Foundation of Greater Montréal

INVESTMENT POLICY OF THE INVESTMENT FUND OF THE FOUNDATION OF GREATER MONTREAL

Latest amendments adopted by the Board of Directors
at its March 24, 2021 meeting
French version supersedes this translation

SUMMARY

CHAPTER 1 – MANDATE

1. The investment policy (the “Policy”) governs the management of the investments (the “Fund”) of the Foundation of Greater Montreal (the “FGM”). Its provisions reflect the directives of the FGM’s Board of Directors (the “Board”).

2. All persons involved in managing the Fund, including its trustees, the employees of the FGM, as well as its external service providers, must respect the provisions of the Policy.

3. The Fund is managed in accordance with all applicable legal provisions; in case of conflict, such provisions take precedence over those of the Policy.

4. The FGM, set up in 1999, is a charitable organization that helps individuals, families and organizations to create charitable funds to support selected causes in the areas of education, healthcare, social development, arts, culture and the environment, as well as to support and promote activities and community organizations that are charitable in nature. The FGM manages the funds’ assets and guides donors by identifying major needs in the community in order to support these organizations’ activities. The FGM encourages the development of philanthropy as an important lever to improve the well-being of Greater Montreal.

CHAPTER 2 – THE BOARD’S DIRECTIVES

2.1 The Fund’s Objectives

The FGM intends its actions to be quasi-permanent in nature. To ensure that philanthropy remains a central priority for Montreal society, the FGM seeks to generate returns that will enable it to give to the community on an ongoing basis.

The FGM conducts itself as a socially responsible investor. As such, it assigns 10% of its portfolio to an Environmental, Social and Governance (ESG) investment manager. It is also analyzing the use of these criteria among its conventional investment managers.

The Foundation believes that ESG issues may have a material impact on investment risk and return outcomes, and that effective stewardship (exercised through voting and engagement) can create and preserve value for companies and markets as a whole. The Foundation also recognizes that long-term sustainability issues present risks and opportunities that increasingly require explicit consideration.

The Foundation has delegated the implementation of the Plan’s investment strategies to the Manager, including full discretion in evaluating ESG factors, exercising voting rights and stewardship obligations attached to the investments, and in the selection and monitoring of underlying investment managers. In implementing this discretion, the Foundation expects that the Manager will:

- Assess how each underlying investment manager integrates ESG factors into their investment process, and seek progress by the investment managers on ESG integration over time;

- Assess ESG risks and opportunities when they select investment managers and build portfolios;
- Assess the climate change related risks and opportunities in the portfolio, and use these insights when they build portfolios;
- Report on their approach to climate change in a manner consistent with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations; and
- Report on their approach to stewardship, including voting and engagement activities.

The Foundation assesses how ESG and stewardship are integrated within the Manager's processes and monitors the Manager at least annually.

2.2 Distribution Policy

The FGM wishes to set the annual level of philanthropic spending (excluding operating expenses) at a minimum of 3.5% of the average closing market value of the endowment fund for the 12 quarters ended December 31 of the previous year.

2.3 Management Structure

The Fund must be managed with an emphasis on sound portfolio diversification through a combination of management strategies and investment managers. Furthermore, to have access to a broad range of investment products and to ensure close monitoring of investment activities, the FGM draws on the expertise of an External Investment Manager (EIM).

CHAPTER 3 – ALLOCATION OF RESPONSIBILITIES

3.1 Role of the Board of Directors

The Board delegates general responsibility for managing the Fund to the Investment Committee. However, it retains the following responsibilities:

- Appointing the members of the Investment Committee;
- Choosing the External Investment Manager (EIM);
- Setting the guidelines that provide a framework for the Policy;
- Approving the Policy;
- Each quarter, receiving the Investment Committee's analysis of the evolution of the portfolio;
- Approving departures from the Policy and the selection of other external service providers.

3.2 Role of the Investment Committee

The Investment Committee has the following responsibilities:

- Recommending an investment policy to the Board of Directors, and overseeing its implementation;
- Undertaking an annual review of the investment policy and its objectives, in particular re-evaluating the desired return on investment, the acceptability of risk and the long-term allocation of the portfolio;
- Recommending the EIM to the Board of Directors, as well as any other consultant or expert whose knowledge may be required;
- Recommending to the Board of Directors, as appropriate, a depository or trustee to hold the assets of the Fund;
- Evaluating the EIM's performance;
- Carrying out any other study or analysis deemed necessary or useful to guide decision-making;
- Allocating the FGM's assets among the various products and managers, as the case may be; and
- Reporting on the status of the portfolio at each statutory meeting of the Board of Directors of the FGM.

3.3 The External Investment Manager

The EIM shall have the following responsibilities:

- Choosing managers;
- Monitoring and evaluating the managers' activities;
- Managing cash flow and rebalancing the portfolio;
- Supervising operations;
- Ensuring the managers' compliance;
- Presenting detailed portfolio positioning and performance reports to the Investment Committee;

- Making the transition to new managers; and
- Supporting the Board and the Investment Committee in reviewing the Investment Policy by suggesting different asset structures.

3.4 The FGM's Managers

Generally speaking, the managers shall be the responsibility of the EIM. The EIM will define the managers' responsibilities, set the rules of conduct it considers appropriate and report thereon to the Investment Committee.

3.5 The Depository or Trustee

The responsibilities are outlined in its contract with the FGM. In summary, these responsibilities are as follows:

- Carrying out the normal responsibilities required by law of a depository or trustee;
- Being responsible for the accounting system required for the management of the pooled fund; and
- Periodically providing the management of the FGM with portfolio reports showing all holdings and all transactions effected.

CHAPTER 4 – RISK MANAGEMENT

The purpose of this section is to present the main risk factors to which the Fund is exposed and specify how they are mitigated.

The main long-term risk is the inability to generate sufficient return to achieve the Fund's objectives. To manage this risk, an asset allocation policy has been implemented to limit the probability of this happening. The asset allocation policy is the factor intended to have the most impact on the Fund's return and its volatility.

Under present conditions, it is impossible to create a risk-free portfolio (made up exclusively of real return bonds) that would allow the FGM to achieve its distribution and sustainability objectives.

As a result, some additional risk must be assumed. Equity investments as well as certain categories of alternative bond investments and private market investments should generate higher returns in the long term, but at the cost of greater short-term volatility.

4.1 Investment Risk

Investment risk is the risk of temporary or permanent losses resulting from the Fund's participation in financial markets. It includes market risk (share prices, interest rates and credit risk), foreign exchange risk, counterparty risk and liquidity risk.

Market risk is managed chiefly through sound diversification of asset classes as well as a rebalancing program that maintains diversification over time.

Foreign investments may help to improve the performance outlook and reduce risk through increased diversification, but they involve foreign exchange risk. Liquidity risk is managed mainly by ensuring that asset allocation and commitments involving liquid assets are not excessive and that liquid assets are sufficient to meet various treasury and investment needs.

4.2 Active Risk

Active risk is the risk of temporary or permanent underperformance as a result of the implementation of the Policy. It is mainly, but not exclusively, based on the extent to which the external managers deviate from their benchmark index.

In general, active management introduces an implementation risk that merits special attention. This risk is controlled mainly by measures to promote diversification within each external manager's portfolio, by management strategies and by the actual external managers themselves.

Finally, active management risk is controlled by a meticulous selection process in which the external manager's integrity is shown to be beyond reproach and its management processes to be robust, as well as by a tracking system that makes it possible to confirm that the manager still has the characteristics that should enable it to meet the objectives set for it.

4.3 Foreign Exchange Risk

The FGM's strategic portfolio has relatively significant exposure to foreign bonds and equities. As a result, the portfolio is subject to fluctuations in the currencies included in this exposure, which is called foreign exchange risk.

Foreign exchange risk can be mitigated by:

- Greater diversification of the FGM's foreign currency exposure;
- Use of currency hedging. The decision to hedge foreign exchange risk takes into account:
    - The cost of hedging;
    - The liquidity of the underlying currencies;
    - The nature of the asset underlying the exposure while acknowledging that it is generally beneficial to hedge foreign currency-denominated bonds;
    - The negative correlation generated by certain foreign currencies in bear markets.

At present, the strategic portfolio does not include any currency hedge for our exposure to U.S. dollar-denominated bonds nor for foreign currency-denominated equities.

4.4 Other Risks

Management of the Fund takes other risks into account, such as:

- Operational risk;
- Risk inherent in conflicts of interest;
- Reputation risk; and
- Legal or regulatory risk.

CHAPTER 5 – INVESTMENT OBJECTIVE, REFERENCE PORTFOLIO AND MANAGERS' PERFORMANCE OBJECTIVES

5.1 Investment Objective

The investment objective is to achieve the returns required for philanthropic distributions while covering necessary expenses for effective management of the Fund. In addition, returns should make it possible to partially maintain the capital's purchasing power.

5.2 Reference Portfolio

Below is the reference portfolio. Historical studies indicate that a portfolio with the following composition is likely to achieve the desired objectives with respect to revenues and overall return performance, with an acceptable and manageable level of risk:

	Lower limit	Target weight	Upper limit	Benchmark index
Money market	0%	2%	4%	FTSE Canada 91-Day T-Bills
Canadian bonds	11%	15%	27%	FTSE Canada Universe
Alternative bonds	3%	5%	12%	Opportunistic Fixed Income Blended Benchmark [1]
Canadian Commercial Mortgages	0%	5%	7% [2]	FTSE Canada Short Term + 150 bps
TOTAL FIXED INCOME	**23%**	**27%**	**39%**	
Canadian equities	5%	7%	9%	S&P/TSX Composite
U.S. equities	5.5%	7.5%	13.5%	Russel 1000
International equities	5.5%	7.5%	13.5%	MSCI EAFE Net
Global low volatility equities	8%	10%	12%	MSCI World Net
Global ESG equities	8%	10%	12%	MSCI World Net
Emerging market equities	8%	10%	12%	MSCI Emerging Markets Net
TOTAL EQUITIES	**48%**	**52%**	**64%**	
Canadian real estate (direct)	0%	5%	10%	MSCI REALpac/IPD Canada
Private Equity - Secondary Markets	0%	4%	N.A.[3]	MSCI World Net + 3%
Senior Private Debt	0%	4%	N.A.[3]	FTSE Canada 91 Day T-Bill + 400 bps
Infrastructure	0%	4%	N.A. [3]	CPI + 4%
Sustainable Opportunities	0%	4%	N.A. [3]	CPI + 4%
TOTAL ALTERNATIVES	**0%**	**21%**	**N.A.**	
TOTAL		**100%**		

It is anticipated that private equity (secondary markets), senior private debt, infrastructure and sustainable opportunities will be funded over time by capital calls. During the implementation period, the target allocation will be adjusted to reflect the actual allocation to these asset classes.

5.3 Active Managers' Performance Objectives

Certain managers shall actively manage the investments of the Fund. Within the limits set forth in the present document, they shall employ strategies for the selection of investment instruments and the composition of the portfolio aimed at increasing return above the return that would result from passive management of the reference portfolio.

[1] JP Morgan GBI – EM Global Diversified Index (50 %) + BofA/ML Global High Yield Constrained Index (50 %)
[2] For reasons of limited liquidity for this asset class, it is possible that the implementation and rebalancing of this mandate may be temporarily outside the permitted ranges, but this will be adjusted as soon as possible given these constraints.
[3] Given the limited liquidity of these mandates and the fact that capital is added to them through commitments over long periods of time, it is recognized that it is more difficult to rebalance these investments. To this effect, the rebalancing of these mandates will be done as soon as possible considering these constraints.

The performance of active managers will be considered satisfactory if the annualized gross return over each consecutive four-year period exceeds the added value stated in the manager's investment policy. For private equity (secondary markets), senior private debt, infrastructure and sustainable opportunities, the return, net of fees, on each mandate will be deemed satisfactory if it exceeds the return on its respective benchmark for the full period of the investment, i.e., from initial investment to full liquidation.

The Investment Committee believes that active management may increase the portfolio's return for certain asset classes. Nevertheless, it acknowledges that returns could underperform those of passive management over relatively long periods. Therefore, active management must achieve higher returns to justify the risk involved.

Nevertheless, if the Committee elects to invest a part of its portfolio in an index management fund, the return of the investment managers concerned will be deemed satisfactory if the difference compared to the index concerned is kept to a minimum throughout a rolling four-year period.

CHAPTER 6 – REBALANCING

The reference portfolio provides the target asset allocation strategy for the long term. In the shorter term, deviations are bound to occur as a result of external cash flows and differences in the return on various asset classes. In order to prevent such deviations from unduly modifying the Fund's risk/return profile, a rebalancing process has been developed.

Process

The preferred rebalancing method is the corridor method, which consists of rebalancing asset classes to within a band when the weight of an asset class exceeds the range of the band (upper or lower limits) established in the Policy, as set out in the table in Chapter 5. The decision whether or not to rebalance a specific asset class to its target weight depends on the overall portfolio allocation between equities and fixed income, which is the first variable controlled in the process. When within the upper and lower limits of the band the Investment committee can choose a more deliberate allocation. This allocation based on recognized institutional expertise is communicated to the EIM for execution.

Unless otherwise communicated by the Investment Committee, when the weight of an asset class is within the holding limits set by the Policy (for example, between 5% and 9% for Canadian equities), the EIM may, at its discretion, decide whether or not to proceed with rebalancing.

Since the Fund has variable cash flows (positive or negative), this element is incorporated and taken into account in the process so as to minimize the transactions and costs associated with the rebalancing transactions.

For rebalancing purposes, the weight of the asset classes is determined at each month-end. If rebalancing is required, it must be done within a reasonable time (depending on the liquidity of the asset) unless the foreseeable short-term cash flows or market movements since then suffice to bring back the actual allocation to within the band range.

CHAPTER 7 – POLICY REGARDING CONFLICTS OF INTEREST AND DISCLOSURE REQUIREMENTS

Persons Subject to the Directives

The following persons must conform to the directives herein:

- Members of the Investment Committee;
- EIM;
- The fiduciary trustee; and
- Employees or agents whose services the above may retain with respect to the management of the Fund.

Conflicts of Interest

The persons subject to these directives must act with prudence, diligence and competence, as any reasonable person would do in similar circumstances, and apply the knowledge and useful skills they have acquired or should have acquired, given their profession. They must act with honesty and loyalty in the best interests of participants or beneficiaries. They shall not exercise their powers in their own interests or in the interests of a third party and shall not place themselves in a position where their personal interest conflicts with the obligations of their duties.

The persons subject to these directives must disclose any substantial interest, association or participation directly or indirectly related to their role with respect to the Fund's investments which constitutes or might constitute a conflict of interest.

Method of Disclosure

Each person subject to these directives must disclose the nature and importance of any conflict of interest in writing to the President & CEO and to the Chair of the Investment Committee, or by requesting that such conflict be recorded in the minutes of a meeting of the Investment Committee at the earliest possible moment:

i) As soon as he or she becomes aware of the conflict;
ii) At the first meeting at which the matter constituting the conflict comes up for discussion; or
iii) At the first meeting at which he or she becomes aware, or should be aware, that a conflict may exist.

With respect to point ii) above, the disclosure must be made verbally if the person becomes aware of a possible conflict during the course of the discussion.

If the person in question does not have the right to vote on decisions concerning the Fund, he or she may not participate in any discussion of the matter involving the conflict.

If the person who discloses a conflict of interest has the right to vote, he or she must play no part with respect to the matter involving the conflict.

The disclosure of the conflict of interest shall be considered as permanent with regard to the obligations defined in the present directives, unless modified by a subsequent declaration.

CHAPTER 8 – DELEGATION OF VOTING RIGHTS

The exercise of voting rights concerning the investments of the Fund is delegated to the managers of the Fund's portfolio, who shall fulfill that responsibility respecting the objectives of the Fund's investment policy.

The portfolio manager or managers must, however, advise the Investment Committee and the EIM forthwith each time that a vote bears on any unusual or controversial question.

CHAPTER 9 – EVALUATION OF INVESTMENTS

All equities in the Fund's portfolio must be negotiable on a stock exchange to determine their market value.

If the portfolio contains securities which are not traded on a stock exchange, they must be evaluated by the depository at least once a year.

CHAPTER 10 – ANALYSIS AND EVALUATION OF RETURN ON INVESTMENT

An annual analysis of the overall earnings of the Fund will allow an evaluation of the performance of the reference portfolio and of the contribution of active management to the return on investment. As part of this analysis, a comparison should be made between the actual performance of the Fund and the performance of the reference portfolio under passive management. The performance of the portfolio manager or managers shall be deemed satisfactory if the gross annual return on investment exceeds the objectives expected in their investment policy on an individual basis.

If the portfolio manager or managers have not achieved a satisfactory return for a period of four consecutive years, the Investment Committee shall determine if the management of the portfolio should be awarded, in whole or in part, to another investment management company or, as the case may be, to another EIM.

Independent of this analysis of return on investment, the Investment Committee shall, on a yearly basis, determine if it is desirable to maintain the mandate of the manager or managers, taking into account the EIM's analyses and recommendations.