Ontario Arts Foundation

Investment policy statement

Building a Foundation for the Arts – October, 2016

INVESTMENT POLICY STATEMENT

I. OVERVIEW

The Ontario Arts Foundation (OAF) was established in 1991 with the purpose of encouraging and supporting private giving to the arts in Ontario. The Foundation administers endowment funds established by individuals, foundations and arts organizations. Many endowment funds were established under the Arts Endowment Fund 'matching' program (1998 – 2008).

II. INVESTMENT PHILOSOPHY

General philosophy. The purpose of the OAF is to maximize investment returns of the invested funds, consistent with accepted risk tolerance levels and recognizing the need for annual payments. Without active solicitation in the private sector, the purpose is to promote the growth of endowments for the arts.

Foundation Investment Objectives

1. Earn investment returns that support consistent income payouts
2. To cover OAF operating expenses
3. To preserve in real dollar terms the capital of endowment assets

III. INVESTMENT STRATEGY

Our investment horizon is long term. The Foundation investment strategy has an equity bias, and a preference for a value oriented approach. Long term returns that balance current payouts to arts organizations and maintain inflation adjusted purchasing power are integral parts of the investment strategy.

To achieve these objectives, the Board believes it is prudent to have the assets of the Foundation professionally managed by firms who manage funds and portfolios on a discretionary basis. Active management, where the portfolio manager makes decisions regarding asset mix, asset class, industry sector and individual security exposure allows the Foundation to structure a risk managed portfolio that is expected to achieve our investment objectives.

The Board has established guidelines for investment management, monitors compliance with the guidelines and evaluates investment performance. Investment managers selected by the Foundation are delegated discretionary authority over the selection of securities, portfolio structure and asset allocation, subject to constraints of this investment policy and manager mandates.

Where any portion of the Foundation assets are invested in pooled funds, the provisions of the investment policy statement of such pooled funds shall prevail over those of this statement to the extent they are in conflict. The Foundation will not invest in a pooled fund if the guidelines of that fund are materially different from the provisions of this policy statement.

IV. INVESTMENT OPTIONS

Responsibilities. The Foundation does not have a separate Investment Committee. The Board as a whole acts as the Investment Committee. The Investment Committee is responsible for:

- Formulation of investment philosophy and asset mix strategy as documented through this Investment Policy Statement.
- Appointment and monitoring the performance of agents and advisors, including establishing manager mandates.
- Review at least annually, the Investment Policy Statement.

Voting Rights. Voting rights on fund securities are delegated to the investment manager(s). The Investment Committee retains the right to exercise voting rights on foundation investments where it deems appropriate.

Investment Objectives. The Foundation's objective is to achieve long term returns over a minimum of five years that allow for annual payouts. Payouts may vary from year to year, depending on market volatility, but generally are targeted to be not less than 3%. Returns also fund operating expenses, investment management fees and asset growth to protect the purchasing power of the investment portfolio by at least the rate of inflation.

The Foundation seeks to achieve absolute total returns consistent with our risk and investment strategy and an objective of a 5% real rate of return. Performance results should be achieved in each asset class and for the total fund that rank above the median in moving 5 year periods.

Permitted Investments.

Assets of the foundation may be invested in the following asset categories:

a. Cash
b. Demand or Term deposits
c. Short term notes, Treasury Bills, bankers' acceptances and commercial paper with terms to maturity of 0 to 12 months (with a minimum DBRS credit rating of R-1 or equivalent)
d. Investment certificates issued by banks, insurance companies, trust companies and credit unions
e. Bonds, notes and non-convertible debentures, including coupons and residuals. Eligible securities include Government of Canada, Provincial, Municipal and U.S. government bonds; corporate bonds rated 'BBB' or better at the time of purchase (BBB or equivalent as rated by a Recognized Bond Rating Agency and including all sub-rating levels within the overall 'BBB' rating).
f. Mortgages and other asset backed securities
g. Convertible debentures
h. Common and Preferred Stocks, including ADR's and GDR's (Preferred shares must have a minimum DBRS credit rating of PFD-3 or equivalent)
i. Pooled funds, closed end investment companies
j. Income trusts
k. Alternative investments
l. Private Placements are permitted to a maximum of 10% of the market value of the bond portfolio
m. Donated assets that the Board of Directors elect to retain

The Foundation will not invest in:

a. Purchase of securities on margin
b. Direct purchase of derivative instruments, save for currency hedging purposes
c. Loans to individuals or corporations
d. Short sales
e. Securities lending outside of a pooled fund

Overdrafts are not to be intentionally created.

Investment Constraints.

The Foundation is registered as a charitable organization by the Canada Revenue Agency with a year end of March 31st. It is exempt from income tax provided it meets requirements as laid out in the Income Tax Act of Canada and associated Canada Revenue Agency regulations. Endowment agreements limit the Foundation to making payments only from income, defined as interest, dividends and both realized and unrealized capital gains. Generally, unless specifically agreed with a donor, no payouts from original capital are permitted

Asset Allocation. The investment philosophy of the Foundation is a long term, value oriented approach where equity investments are selected on the basis of investing in companies at market prices below their underlying long term value. Indices of value opportunities may consist of some or all of the following characteristics – low price earnings, high dividend yield, and a significant discount to book value and low prices to free cash flow.

Investment risk is managed through diversification. When different asset classes are combined in structuring a portfolio, overall risk is reduced. The Investment Committee believes prudent management requires investment in multiple asset classes within the following target ranges:

Asset Class	Minimum	Maximum
Fixed Income		
Short term	0	10
Bonds	20	35
Equity	50	75
Alternatives	10	20

The expected return and risk parameters of the target asset allocation are to achieve a minimum real rate of return of 5% over a rolling 5 year period. It is recognized that in any one year the annual real rate of return may vary above or below 5%.

V. INVESTMENT RISKS

Diversification. Diversification among asset classes is provided through the asset allocation guidelines set for in this policy and by diversification among investment managers employed by the foundation. Diversification within asset classes is provided by limiting the percentage of the market value of foundation assets invested in a single security not guaranteed by the Government of Canada or of a Canadian province and by restricting investments in a group of equities whose returns are expected to be highly correlated.

Classifications. Short term securities include, cash, cash equivalents and fixed income securities with a term of maturity of less than one year. Bonds include all fixed income securities with a term to maturity of one year or longer. Canadian equities include common stocks and warrants, income trusts, preferred stocks and convertible debentures of Canadian issuers. US and global equities include common stocks ADR's and warrants, income trusts, preferred stocks and convertible debentures of non-Canadian issuers. Securities held in a pooled fund are classified on the basis of the assets comprising the major portion of such pooled funds.

No more than 10% of the market value of the total investment portfolio will be invested in securities of a single corporate issuer. No more than 10% of the market value of the equity portfolio will be invested in the securities of a single issuer. For purposes of the above measures, a pooled fund is not considered to be a "security of a single issuer". No more than 20% of the bond portfolio will be invested in securities issued and guaranteed by the government of a single Canadian province

Interest Risk. Interest rate risk will be managed by having the duration of the bond portfolio between one and a half years either side of the duration of the Scotia Capital Markets Universe Index. Liquidity risk is managed by not permitting investments in real estate, venture capital and resource properties, as specified in the asset allocation guidelines outlined in this policy. Any security held in the portfolio must have the capability of being readily convertible into cash.

Credit Ratings. Short term investments will have a minimum credit rating of R-1 or its equivalent when purchased. Up to 20% of the bond portfolio may be invested in bonds with a BBB rating at the time of purchase. The weighted average credit rating of the bond portfolio will be maintained at or above A+

VI. MONITORING AND REPORTING

Monitoring and Reporting. On a monthly basis, fund managers will provide portfolio valuations and a summary of transactions.

On a quarterly basis, fund managers will issue a written report to the Investment Committee on the performance of the fund, including information on rates of return for the quarter and year to date for each asset class. The Investment Committee will evaluate the performance, focusing on fund objectives and long term expected return and risk parameters.

The fund managers will meet with the Investment Committee on a regular basis to:

- Provide an economic outlook and summary of their portfolio strategy under such circumstances
- Report to the committee any changes in the fund or firm investment strategy, including changes in the status of the firm and its personnel
- Review and explain investment performance

The Investment Committee will review the Investment Policy Statement at least annually.