating all investment decisions to the OCIO.

The Policy Statement documents the primary goals and objectives of the Portfolio, how those goals and objectives will be achieved and the delineation of duties for those responsible for various aspects of the Portfolio.

The TF IC is responsible for the Policy and on an annual basis, or more frequently if appropriate, will review and make appropriate recommendations to the TF Board regarding its amendment or re-approval.

The fundamental investment beliefs at the core of this Policy:

- Generate sufficient returns to support the ongoing grant-making activities of the Program as a key source of Program income;
- Address gender equality through an ambitious approach to gender-lens investing, maximizing the depth of gender equality impact, the proportion of funds allocated to gender equality impact investing, and the strength of the gender-lens screening process which is applied to all investment strategies;
- Maintain appropriate liquidity to achieve the primary objective of the Investment Fund (to generate sufficient returns to support the ongoing grant-making activities as a key source of income for the Program);
- Maintain appropriate levels of risk exposure (in line with the standards of a prudent investor);
- meet the Program's objectives of impact alignment, by demonstrating strong social, environmental, and governance impact;
- Be invested and managed according to investment policies, standards and procedures that a prudent person would exercise in making decisions regarding property belonging to others;
- Ensure that the principal amount, that has not been disbursed or committed, be invested in accordance with the Prudent Person Principle; and
- After meeting the principle of generating income for the grant-making activities, investment decisions shall be made in keeping with the preservation of the principal amount over the long-term."
- EFI and TF take a long-term view in setting investment policy, considered in the context of a market cycle of 5-7 years. Standards for return, asset allocation and diversification shall be determined from a strategic perspective and measured over successive market cycles.
- The success of the EFGP investment strategy will be assessed in the context of meeting the EF spending policies while preserving the value of the Portfolio's capital over successive market cycles.

2. POLICY OVERVIEW

The primary goal of the Portfolio is to achieve a level of investment return, within acceptable risk parameters, allowing it to consistently generate sufficient returns to support the ongoing grant-making activities as a key source of income for the Initiative without eroding the value of the long-term investment assets.

The Policy is intended to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while at the same time setting forth reasonable risk control parameters to ensure prudence and care in the execution of the investment program.

There are four pillars supporting this goal:

2.1 Organizational Structure: Establish and maintain a governance structure and process that will prudently manage and oversee the Portfolio including:

a. TF Board
b. TF IC and EFISC
c. Outsourced Chief Investment Officer (OCIO)
d. Toronto Foundation Executives
e. Custodian Bank
f. TF & EF Administration

2.2 Investment Objectives: Establish reasonable and achievable investment objectives that satisfy the Portfolio's primary goal of meeting the Annual Allocation ("AA") over a market cycle.

2.3 Investment Strategy: Maintain an optimal investment portfolio that maximizes return and manages risk by:

a. Targeting gender lens investment strategies
b. Establishing and adhering to asset allocation targets and ranges
c. Rebalancing allocations when appropriate
d. Actively managing risk
e. Diversifying investments
f. Managing portfolio liquidity

2.4 Oversight and Performance Monitoring: Regularly monitor portfolio performance to ensure that goals and objectives are met.

a. Regularly review portfolio performance relative to the primary investment objective and market benchmarks and
b. Regularly evaluate the performance of the OCIO and other service providers

3. ORGANIZATIONAL STRUCTURE

The TF Board has ultimate authority over and responsibility for the Portfolio due to its role as fiduciary partner. The TF Board delegates primary fiduciary responsibility for the Portfolio to the TF Investment Committee. The roles and responsibilities of each constituent responsible for the Portfolio are documented below.

3.1 TF Board of Directors - The TF Board will:

- Appoint a TF IC.
- Appoint TF & EF's members of the EFISC.
- Approve the terms of reference of the TF IC.
- Approve the terms of reference of the EFISC.
- Receive the TF IC's recommendations with respect to the Portfolio's Policy Statement and reapprove or amend the Policy, as appropriate, on an annual basis.
- Review all other reports and recommendations of the TF IC with respect to the Portfolio and take appropriate action.
- Receive and approve the TF IC's recommendations with respect to the annual allocation request for the Equality Fund

3.2 TF Investment Committee – The TF Investment Committee will:

- Set and recommend asset allocation range limits in accordance with the Policy Statement.
- Identify and recommend for approval by the TF Board an Outsourced Chief Investment Officer (“OCIO”) to construct and manage the Portfolio with the ability to select and monitor investments and investment managers.
- Regularly review investment decisions made by the OCIO and assess the OCIO’s overall performance.
- Regularly update the TF Board on portfolio performance and changes.
- Periodically review underlying manager fees consistent with Section 6.3.
- The TF Committee shall discharge these oversight duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in conducting an enterprise of like character.
- The TF Committee will assure that risk management of the investment program is informed by both the investment and operational risks to which the Portfolio is exposed, with an objective to minimize operational risks and require appropriate compensation for acceptable investment risks.
- Monitor the Portfolio’s gender impact performance on an annual basis and report to the TF Board.
- Receive and consider advice and recommendations of the EFISC.

3.3 Equality Fund Investment Sub-Committee – (the “EFISC”) will:

- Maintain an understanding of investing requirements, including impact and gender-lens investment, and keep the TF IC apprised of the criteria.
- Monitor the Portfolio’s gender impact performance on an annual basis and report any considerations to the TF IC.
- Consider the annual allocation request for the Equality Fund in accordance with the annual spending policy as detailed in this IPS and provide any recommendations to the TF IC.
- Monitor the Portfolio performance, investment strategy, guidelines, and benchmarks and make appropriate recommendations to the TF IC regarding amendments.
- Consider any other investment-related matters which, in the opinion of the EFISC or at the request of the TF IC would assist TF to meet its responsibilities as prudent investors.

3.4 Outsourced Chief Investment Officer (“OCIO”) - The OCIO will:

- Has fiduciary responsibility to implement appropriate investment strategies for the Portfolio that consider both inherent opportunities and risk.
- Establish tactical asset allocation targets in accordance with the limits established by the TF IC.
- Manage day-to-day investment requirements such as ensuring Portfolio inflows and outflows are properly discharged.
- Select investments and retain investment managers to implement specific aspects of the investment strategy.
- Monitor the performance of individual investments and managers against established benchmarks.
- Meet regularly with the TF IC and EFISC and report on portfolio allocations, investments and resulting performance.
- Provide administrative assistance with respect to the receipt or disbursement of monies to/from the Portfolio and act as a liaison between TF and the Custodian in this connection.

- Demonstrate their commitment to Environmental, Social and Governance considerations, Socially Responsible Investment exclusions, Gender-Lens investing and Sustainable Development Goals' alignment in the Portfolio.

3.5 Toronto Foundation Executive ("TF Executive") - The TF Executive will:

- Arrange and attend TF and EFISC IC meetings.
- Be advised by the Equality Fund and then in turn advise both the TF IC and OCIO of real or potential changes to liquidity requirements (both inflows and outflows) which could affect investment strategy in as timely a manner as possible.
- Maintain open lines of communication with the OCIO to determine any issues which might require TF IC or TF Board attention.

3.6 Custodian Bank ("Custodian) – The Custodian will:

- Safeguard the assets within its control, conduct security transactions of the Portfolio as needed, and provide periodic reporting on Portfolio asset holdings as necessary.

3.7 Toronto Foundation Administration ("Administration") – The Administration will:

- Responsible for providing support and information to the TF IC and working across constituent groups and Equality Fund partners to facilitate the management administration of Portfolio assets.

4. INVESTMENT OBJECTIVES

The Portfolio Investment Objectives are as follows:

- Target a total return that, over a market cycle, meets the Equality Fund's annual allocation objectives and optimizes the investment return on Portfolio assets corresponding to a level of risk deemed appropriate by the TF Investment Committee. As a result, the long-term per annum expected rate of return is set at 6%.
- Address and promote gender equality and meet the Equality Fund's objectives of impact alignment, by demonstrating strong social, environmental and governance impact.
- It is a requirement of the Government of Canada that after meeting the disbursement objectives, "investment decisions shall be in keeping with the preservation of the principal amount over the long-term."

The above return objectives are informed by the spending requirements of the Equality Fund and risk tolerance determined by the TF IC.

The Annual Allocation Spending Policy is as follows:

The portfolio shall follow a spending policy established by the TF Board, in consultation with the Equality Fund executives, which is designed to generate sufficient income for the grant-making activities of the Initiative and seeks to preserve the Portfolio principal amount over the longer term. The calculation of the annual allocation policy is designed to lessen the risk that the long-term value of the Portfolio's assets will be eroded by short-term market fluctuations.

A methodology for calculating the Annual Allocation is as follows[1]:

- 6% of the average market value of the EFGIP based upon the prior 12 quarters, may be distributed annually.

[1] For the purposes of annual budget planning and approval for the fiscal year ending March 31, the Annual Allocation for the upcoming fiscal year will be calculated based on the 12 quarters ending December 31 of the prior calendar year.

- The Annual Allocation will be subject to ceiling and floor limits that are calculated based on a target spending rate of 6% of the original principle (296 million CAD) with a +/- 20% variance. Therefore, the maximum Annual Allocation is 21.2 million CAD and the minimum Annual Allocation is 14.2 million CAD. Should the Annual Allocation breach the ceiling or floor limits, due to unforeseen market circumstances, the Annual Allocation would be either the minimum or maximum amount specified herein.

The TF Board in their discretion may alter the Annual Allocation withdrawn from the Portfolio for grant making and operating expenses by the application of the above spending policy in effect from time to time to prevent distortions resulting from extraordinarily large gifts or distributions during the period used in calculating the amount available for spending or arising from other causes.

Risk Tolerance - The level of risk to which the portfolio is exposed will be controlled by diversifying the portfolio's holdings by asset class, liquidity, geography, investment management style, and underlying holdings. The Portfolio will be managed with a risk level comparable to that of the Policy Portfolio as presented in Appendix A and B. It is expected that a historical analysis of the Portfolio would show a maximum expected annual loss of 30% no more frequently than 1 time out of 100, but that in one percent of instances the loss may be greater but cannot be quantified.

5. INVESTMENT STRATEGY

To achieve the Policy goals, the Portfolio will follow a defined investment strategy that is established and overseen by the TF IC and executed by the OCIO. The investment strategy includes setting and monitoring asset allocation targets and actively managing risk, which is intended to result in a diversified portfolio that maximizes risk-adjusted return.

5.1. Asset Allocation Targets and Ranges - The OCIO will manage the Portfolio consistent with the Policy asset allocation targets and ranges defined in Appendix A. On an annual basis as part of the Policy review, the TF IC will confirm that the Policy asset allocation is optimal and satisfies the goals and objectives of the Portfolio, updating the Policy asset allocation targets as necessary. The Portfolio may be tactically over or underweight relative to policy asset class targets but will remain within the guidance of the stated ranges.

5.2. Rebalancing - Rebalancing is necessary on an ongoing basis to manage portfolio risk and compliance with Policy. Rebalancing is required due to differences in relative performance between asset classes, or due to short term flows in or out of the Portfolio. It is the responsibility of the OCIO to monitor allocations and rebalance as required by the policy asset allocation ranges. Administration should made aware of all rebalancing trades.

Rebalancing alternative asset classes may require a longer period to achieve target allocations. Due to the illiquidity of the private market investments, closed end fund structures typical of these asset classes, and the lag between capital commitments and contributions, rebalancing within these strategies can be achieved only through increasing or decreasing any new commitments and may take time to achieve.

5.3. Risk Management - The TF IC will establish the risk profile of the Portfolio by establishing a diversified policy asset allocation and risk guidelines. Diversification, however, cannot eliminate all risk. As such, the OCIO will monitor and manage other investment-related risks including, but not limited to, leverage, currency risk, credit risk, liquidity risk, and concentration risk. The OCIO will regularly monitor Portfolio investments and report any outlier results to the IC.

5.4. Liquidity - The Portfolio requires sufficient liquidity to support the Equality Fund's allocation requirements on a timely basis. The portfolio will limit investments that are less liquid to 15% of the total portfolio at time of commitment. Less liquid investments are defined as commitments to closed end funds that have a 7-year life or greater.

5.5. Limited Partnerships - The Portfolio may invest in a limited partnership provided that the investment meets the following requirements, which are set out in section 253.1(2) the Income Tax Act (Canada) and protect the Equality Fund from being deemed to carry on the business of the partnership:

- The Equality Fund's liability as a member of the partnership must be limited;
- The Equality Fund must deal at arm's length with each general partner of the partnership; and
- The Equality Fund (together with any persons and partnerships not at arm's length with Equality Fund) must not hold interests in the partnership that have a fair market value of more than 20% of the fair market value of the interests of all members in the partnership.

5.6. Currency - Non-Canadian securities may be unhedged or hedged to the Canadian dollar, with the unhedged portion to be monitored and controlled by the OCIO.

Historically, a portfolio of diversified currency exposure has exhibited less return volatility than a fully hedged portfolio because of the correlation characteristics of CAD. Most foreign currency exposure is expected to come in the form of the U.S. dollar (USD), which in normal circumstances will be treated as a pair on equal terms with CAD and as a result will not be hedged. In extraordinary circumstances, the TF IC may decide in conjunction with OCIO to hedge USD exposure in response to changing market conditions or financial needs of the Foundation. The OCIO in all practicality shall ensure the total currency exposure other than CAD or USD shall not exceed 30% of the Portfolio's asset value and this exposure should be reported to the TF IC on a regular basis. The OCIO will otherwise have discretion as to the hedge ratio.

6. PORTFOLIO OVERSIGHT AND PERFORMANCE MONITORING

The TF IC will seek to meet to review the Portfolio's asset allocation and performance four times per year. At these meetings the TF IC will evaluate portfolio composition, adherence to policies, and progress toward long-term goals and objectives. While short-term results will be monitored, it is understood that the goals and objectives for the Portfolio are long-term in nature and that progress will be evaluated from a long-term perspective.

6.1. Reference Benchmarks - Portfolio reporting will include appropriate reference benchmarks that are representative of the Portfolio's long-term return objectives and risk tolerance and will be calculated over the same time period as the returns of the Portfolio..

The long-term policy targets shall be reviewed periodically (Appendix A). Updates shall occur only when the TF IC determines a long-term shift in portfolio strategy is necessary.

6.2. Reporting - The OCIO will provide quarterly reports to the Administration, EFISC and TF IC that detail results relative to performance objectives and indicate Portfolio positioning relative to the Policy asset allocation. At a minimum, these reports include asset holdings, investment performance and quarterly investment activity. The TF IC will periodically report to the TF Board showing results relative to the standards set in the Policy. Reporting will include data and commentary on the Portfolio's financial, and gender impact investment performance relative to the mandate's stated strategy and long-term real return target, for the most recent quarter as well as for annual periods as agreed. Annually or more frequently as requested, data and commentary will be provided on the Portfolio's ESG, SRI, gender-lens and SDG impacts, including details on measurement, methodology, results, and lessons learned and share lessons learned as appropriate using established tools and standards.

6.3. Fees - The TF Board directs the TF IC and OCIO to monitor investment management fees and for the OCIO to provide regular updates on underlying investment manager fees. Manager fees shall be reviewed regularly to ensure they are both competitive and in keeping with best market practice. The IC will ensure fees are competitive for the type of risk and reward an underlying investment manager is delivering. The TF Board and TF IC will endeavour to be transparent with stakeholders about fees incurred.

6.4. Termination – Concerns that may lead to a OCIO's termination may include – but are not limited to the following:

- Performance or reporting related;
- Reputation or ethics;
- Willful misconduct; and
- Fraud or dishonesty

7. SOCIALLY RESPONSIBLE INVESTING

All selected investment strategies will apply a gender-lens screen. The OCIO will use the Equality Fund Gender Lens Investment Criteria to screen all of the investments in the private market exposure.

Investments that incorporate positive environmental, social and governance considerations (ESG investments) should be actively sought and included in the Portfolio.

ESG investments should be structured for inclusion in the Portfolio consistent with overall Portfolio objectives. ESG investments should meet the overall return objectives for an acceptable level of risk. ESG investment vehicles should be identified according to the best screening practices and methods and as referenced in the Contribution Agreement.

APPENDIX A

Asset Class Targets, Ranges and Definitions

Given the financial needs and objectives of the Equality Fund, the Portfolio will maintain the following asset allocation guidelines. The portfolio will be managed in accordance with the ranges for each asset class detailed in the table below recognizing that over shorter periods the allocations may not be at the long-term policy target. Long-term policy targets may not be achieved over a short-term period but are guidance for policy objectives.

As noted in Section 4 - Risk Tolerance, the Portfolio should exhibit a maximum expected annual loss no greater than 30% in 99 instances out of 100. A passive implementation of the Long-Term Targets below exhibits a maximum expected annual loss of less than 15% with the same level of certainty.

Asset Class	**Minimum**	**Long-Term Targets**	**Maximum**
Total Equities	***30%***	***60%***	***80%***
Public Equity	*30%*	*45%*	*70%*
Private Equity / VC[1]	*0%*	*15%*	*30%*
Fixed Income	***5%***	***20%***	***40%***
Private Debt [1]	***0%***	***18%***	***25%***
Cash	***0%***	***2%***	***15%***

[1] The portfolio will move toward the Long-Term Target as private commitments are called and invested. In the interim for benchmarking purposes, private capital allocations will have an appropriate placeholder in equity and fixed income asset classes.

The above asset classes are defined as follows:

Public Equity: Provides exposure to the long-term economic growth of companies. Given the junior position in the capital structure of a company, investors require equity to have a higher rate of return relative to fixed income securities. The allocation is diversified globally to capture the growth of a broad set of regional economies. The allocation is implemented via both active and passive strategies. Investments will primarily be in diversified equity portfolios via ETFs, mutual funds and private partnerships, but may at times include single stocks (e.g., in kind distributions of stock from private equity funds).

Fixed Income: The asset class serves as a source of return, diversification, and liquidity for the Portfolio. Returns are earned through cash yield and principal appreciation by taking risk exposure to the time value of money (interest rate and inflation risk) and default risk (credit risk). The asset class can also serve as a risk mitigator for the total portfolio given the stable value of bonds and low correlation to risky assets. The allocation may also serve as a liquidity ballast to the portfolio, and as such the composition of the allocation (i.e., duration, credit risk, active/passive) will be determined by the liquidity characteristics of the balance of the entire portfolio. Investments will primarily be in diversified portfolios via ETFs, mutual funds and private partnerships, with the holdings of bonds from a single issuer unlikely.

Private Equity/VC: Provides exposure to the same economic drivers as public equity but with an added illiquidity premium embedded in expected returns. This illiquidity premium is a combination of systemic factors (e.g., leverage) and alpha. This includes venture capital, growth equity and buyout strategies. Investments will primarily be through private partnerships that own a diversified portfolio of private equity stakes, but co-investments in single companies and direct investments are permissible and are not intended to be a majority portion of the allocation.

Private Debt Investments: Asset class invests in without limitations loans, bonds, debentures, notes and other debt-like instruments.

Derivative securities may be utilized by the OCIO as an efficient means to manage risk and/or earn return for the Portfolio. Derivative securities may not be utilized for speculative purposes or to leverage the Portfolio, unless specifically approved by the TF IC as part of a larger strategy.

The TF IC reserves the right to instruct the OCIO to exclude any asset, security or category of investment and will notify the OCIO in writing in the event that such restrictions are to be imposed.

The TF IC may place further constraints, limitations or requirements on the Portfolio in order to achieve specific short-term objectives within the principles and parameters set out in the Contribution Agreement, particularly in Section 2 of Appendix E.