TORONTO FOUNDATION
The Art of Wise Giving™

ONE OF 191 COMMUNITY FOUNDATIONS OF CANADA

Toronto Foundation

Investment Policy Statement

Effective January 1, 2017

Approved by Toronto Foundation Board of Directors November 23, 2016

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Investment Policy Statement

1. Background

Since 1981 our mission at the Toronto Foundation, ("TF" or the "Foundation") has been to connect philanthropy to community needs and opportunities. We provide donors with a simple, powerful and highly personal approach to charitable giving by:

- Providing all the benefits of a private foundation without the administrative, regulatory and reporting requirements;
- Offering philanthropic services tailored to donors' needs, such as our in-depth community knowledge; personalized granting research; engaging family in their philanthropic goals; and
- Providing superior financial stewardship of donors' endowed funds to ensure maximum effectiveness of their philanthropic dollars.

Our focus is on providing a superior experience for donors while building endowments that create permanent legacies that will address current and emerging community needs.

2. Investment Policy Statement

This Investment Policy Statement identifies the key factors bearing upon decisions for the Foundation's investment portfolio (the "Portfolio") and provides a set of written guidelines for the management of its assets.

This Investment Policy Statement supersedes any existing Investment Policy Statement and will be reviewed at least annually to ensure that it continues to reflect the Foundation's circumstances and requirements.

3. Roles and Responsibilities

3.1 Board of Directors

The Board of Directors of Toronto Foundation (the "Board") has ultimate authority over and responsibility for the Portfolio. To assist it in the performance of its duties and to ensure that the Portfolio meets its objectives, the Board will:

- appoint an Investment Committee (the"Committee");
- receive the Committee's recommendations with respect to the Portfolio's Investment Policy Statement and re-approve or amend the Statement, as appropriate, on an annual basis; and
- review all other reports and recommendations of the Committee with respect to the Portfolio and take appropriate action.

3.2 Investment Committee

The Investment Committee will:

- maintain an understanding of legal and regulatory requirements and constraints applicable to the Portfolio and keep the Board fully apprised of these;
- on an annual basis, or more frequently if appropriate, review the Portfolio's Investment Policy Statement and make appropriate recommendations to the Board regarding its amendment or re-approval;
- formulate recommendations to the Board regarding the selection, engagement or dismissal of a professional investment manager (a "Manager"), a Custodian and any other specialist or consultants they may wish to hire;
- formulate specialized instructions and mandates for the Manager including any restrictions on the types of assets that may be held in the Portfolio or the choice of asset mix. These instructions and mandates will derive from, reflect and be consistent with the provisions of this Investment Policy Statement;
- set parameters within which the Manager will have discretion to select, terminate, or replace asset managers ("sub-managers");
- monitor the Portfolio's performance and its compliance with the Investment Policy Statement and report on these matters to the Board on a quarterly basis;
- monitor the Manager's performance and compliance with the Investment Policy Statement as well as compliance with any specialized instructions and mandates the Manager has been given;
- take appropriate steps to ensure that the Portfolio is rebalanced, as necessary, per Section 9 of this Investment Policy Statement; and
- take appropriate steps to resolve conflict of interest issues as provided for in Section 13 of this Investment Policy Statement.

3.3 Investment Manager

The Investment Manager will:

- provide the Committee with information required for the oversight of the Portfolio, advice and, as required, recommendations on:
  - o Portfolio asset allocation,
  - o sub-manager selection and structures, and
  - o the selection, dismissal, or replacement of a Custodian.
- provide the Committee with draft Investment Policy Statements as necessary;
- on an annual basis, or as appropriate, provide the Committee with advice on the advisability of re-approving or amending the Portfolio's Investment Policy Statement as well as any specialized instructions and mandates provided to the sub-managers;
- monitor and reallocate within predetermined limits the Portfolio's asset allocation among sub-managers and/or asset classes;

- manage the Portfolio's asset allocation and selection of funds in accordance with the Investment Management Agreement between TF and the Manager;
- provide administrative assistance with respect to the receipt or disbursement of monies to/from the Portfolio and act as a liaison between the Committee and the Custodian or sub-managers in this connection;
- provide regular reports to and meet with the Committee and/or Board as provided for in Section 10 of this Investment Policy Statement;
- provide information and advice with respect to developments that might affect the sub-managers' performance, risk characteristics and service capabilities;
- meet with the Committee and/or Board on a regular basis, as determined by the Committee's/Board's requirements;
- have full discretion in day-to-day investment management of the Foundation's Portfolio, or that portion of the Portfolio for which they have been given responsibility, subject to this Investment Policy Statement and any amendments thereto as well as any specialized instructions and mandates issued by the Committee;
- ensure that all transactions are completed on a 'best execution' basis; and
- exercise the care, skill and diligence that can reasonably be expected of a prudent person and adhere to the CFA Institute's Code of Ethics and Standards of Professional Conduct.

3.4 Custodian

Custody of the Portfolio's assets will be delegated to a trust company or other financial institution similarly recognized as a depository for securities. The Custodian will report to the Foundation and will:

- provide safekeeping for Portfolio assets;
- process authorized transactions as directed by the Foundation;
- collect interest, dividends and the proceeds of cash equivalent and fixed income instrument maturities;
- inform the Manager of pending corporate actions (e.g., name changes, mergers, odd lot offerings) and process instructions related to such matters;
- deposit and transfer funds and payment of expenses as directed by the Foundation;
- maintain a record of all transactions;
- provide regular reports to the Foundation and to the Committee as provided for in Section 10 of this Investment Policy Statement;
- provide the Foundation, the Manager and other agents of the Committee with information required to fulfill their duties, or as directed by the Committee; and
- to the extent possible, provide applicable information as may be requested by the Foundation's auditor.

3.5 Socially Responsible Investing

Factors related to socially responsible investing are considered and may be taken into account in investment decisions, but an investment will neither be selected nor rejected solely on this basis.

4. Investment Objectives

4.1 Return on Investments

The Foundation's objective is to generate a total investment return that achieves the granting objectives of the Foundation, recovers the cost of managing and administering the funds, protects the long-term purchasing power of the capital component and establishes a reserve for future market declines. The expected long-term return objective is 5% net of inflation, which will cover the minimum distribution requirement of 3.5% and expenses of 1.5%. This rate of return may not be achieved in each and every year; however, the Portfolio is expected to generate this minimum return on investments over rolling 5 year periods. Ideally the Foundation would like to achieve a nominal return of 7.5% per annum which includes inflation protection at an estimated inflation rate of 2% and a slightly higher distribution rate of 4.0%.

For clarity, the Foundation's investment objective is an absolute real return (i.e., after inflation) of an average 5% per annum over any 5 year period.

The Foundation's portfolio will be managed with a view to receiving an absolute real return of 5%; the Portfolio will not be managed, and its performance will not be evaluated, by reference to any relative benchmarks based on performance of any markets.

The Foundation will disburse at a minimum such amount as may be required to meet its disbursement test under the Income Tax Act (Canada). The current requirement is 3.5%.

The success of the Foundation's long term investment strategy will be monitored in the context of meeting the Foundation's spending policies as well as maintaining the Portfolio's capital.

4.2 Risk Tolerance

The Portfolio should be structured and managed to provide for the generation of its targeted rate of investment return while assuming the lowest possible risk.

The Portfolio's exposure to risk will be measured in terms of the standard deviation of its investment returns. Additional measures of risk may be added at the discretion of the Investment Committee. The Portfolio should be structured and managed to generate its targeted rate of return without exceeding its maximum risk exposure.

Using the volatility of the Portfolio measured in standard deviations of return, the risk inherent in the Portfolio can also be viewed in terms of the likelihood that it will generate negative investment results. Based on historical analysis the Portfolio will be invested such that its value, on an annual basis, will have a maximum expected loss of 30% or less, 99 times out of 100. For the remaining 1% of the time the loss could be larger but cannot be quantified.

The level of risk to which the Portfolio is exposed will be controlled by diversifying the Portfolio's holdings, not only in terms of asset class, but also in terms of holdings within each asset class, geographically and by investment management style.

5. Investment Constraints

5.1 Legal and Regulatory Status

The Foundation is registered with the Canada Revenue Agency as a charitable organization. Its year-end is March 31.

5.2 Taxation Status

The Foundation is registered as a charitable organization by the Canada Revenue Agency and as such is exempt from income tax provided it meets requirements enumerated in the Income Tax Act of Canada and associated regulations promulgated by the Canada Revenue Agency.

5.3 Investment Time Horizon

A portfolio's investment time horizon is an important factor in determining its investment strategy. The period over which a particular investment strategy can or will be maintained has a direct bearing on the likelihood that it will generate its targeted rate of return within that period and within acceptable risk parameters.

The Foundation will exist in perpetuity. For planning and Portfolio structuring purposes, it will be assumed that the investment time horizon of the Portfolio is greater than ten years. It should be noted, however, that this Investment Policy Statement will be reviewed on at least an annual basis.

5.4 Liquidity and Income Requirements

The Portfolio requires sufficient liquidity to support the Foundation's disbursement requirements on a timely basis. It is desirable but not required that the Portfolio generate cash flow from dividends and interest to meet the majority of its disbursement requirements. The Foundation does not anticipate any large cash withdrawals over the time horizon.

6. Asset Mix

A portfolio's asset mix is the proportion within which various asset classes are represented in the portfolio. In general, the *greater* a portfolio's allocation to equities relative to fixed income securities, the *greater* its potential for capital appreciation and the *higher* its potential risk (as measured by the standard deviation of the portfolio's rate of return). Conversely, the greater its allocation to fixed income instruments relative to equities, the greater its potential for generating a consistent income stream and the *lower* its potential risk through volatility or default. Control of the Portfolio's asset mix is, therefore, the principal means of controlling its risk and return characteristics.

6.1 Recommended Asset Mix

Given the Portfolio's targeted return on investments, its risk tolerance, legal and taxation status, its investment time horizon, liquidity and income requirements, the following permissible asset class holding ranges have been established in Table I.

Table I: Long Term Strategic Asset Allocation

Asset Class		Permissible Range
Cash and Cash Equivalents		0.0% - 50.0%
Fixed Income Instruments		0% - 50.0%
Total Fixed Income		**5% - 50.0%**
Global Equities*		0% - 65%
Other Strategies**		25.0% - 50.0%
Total Equities & Other Strategies		**50.0% - 95.0%**

* Global equities may include Canadian, US, International and Emerging Markets equities. They may be diversified by size (large cap, small and mid-cap), style (value & growth) and other factors such as high dividend stocks.

** Other strategies may include benchmark-free and absolute return strategies

Non-Canadian securities may be unhedged or hedged to the Canadian dollar, but the unhedged portion should not exceed 65% of the total portfolio's market value.

It will be the responsibility of the Manager to commit, from time to time, allocations to each asset class and to individual sub-managers, within the permissible ranges outlined above. The Manager will be required to notify the Investment Committee (through the Chair) of any shifts in asset mix greater than 5% of the Portfolio value over any 30 day period. The Manager will also be responsible to notify the Committee (through the Chair) of all new or terminated mandates within 30 days of such change.

7. Investment Management Guidelines

7.1 Eligible Investments - Definitions and Constraints

7.1(a) Cash Equivalents

Cash equivalents will consist of instruments, issued by governments or corporations, with terms to maturity of 0 to 12 months and include fixed income instruments originally issued with a term to maturity in excess of 12 months.

Cash equivalents originally issued with terms to maturity of 12 months or less will have a minimum Dominion Bond Rating Service (DBRS) credit rating of R1 or an equivalent rating by another well-established rating agency at the time of purchase and thereafter.

7.1(b) Fixed Income Instruments

Investments in the following marketable fixed income instruments are permitted:

- bonds;
- debentures;
- notes;
- coupons and residuals;
- asset-backed securities; and
- preferred shares.

Such instruments must be:

- issued or guaranteed by the Government of Canada or one of its agencies, or a Canadian provincial government or one of its agencies;
- issued by a Canadian municipality or regional government;
- issued by a Canadian corporation; or
- issued by a foreign government or a foreign corporation.

'Maple bonds', i.e., bonds denominated in Canadian dollars both in terms of interest payments and principal payments but issued by non-Canadian entities, may be held in the Portfolio provided they meet the minimum credit rating standards set out below. Maple bonds should not constitute more than 10% of the market value of the fixed income asset class.

Preferred shares must have a minimum DBRS credit rating of PFD-3 or an equivalent rating by another well-established rating agency at the time of purchase and thereafter, if considered as part of the fixed income component of the portfolio. All other fixed income instruments must, as a group, have a market-weighted average DBRS credit rating of A, or an equivalent rating by another well-established rating agency, or better at the time of purchase and thereafter. The minimum credit quality per issue shall be BBB (low) or equivalent at time of purchase. Bonds rated BBB should not constitute more than 10% of the market value of the fixed income asset class.

If the Manager expects a downgrade in the credit rating of a fixed income instrument to below the minimum BBB credit rating, the Manager shall develop a strategy for disposing of the fixed income instrument in a timely, orderly and efficient manner. In the event that the Manager wishes to retain the investment in the portfolio, the Manager will contact the Committee within five business days to provide detailed information on the downgrade as well as the Manager's rationale for retaining the investment in the Portfolio. The Committee may require that the Manager dispose of the investment as soon as prudently possible, or may authorize retention of the investment. In this instance, the Manager will provide, at a minimum, monthly updates on the investment in question, including its trading pattern and the Manager's strategy for disposing of it on a timely basis. In the event of a 'split' rating (i.e., a situation in which credit rating agencies assign non-equivalent ratings), the lowest rating will apply.

Investment in the securities of any single issuer should not constitute more than 3% of the market value of the Portfolio as a whole. Fixed income instruments issued or guaranteed by the Government of Canada or one of its agencies or by a Canadian provincial government or one of its agencies are exempted from this provision. Pooled funds of an investment manager are also exempted from this provision.

Foreign pay bonds should not constitute more than 10% of the market value of the fixed income asset class.

7.1(c) Equities

Investments in the following equity securities are permitted:

- publicly traded common stocks;
- rights, warrants, installment receipts, convertible debentures and other instruments convertible into common stocks;
- equities based exchange traded funds (ETFs);
- income trust units issued and/or registered in jurisdictions where appropriate legislation is in place to limit the liability of unitholders;

- American Depositary Receipts; and
- Global Depositary Receipts.

Individual equities or equities held within equity funds must be listed on a major stock exchange and be of 'investment grade'.

Investment in the securities of any single issuer should not constitute more than 3% of the market value of the Portfolio as a whole. In addition, investment in the securities of any single issuer should not constitute more than 5% of the market value of the equity asset class. Pooled funds of an investment manager are exempt from this prohibition.

7.1(d) Other Investments

Other investments may include infrastructure, private equity, venture capital, real estate, commodities, loans, mortgages, non-equities based ETFs, foreign exchange or any other investment that is not included in the traditional asset classes described above. Absolute return strategies and benchmark-free strategies are also included in this category.

Other investments are permitted if they:

- fall within the overall Portfolio risk limits, and
- remain constrained in accordance with the Recommended Asset Mix as outlined in Section 6.1 herein.

7.2 Additional Constraints, Inclusions and Exclusions

The Portfolio as a whole and each asset class represented in the Portfolio must be reasonably diversified, taking into account the relative valuations of various asset classes.

Index, mutual and pooled funds, as well as ETFs, may be held in the Portfolio with the understanding that the guidelines in the Fund's offering memorandum will supersede the aforementioned guidelines. While such funds will be managed in keeping with their own investment policies, these policies must be consistent with the spirit of this Investment Policy Statement. In the event that there are any substantive inconsistencies between the provisions of this Investment Policy Statement and the policies applicable to a fund that the Manager wishes to employ in the Portfolio, the Committee must provide written approval for investing in the fund before any such investment is made. These funds will be categorized as cash equivalents, fixed income investments equities, or other investments as appropriate given their underlying securities or the capital markets to which they are intended to provide exposure.

Derivative securities, other than those employed by other investments, may be held in the Portfolio for hedging purposes only. Derivative securities may not be used for speculative purposes or to leverage the Portfolio, unless specifically approved by the Committee as part of a larger strategy.
Overdraft positions are not to be intentionally created. Any overdraft position created inadvertently shall immediately be addressed.

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

The Committee may place further constraints, limitations or requirements on the Portfolio in order to achieve specific short-term objectives.

8. Performance Standards

8.1 Investment Returns

The Portfolio's investment performance will be measured against the real return objective of an average 5% per annum after inflation. Performance measurement will be reported quarterly in accordance with the CFA Institute standards.

Portfolio volatility will be measured and reported on a quarterly basis. The report should include minimum and maximum volatility observed during the period.

The Manager will be evaluated in terms of:

- ability to achieve a 5% real return over a 5 year period without exceeding risk constraints;
- performance consistency relative to the Portfolio's stated strategy and long term real return target;
- compliance with the provisions of this Investment Policy Statement and any amendments thereto as well as any specialized instructions and mandates issued by the Committee; and
- the provision of satisfactory reporting and client service.

When investments have been included directly as an Investment Committee choice the Manager's performance measures will be adjusted to the extent that these cause over or under performance.

8.2 Risk Exposure

The Portfolio's risk exposure, as measured by the standard deviation of its returns, will be evaluated on a quarterly basis, or more frequently as necessary. Any change of sub-managers of major asset class changes of more than 15% should generate an immediate report on the risk impact of such change.

The risk profile of the Portfolio will be evaluated quarterly over rolling 5 year periods, with an emphasis on periods of excess exposure, relative to established maximum risk exposures. Evaluation will include discussions with the Manager in regard to prospective risk factors.

9. Rebalancing

The Manager will be responsible for reviewing the asset mix and sub-manager exposures on at least a quarterly basis to maintain the Portfolio within the ranges established in Section 6, unless otherwise approved by the Committee. If the Portfolio asset mix violates the above ranges, the Portfolio will be rebalanced to the upper or lower bound of the ranges for each asset class, unless otherwise approved by the Investment Committee.

Inflows and outflows of cash will be directed by the Manager in such a way as to maximize returns while maintaining the long-term strategic asset allocation of the Portfolio.

10. Reporting and Service

10.1 Manager

On a quarterly basis and within 30 days of the end of the calendar quarter, the Manager will provide the Committee with:

- a valuation of the Portfolio as at the end of the quarter, including the market value of each security or pooled fund;
- data and commentary on the Manager's 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;
- commentary on the Manager's forward-looking investment views and plans;
- reporting on the volatility of the Portfolio during the quarter, with retrospective and forward-looking commentary;
- commentary on the investment strategy and tactics employed over the past quarter;
- information pertaining to changes of investment or senior management personnel and/or ownership structure, if any;
- information pertaining to changes to the Manager's investment style, process or discipline or any other philosophical, operational or organizational matter that might reasonably be expected to have a bearing on the performance or risk profile of the assets managed by the Manager, and
- commentary on any sub-manager changes since the last Committee meeting.

The Manager will be available for meetings with the Committee on a quarterly basis, or more frequently if required by the Committee, and will be available for discussion and consultation on an ad hoc basis. In addition, the Manager will be available for meetings with the Board as requested.

10.2 Custodian

The Custodian will provide the Foundation with statements on a monthly basis. These statements will include, at a minimum, a summary and a detailed listing of assets held in the Portfolio as well as a listing of transactions (including deposits, withdrawals, receipt of interest and dividends, purchases, sales, corporate actions and fees paid) that occurred in the Portfolio during the reporting period.

The Custodian's reports will provide the book value and current market value of each asset held in the Portfolio, and categorize securities by issuer type, market sector and/or industry, as appropriate.

11. Termination of the Manager

The Committee will consider recommending to the Board that the Manager be terminated when one or more of the following circumstances prevail:

- the Manager has deviated from its stated and agreed on strategy without a reasonable rationale and/or without discussing this change with the Committee;
- there has been a change in the Manager's key investment personnel;
- the Manager's performance has been unsatisfactory;
- the Manager's reporting and client service are unsatisfactory;
- the Committee has concerns regarding the Manager's ethics; or
- for any other reason the Committee deems appropriate.

12. Professional Investment Advisor Program Guidelines

The Foundation maintains a gift acceptance policy (see Toronto Foundation Gift Acceptance Policies and Guidelines for further information). However, from time to time, donors may approach the Foundation and request that their gift of funds be managed by specific Investment Manager(s) (Professional Investment Advisors, or PIAs) outside of the Foundation's allocation to the Manager. Such arrangements can be accepted by the Foundation, under the Professional Investment Advisors Program, after a review of the PIA, the size of the portfolio considered and the gift's impact to the overall implementation of the Foundation's Policies.

12.1 Approval of New Managers

A PIA interested in participating in this program will be asked to submit information about their firm's history and organization, portfolio construction, professional staff and past performance. The Vice President Finance & Administration and the Chair of the Investment Committee will review this to determine if the PIA meets TF's criteria. The criteria outlined in Section 10 and Section 11 of this Investment Policy Statement should also apply to the Professional Investment Advisor Program. Final approval of PIAs as managers is granted by the Committee.

PIAs must have initial assets of $1 million of donations to qualify for this program. The assets can be from one or more donors.

12.2 Allocation of Assets

Managers in this program are not required to follow the asset mix guidelines for the primary investment pool. They are required to maintain a diversified portfolio in terms of specific securities, geography and type of investment. As well, they must adhere to the Foundation's eligible asset classes and constraints outlined in Section 7 of this Investment Policy Statement.

The Committee should be cognizant that the asset allocation of the Foundation's total portfolio, including any Professional Investment Advisor Funds, is within the acceptable ranges as specified in Section 6 of this Investment Policy Statement.

12.3 Performance Monitoring

PIA managers are expected to meet the overall performance objective for the primary investment pool. Quarterly results for each manager will be calculated by the Investment Advisor and ranked against the objective. The returns will not be included in the Foundation's overall investment statistics. There will be an annual evaluation by the Committee with a clear understanding that if underperformance continues over an appropriate time frame (3 to 5 years), the assets will be rolled into the main investment pool.

12.4 Reporting

PIA managers will provide the Foundation with quarterly performance reports in a format acceptable to the Foundation. The PIA manager's custodian will provide monthly reports to the Foundation's advisors for monitoring of the account. Managers participating in the Professional Investment Advisors Program are expected to adhere to the Roles and Responsibilities outlined in Section 3 of this Investment Policy Statement as well as the Reporting and Service guidelines outlined in Section 10 of this Investment Policy Statement.

12.5 Fund Administration

Each investment manager that participates in the Professional Investment Advisor Program will be accounted for in a separate pool and will not share investment earnings with any other pool.

12.6 Investment Management Fees

Donors may select the service package that best meets their needs and they will be charged the applicable administrative fee plus an additional fee to cover the added administration of this program. Investment management fees will be charged directly by the investment manager to the pool managed by the firm.

13. Conflict of Interest

No fiduciary or Committee member will knowingly permit his or her interest to conflict with his or her duties or powers relating to investment of the Portfolio's assets or to any other matter related to the Portfolio. Any actual or perceived conflict of interest must be reported to the Committee. Such disclosure will be made when the affected individual first becomes aware of the conflict or potential conflict. The Committee will be the sole arbiter in determining whether the conflict of interest exists and, if it determines that a conflict does exist, will take all necessary and appropriate measures to remedy the situation. Every disclosure of a conflict of interest will be recorded in the minutes of the relevant Committee meeting.

The failure of a fiduciary to comply with the requirements of this Section will not of itself invalidate any decision, contract or other matter.

14. Adoption of Investment Policy Statement

The Board of Directors of the Toronto Foundation adopted this Investment Policy Statement effective January 1, 2017 by way of resolution at its meeting on November 23, 2016.

John Barford, Chair	Nov. 23/16 Date
Robert Bertram, Chair, Investment Committee	Nov. 23/16 Date