

**Statement of  
Investment Policies  
and Procedures  
(SIP&P)**

City of Ottawa Funds  
\_\_\_\_\_ 2025

**APPROVED by Council on**  
this      day of   , 2025

\_\_\_\_\_  
Council meeting by law  
Number 2025-\_\_\_\_

# Section 1 - Introduction

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## 1.01 Purpose of the Investment Policy

This Statement of Investment Policies and Procedures (the “Policy”) provides the framework for the investment of the assets defined below to be invested prudently in accordance with the guidelines of the Municipal Act that includes the requirement to establish the Ottawa Investment Board (the “OIB” or “Board”). Accordingly, the Board was established by the City Council of Ottawa (the “Council”) to oversee the Funds. The objective of this Policy is to ensure that the assets of the Funds shall be invested in accordance with the prudent investor standard.

The purpose of this Investment Policy is to:

- summarize the nature of the Funds;
- set out the long-term investment objectives and guidelines under which the Funds are to be invested;
- identify the permitted and prohibited investments;
- establish criteria for monitoring and controlling the investment of the Funds; and
- address other relevant issues.

There are three funds (the “Funds”) that this Policy will apply to going forward

1. the not immediately required City of Ottawa’s general reserve fund assets (the “Reserve Fund”)
2. the Long-Term Disability Reserve (the “LTD Fund”) and
3. the City of Ottawa Endowment Fund (the “Endowment Fund”)

An investment implementation plan (“Investment Plan”) will be prepared by the Board to support the operational implementation of the Policy.

## 1.02 Nature of the Funds

In order to establish an appropriate policy for the investment and administration of the assets of the Funds, it is important to understand the nature of the Funds and how it is intended to be used.

### Background

As of January 1, 2019, new provincial legislation enables eligible municipalities to pass a by-law opting into prudent investment, in accordance with the requirements of section 418.1 of the Municipal Act, 2001 and Ontario Regulation 438/97.

As such, the Council has established the Board to oversee the prudent investment of the Funds not immediately required. The Board operates within the guidelines and authority as

outlined in the Board's governance manual, term of reference (approved June 14, 2023, ACS2023-FCS-FIN-0005) and this Policy.

Prudent investor standards require the Council and Board to exercise care, skill, diligence, and judgment that a prudent investor would exercise in making investment decisions. The standard is like that which governs trustees and pension administrators and creates a fiduciary duty.

1. Investments shall be made with judgment and care - under the circumstances then prevailing - which persons of prudence, discretion, and integrity exercise in the management of investments, considering the necessity of safety of capital as well as the probable income to be derived.
2. The standard to be used by investment officials shall be the "prudent person" standard as required by the Regulation and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall take all necessary actions to ensure the maximum performance of investments on a portfolio basis, subject to the prescribed risk parameters dictated by the investment policy.
3. The duty includes a duty to obtain the advice that a prudent investor would obtain under comparable circumstances.

#### **Reserve Fund**

This represents a portion of the City of Ottawa's reserve funds that has been designated as not immediately required and thus set aside to be invested under the prudent investor standard and overseen by the Board.

#### **LTD Fund**

The City of Ottawa moved from an insured Long-Term Disability ("LTD") plan to a self-insured plan in 2006. The LTD Reserve Fund supports in part the payments due under the City's long term disability program.

**Endowment Fund** On January 6, 2005, as part of its financial restructuring, Hydro Ottawa paid a sum of money to the City to retire a promissory note held by the City. Since that date, such funds have been kept separate from other investment funds of the City. On October 4, 2005, the Council approved a report which set out guidelines for such funds and recommended that the City establish the Endowment Fund. Initially the Endowment Fund was invested in accordance with Ontario Regulation 655/05, where the principal invested could not be withdrawn until after seven years from the original investment date. This provision is no longer applies.

### **1.03 Return on Investment**

The return on investment, for the purposes of this Policy, includes the following:

- interest and dividends;
- gains and losses realized on the sale of investments; and
- changes in the amount of unrealized gains and losses on investments held at the end of the reporting period.

## Section 2 – Investment Objectives and Guidelines

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### 2.01 Total Fund Long Term Objectives and Mission

**Reserve Fund:** Provide an average rate of return of at least 5.5% per year to meet its annual distribution target and expenses and earn a long-term return of (10+ years) of CPI + 3.5%.

**LTD Fund:** Provide an average rate of return of at least 5.5% per year.

**Endowment Fund:** Provide an average rate of return of 6.5% per year to meet its annual distribution target and expenses and maintain the initial \$200 million principal amount. The distributions are determined annually based on 6.5% of the Endowment Fund's three-year average market value (as of September 30). Should the value of the Endowment Fund fall below its original principal amount, distributions may still be permitted if there is sufficient capacity in the stabilization reserve to accommodate the payment.

In addition, due to evolving market conditions and potential future amendments to the Funds' eligible set of investments, the long-term objectives can be re-visited at any time but at a minimum of every five years.

The investment objectives and guidelines set out in the next section of this Policy are intended to generate a total investment rate of return sufficient to allow the Funds to meet the above objectives.

### 2.02 Primary Investment Objectives and Asset Mix Guidelines

The basic goal underlying the Policy is to ensure that the financial assets will be invested in a prudent manner and increase the likelihood that such assets will meet the obligations as they come due. The primary objectives are (in priority order):

a) Capital appreciation - Investments shall be made to earn realized or unrealized investment income, but not at the risk of significantly eroding the principal, with the objectives in priority order of:

- i. meeting annual budgetary requirements for earnings:
- ii. maintaining portfolio term structure to support the City's long-term financial plan, and
- iii. provide a return consistent with established benchmarks.

b) Safety of principal - Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolios.

- c) Adequate liquidity – Investments shall be undertaken in a manner that considers the needs of periodic cash flows and reasonably anticipated budgetary requirements.
- d) Diversification – Investments should be sufficiently diversified as to:
- i. avoid concentration in a specific issuer or credit and;
  - ii. avoid concentration in specific asset classes, markets, sectors, and term to maturity in order reduce overall risk
- e) Based on the investment objectives above, the assets of each Fund will be invested in a diversified asset mix of traditional and alternative investments across public and private asset classes, including but not limited to fixed income, equity, and real asset investments to balance volatility and returns. The target asset mixes described in the Appendix were developed by considering the possible effect of inflation, the expected return and risk of each proposed asset class and the City's need for liquidity, capital preservation and income.

## **2.03 Investment Beliefs**

This Investment Policy (the "Policy") was developed by keeping in mind some general investing principles, or "beliefs", as outlined below:

- (i) consistency with the prudent investor standard and modern portfolio theory:
- (ii) there is a relationship between risk and return – higher returns generally require taking higher risk:
- (iii) typically, in the long term, public equities will outperform public investment grade fixed income to compensate for their higher risk:
- (iv) the long-term asset mix is the most important determinant of a portfolio's risk and return:
- (v) risk control is managed primarily through the diversification of asset mixes. Additional risk control is provided by restrictions to permitted investments, implementation strategies, and depth and breadth of the monitoring and controls:
- (vi) a passive management approach shall be considered where there is a belief that indexing is an efficient and cost-effective means to gain exposure to an asset class. An active management approach may be used where a belief is held that a manager can add value above the indicative benchmark on an after fees basis and/or reduce the volatility of returns:
- (vii) alternative strategies/asset classes may be appropriate and will be evaluated based on their liquidity, the management time needed to monitor the investment and the level of transparency:
- (viii) market timing at the policy level is an inefficient strategy for consistently increasing returns:
- (ix) trading should not be based on technical analysis alone; investment decisions should be supported by an array of key factors:

(x) It is understood that the prudent investor standard will result in the Funds being exposed to investments denominated in currencies other than the Canadian dollar. Each asset class will be evaluated based on the expected risk/return characteristics individually as well as in a total portfolio context. Currency risks will be evaluated, and management strategies will be explored based on expected risk, costs, and ease of implementation; and

(xi) although the City is a non-taxable entity, care should be exercised to minimize possible adverse tax situations (e.g. foreign investments).

## **2.04 Investment Management**

The Board has adopted the Outsourced Chief Investment Officer (“OCIO”) model and thus has delegated investment manager selection, and most operational aspects of each of the Funds’ investments to the OCIO. The OCIO is expected:

- i. comply with this Policy and the Investment Plan
- ii. provide monthly reports with current and target asset mix to confirm compliance with asset mix ranges to the Board and more comprehensive reports to the Board at least quarterly with compliance certificates.
- iii. Assist Staff in providing detailed annual reporting to Council and Senior Management

The OCIO shall make any investment manager changes, from time to time, as are deemed in the best interest of the Funds.

## **2.05 Measurement Basis and Time Frame**

Investment performance will be monitored and evaluated on a quarterly basis against the selected benchmarks (see appendix). The time frames for assessing the performance of each Fund, underlying managers, investment funds and strategies will normally be based on a four-year moving average time horizon and the cumulative period since the asset class or strategy was used by the Funds.

Returns include realized and unrealized capital gains or losses plus income from all sources. Investment returns are measured on a time-weighted basis.

In addition to examining total portfolio returns vs. the total fund benchmark, the Board will examine the total fund returns against each of the Fund objectives at least annually:

- i. on a prospective basis, relying on the OCIO’s capital market assumptions and portfolio modelling tools to determine the median long-term geometric return for the target asset mix, and
- ii. retrospectively, assessing total fund performance over ten-year rolling periods against the objective that was selected ten years ago.

## **2.06 Rebalancing Guidelines**

The asset mix for the Funds will be reviewed at a minimum at the end of each calendar quarter. If any of the allocations are outside the ranges (see appendix for asset mix targets and respective ranges for the Funds), the OCIO is expected at a minimum to rebalance towards the mid-point of the range within six months of the quarter end. Rebalancing can be achieved by direct transfer between asset class or redirecting cash inflows or outflows between asset classes.

There will be a degree of latitude within these rebalancing guidelines with respect to allocations to illiquid asset classes. Specifically, to the extent that illiquid asset classes (private market or alternative investments) deviate from their targets (whether due to initial implementation of private markets or future public market movements), the allowable ranges for public market investments will be adjusted accordingly. This adjustment aims to facilitate the management of any deviations of alternative investments from their targets using the liquid portion of the total portfolio until rebalancing of these investments becomes feasible.

## Section 3 – Permitted and Prohibited Investments

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### 3.01 General Guidelines & Permitted Investments

Investments in the categories below may be made directly by the purchase of securities, or indirectly by the purchase of pooled investment funds, mutual funds, or other limited liability corporate structures. Derivatives can be used for purposes of risk mitigation and hedging purposes, however, options, futures, and other derivatives used primarily for speculation purposes are prohibited.

### 3.02 Environmental, Social and Governance ESG Considerations

The Board and Council believe that companies and OCIO that have good Environmental, Social, and Governance (“ESG”) practices are preferred investments. ESG views are based on the following fundamental beliefs:

- a) Companies that do well in managing ESG matters should have less financial risk and should perform better financially over the longer term.
- b) Taking ESG matters into account enables investors to better understand, manage and mitigate risks associated with long-term investments.
- c) Companies that employ robust ESG practices are better positioned to generate long-term value for investors than similar companies with less favorable practices.
- d) ESG factors may affect investment performance over time and to varying degrees across companies, sectors, regions, and asset classes.
- e) We prefer companies that act responsibly in their operations, adopt good standards of occupational health & safety, and effectively manage stakeholder relationships.
- f) The OCIO provider should demonstrate an ESG strategy that may be considered in alignment with or superior to the UN Principles for Responsible Investing and may include a clear statement on their approach to engagement, divestment, diversity and inclusion, and any other ESG matter they consider critical.

ESG considerations will be incorporated into the ongoing OCIO selection and monitoring process. The OCIO is expected to evaluate ESG policies and practices as part of ongoing portfolio management.

### 3.03 Prior Permission Required

If there is a lack of clarity as to whether an asset class is eligible or ineligible, the OCIO must err on the side of caution and obtain prior permission from the Board to pursue this opportunity.



### **3.04 Securities Lending**

The securities of the Funds may be loaned, for the purpose of generating revenue for the respective Funds. Such loans must be secured by cash and/or readily marketable government bonds (issued by domestic or foreign national governments), treasury bills and/or letters of credit, discount notes and bankers' acceptances of Canadian Schedule I, II and III banks. This market value relationship must be calculated at least daily.

The terms and conditions of any securities lending program will be set out in a contract with the custodian, which includes full indemnification. The custodian shall, always, ensure that the Board has a current list of those institutions that are approved to borrow the Funds' investments.

### **3.03 Borrowing**

While it is understood that some investment strategies may involve the use of leverage at the strategy level, in general, money shall not be borrowed on behalf of the Funds and the Funds' assets, at the total portfolio level, shall not be pledged or otherwise encumbered in respect thereof.

## Section 4 – Monitoring and Control

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### 4.01 Delegation of Responsibilities

Overall responsibility for the Funds rests with the Board. The Board was established to facilitate the prudent investment of the Funds that includes outsourcing of investment management to an OCIO.

(a) **The Board is responsible for:**

- (i) selecting, appointing and ongoing monitoring of the OCIO:
- (ii) establishing investment guidelines within the context of this Policy:
- (iii) selecting a custodian:
- (iv) selecting an investment consultant:
- (v) monitoring and evaluating performance, and
- (vi) reporting at least once each year to the City Council of Ottawa.

(b) **The OCIO**

The OCIO will:

- (i) conduct rebalancing activities as required :
- (ii) select, monitor and replace investment managers:
- (iii) ensure assets are invested in accordance with this Policy:
- (iv) meet with the Board as required and provide written reports regarding their past performance, their future strategies and other issues as requested by the Board; and
- (v) file quarterly compliance reports with the Board and the Investment Consultant as applicable (see Section 4.04).

(c) **Custodian**

The Board has retained a custodian to:

- (i) maintain safe custody over the assets of the Funds;
- (ii) execute the instructions of the Council and any investment manager appointed to manage the assets of the; and

- (iii) record income and provide monthly financial statements to the Council as required.

(d) **Investment Consultant**

The Board may retain an Investment Consulting firm to:

- (i) assist the Board in developing a prudent long-term asset mix, specific investment objectives and policies:
- (ii) monitor, analyze and report to the Board and/or Staff on the Funds' investment performance and asset mix:
- (iii) Perform an annual review assessment of the performance of the OCIO in relation to established objectives.
- (iv) as required, report on the status of compliance reports received from the OCIO; and
- (v) support the Board on any investment related matters.

#### **4.02 Monitoring and Rebalancing the Asset Mix**

To ensure that the Funds operate within the guidelines stated in this Policy, the Board shall monitor the asset mix quarterly.

Rebalancing guidelines are described in 2.05. The OCIO is responsible for carrying out the rebalancing requirements.

#### **4.03 Performance Measurement**

Quarterly reports will be submitted by the OCIO to the Board members setting out the performance of the Funds and the investment managers, together with other relevant data. The performance of the Funds, and each individual investment mandate will be reviewed quarterly.

#### **4.04 Compliance Reporting by the OCIO**

The OCIO is required to provide quarterly compliance certificates to the Board. The compliance report should indicate whether all invested assets were invested in accordance with the agreement with the OCIO and the asset mix ranges under the Policy during the quarter.

The asset mix compliance report must be received by the Board within 30 calendar days of quarter end.

If at any time, the OCIO is not in compliance with this Policy, the OCIO is required to advise the Chairperson of the Board, detailing the nature of the non-compliance, and recommending an appropriate course of action to remedy the situation.

#### **4.05 Investment Policy Review**

This Policy may be reviewed and revised at any time, but it must be formally reviewed, by the Board, at least annually.

#### **4.06 Standard of Professional Conduct**

The OCIO's staff and the Investment Consultant's staff are expected to comply, always and in all respects, with the Code of Ethics and Standards of Professional Conduct as promulgated by the CFA Institute.

## Section 5—Administration

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### 5.01 Conflicts of Interest

#### (a) Responsibilities

This section applies to the members of the Board, as well as to all agents employed by them. An "agent" is defined to mean a company, organization, association or individual, as well as its employees, who are retained by the Board to provide specific services with respect to the investment, administration, and management of the Funds.

#### (b) Disclosure

In the execution of their duties, the Board members and their agents shall disclose any material conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased advice, or to make unbiased decisions, affecting the administration of the Funds.

Further, it is expected that no Board member or agent shall make any personal financial gain (direct or indirect) because of his or her fiduciary position. However, normal, and reasonable fees and expenses incurred in the discharge of their responsibilities are permitted if documented and approved.

No affected person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from a person with whom the affected person deals during performance of his or her duties.

It is incumbent on any person affected by this Investment Policy who believes that he/she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation to the attention of the Chair of the Board immediately. The Chair, in turn, will decide what action is appropriate under the circumstances.

No person who has or is required to make a disclosure as contemplated in this section shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure.

### 5.02 Valuation of Investments Not Regularly Traded

The Funds' assets that are invested in pooled funds that are not regularly traded will be valued at least once quarterly by the pooled fund custodian and its agents. Where deemed by the Board to be prudent and cost effective, external independent valuations will be obtained. In the absence of any other valuation by independent appraiser, such assets or securities will be held at their book value.

With respect to the portion of the Fund invested in segregated mandates where individual securities are beneficially owned by the Fund:

- a) Investment in publicly traded securities shall be valued at their fair market value no less frequently than monthly.
- b) If a market valuation of an investment is not readily available, then, where expertise exists, the security will be valued at least quarterly by the OCIO using best judgment in consultation with market makers.
- c) Derivatives not traded over public exchanges will be valued by an entity independent of the counterparty to the derivative transaction.

### **5.03 Voting Rights**

With respect to the portion of the Funds invested in pooled funds, the authority for exercising all voting rights is delegated to the investment manager of the pooled fund, to be exercised in accordance with the pooled fund's policies.

With respect to the portion of the Fund invested in segregated mandates where individual securities are beneficially owned by the Funds, the authority for exercising all voting rights is delegated to the investment manager of the segregated mandate, provided that the Board reserves the right to direct or override the voting decisions of the investment manager if, in its view, such action is in the best interests of the Fund.

### **5.04 Dismissal of the OCIO**

Reasons for considering the termination of the services of the OCIO may include, but are not limited to, the following factors:

- (a) performance results which are below the stated performance benchmarks;
- (b) changes in the overall structure of the Funds such that the OCIO's services are no longer required;
- (c) changes in personnel, firm structure or investment philosophy which might adversely affect the potential return and/or risk level of the portfolio; and/or
- (d) failure to adhere to this Policy.

## Appendix: Asset Mix and Performance Benchmarks

### A.1 Total Fund Asset Mix

The Total Fund benchmark portfolio and asset mix guidelines (by market value) are set out below:

#### Reserve Fund

Asset Class	Minimum	Target	Maximum
Canadian Fixed Income	35%	40%	45%
Canadian Equities	5%	10%	15%
Global Equities	25%	30%	35%
Real Estate	0%	8%	12%
Infrastructure	0%	6%	10%
Private Debt	0%	6%	10%
Total		100%	

#### LTD Fund

Asset Class	Minimum	Target	Maximum
Canadian Fixed Income	35%	40%	45%
Canadian Equities	5%	10%	15%
Global Equities	25%	30%	35%
Real Estate	0%	8%	12%
Infrastructure	0%	6%	10%
Private Debt	0%	6%	10%
Total		100%	

#### Endowment Fund

Asset Class	Minimum	Target	Maximum
Canadian Fixed Income	15%	20%	25%
Opportunistic Fixed Income	10%	15%	20%
Canadian Equities	5%	10%	15%
Global Equities	25%	35%	45%
Real Estate	0%	8%	12%
Infrastructure	0%	6%	10%
Private Debt	0%	6%	10%
Total		100%	

See Section 2.05 Rebalancing Guidelines, for further commentary on the deviation around these ranges in the context of private market investments.

## A.2 Performance Benchmarks

Asset Class	Benchmark
Fixed Income	FTSE Canada Indices that align with the selected implementation approach
Opportunistic Fixed Income	Custom Blended Benchmark
Canadian Equities	S&P TSX Composite Index
Global Equities	MSCI World Index (CAD)
Real Estate	MSCI/REALPAC Canada Quarterly Property Fund Index
Infrastructure	CPI + 3.5%
Private Debt	Secured Overnight Financing Rate (SOFR) + 3.5%

1. In discussions with the OCIO, the Board may select alternative asset class benchmarks that if it deems them to better align with the actual implementation options selected in the Investment Plan.
2. Each total Fund benchmark will be calculated as the weighted average of the individual asset class benchmarks based on the target total Fund asset mix above or interim asset mix as specified in the Investment Plan.